ACRUX
DRUG DELIVERY SOLUTIONS

Building a Broad Portfolio for Growth

Annual Report
2017

Contents

Who we are

Acrux (ASX:ACR) is a pharmaceutical company dedicated to developing and commercialising specialty and generic topical pharmaceuticals. Incorporated in 1998 and using in-house facilities and capabilities, Acrux has successfully developed and commercialised through licensees a number of pharmaceutical products in the US and Europe using the Patchless Patch™, a fast-drying and invisible topical application technology. Marketed products include Axiron®, Evamist® and Lenzetto®. More recently, in addition to specialty products, Acrux has identified and initiated development of a range of generic products. Acrux is leveraging its on-site laboratories, GMP manufacturing suite, and clinical and commercial experience to bring more products to market. Acrux encourages collaboration and is well positioned to discuss partnering and product development.

Risk and uncertainty

Forward-looking statements are subject to risks and uncertainties and have been made throughout this report. Such statements involve known and unknown risk and important factors that may cause the actual results, performance or achievements of Acrux to be materially different from statements made in this report.

Mission

Acrux is a pharmaceutical company dedicated to developing and commercialising branded and generic transdermal and topical pharmaceuticals for global markets.

Financial outcomes

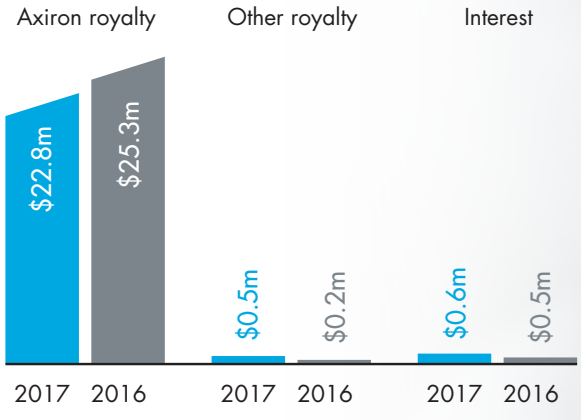
2017 financial performance was solid. Growth in cash reserves will enable Acrux to continue investment in its speciality and generic product pipeline, which will yield future returns for shareholders.

$34.0 million cash reserves
up $4.6 million p.c.p.

$23.93 million revenue
down $4.6 million p.c.p.

$9.2 million R&D investment
up $3.7 million p.c.p.

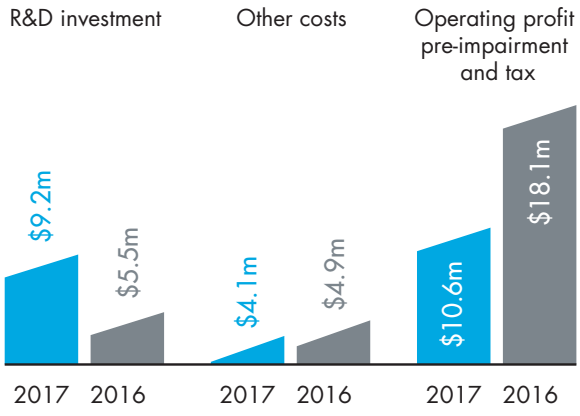
Revenue



Axiron® revenue of $22.8 million is 10% down on the prior year, reflecting a decline in global sales by our commercial partner. On a constant currency basis, royalty revenue from Axiron® declined 6.1% or $1.4 million.

Interest on cash deposits was $0.6 million (2016: $0.5 million).

Other financial outcomes



Research and development (R&D) investment was $9.2 million, up 67% on the prior year due to the progression and increase in research and development projects and higher utilisation of external suppliers.

Operating profit pre-impairment and tax was down as a result of lower Axiron® global sales and increased investment in R&D consistent with our announced strategy to commercialise topical generic opportunities.

Business achievements

Acrux is advancing its strategy achieving important R&D milestones during the year.

2017 milestones

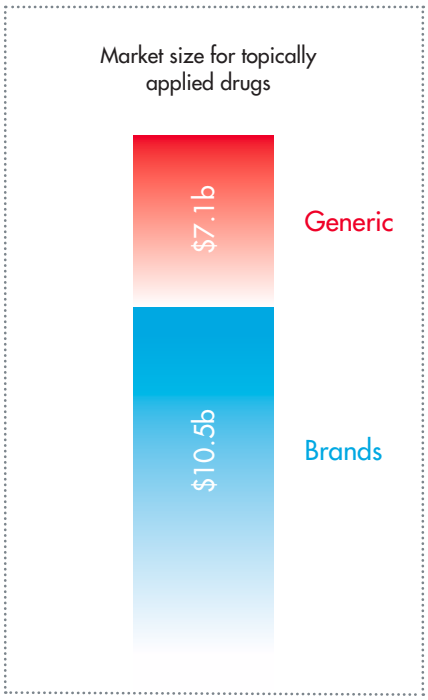
+ Draft and submit patent application for ACR065 for onychomycosis	+ Gedeon Richter to continue country-specific launches of Lenzetto® in the European Union	+ Scale up activities to manufacture exhibit batches for initial generic products	+ Contract manufacturing organisation engaged to manufacture multiple generic products	+ Portfolio of seven topical generics in development by end FY17
✓	✓	✓	✓	✓

Future milestones

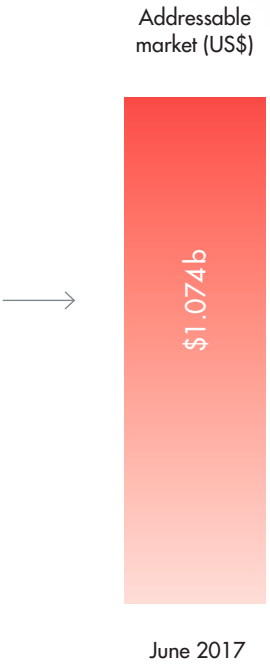
+ Submit first generic dossiers during FY18	+ Initial revenue from generic pipeline expected 2019	+ Portfolio of 12 topical generics in development by end FY18	+ Initiate clinical program for onychomycosis following FDA Pre-IND meeting	+ Axiron® Appeal outcome

Market and business opportunities

Generic portfolio



Acrux generic pipeline addressable market value



Create a diversified portfolio of marketed products to generate future income streams.

Focus on topical or transdermal sector of the pharmaceutical market in the United States, addressable annual market for the seven generic products in our pipeline is collectively US$1.07 billion.

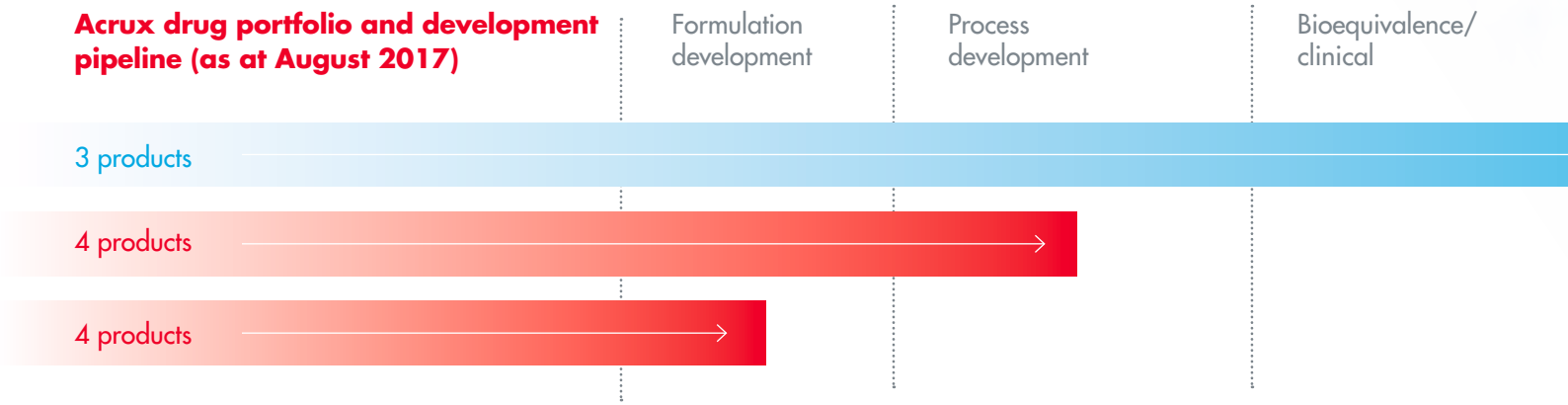
Avoid commoditised market segments with significant pricing pressure.

Generic product pipeline has attractive projected internal rates of return, with a collectively lower risk profile and faster pathway to approval than specialty products.

Product portfolio and pipeline – future growth and value

Acrux is adopting a diversified investment approach, targeting a range of speciality and generic transdermal and topical product candidates. Development of our portfolio provides shareholders with a balanced approach and a reduced risk when compared with development of new chemical entities.

Acrux drug portfolio and development pipeline (as at August 2017)



3 commercialised products: Axiron®, Lenzetto®, (Evamist® in US), Recuvyra®

7 generic products with an addressable US market of US$1.07 billion (IMS data)

1 speciality product for onychomycosis


Regulatory submission
Approved/ launched

Chairman's address

In September Acrux announced that the licensing agreement for Axiron® had been terminated. This comes as a result of the impact of generic competition on Axiron® reducing Axiron® sales combined with the long term financial commitment required to conduct a Postmarketing Requirement (PMR) clinical trial amongst testosterone New Drug Application (NDA) holders. With the commercial uncertainty of future sales of Axiron®, a declining testosterone market and the lack of certainty in relation to the apportioned costs required to participate in the PMR consortium, Eli Lilly and Company withdrew the Axiron® NDA from the US market.

These factors have reinforced the need for Acrux to execute its strategy of developing and commercialising a diversified portfolio of products to avoid reliance on the majority of revenues being derived from on product in future.

Over the last 12 months Acrux has made solid progress with both the development of our generics pipeline and a superior antifungal product for the treatment of onychomycosis. While we are still waiting for the outcome of the Appeal process against the US District Court's decision on Axiron® patents to be resolved, the commercial release of several generics of Axiron® has significantly reduced the commercial value and prospective life of the product. We have benefitted from an unexpectedly long lead time before the generics' release, which has enabled us to build our cash reserves to fund the development of our generics and speciality pipeline.

Over the last year we have progressed both the technical development of our suite of products and the intellectual property strategy for our superior product. Development expenditure has increased significantly as we ramp up our generics program, with a range of additional candidates identified and prioritised internally.

As noted in last year's Annual Report, our current budget provides for the continuing development work on the suite of generics and the superior product to be conducted regardless of the outcome of the Appeal. We cannot comment on the Appeal, as it is still before the Courts and there is a range of possible scenarios possible, depending on the initial decision and the responses to the outcome by the interested parties.

We continue to believe that the onychomycosis speciality product has the potential to be a significantly larger product than Axiron®.

Acrux is gradually expanding the development team as the initial product suite moves into the later development phases and new products are added to the pipeline. While the global generics industry has received some adverse publicity recently, the industry continues to expand and the pricing of products in our market segment continues to provide commercially attractive opportunities.

Acrux has a number of fundamental strengths that enable it to be highly competitive in this market segment. We have experienced staff and an efficient, well-provisioned development facility. Minimal capital expenditure has been required to upgrade our facility for the increased workload and our product selection methodology has been validated by continued growth in the markets being targeted. Acrux has not bought product opportunities from other market participants, but has identified the opportunities and initiated development internally. This approach minimises the cost of the products under development.

We are unable to provide an overview in relation to our intellectual property strategy for our speciality product, but we look forward to keeping shareholders appraised of developments when it is commercially feasible to do so.

As we have stated since the Company was founded, our position has always been to maintain sufficient funding for working capital requirements and to distribute the balance as dividends. Our working capital requirements have increased significantly as the development pipeline has expanded, and we expect this to continue for the foreseeable future.

I would like to extend my personal thanks to the Board for their input over the last year, which has been a demanding one. I would also like to extend the Board's appreciation to Michael and his team for their outstanding work in a challenging external environment with respect to Axiron®. Their efforts continue to be instrumental in repositioning Acrux for growth.

Ross Dobinson
Chairman

CEO and Managing Director's report

Our key focus is on transforming Acrux from being reliant on revenue from one product – Axiron® – to a company with a diversified on-market portfolio and a broad pipeline of financially attractive products

The termination of the Axiron® license with Eli Lilly and Company represents a significant headwind to the company. Axiron® represented a significant majority of revenue for the company. Axiron® and the testosterone market have been in decline since the 2014 FDA announcements relating to testosterone use. The recent launch of generic competition in the United States reduced Axiron® revenue further and although generics launched later than we had anticipated, the impact on Axiron® has been significant. Against an uncertain cost apportionment to participate in the PMR consortium, Eli Lilly withdrew the NDA thereby halting US sales of Axiron® in September.

To offset royalties from Axiron® that have been in decline for some years and are now impacted by generic competition in the US, our clear focus for some time has been on transformational change to our development and pipeline focus. At the end of the financial year we had eight separate development projects in our pipeline – double the number from a year earlier. Since the end of the 2017 financial year, this has grown further. Our goal is to grow this number to 12 projects by the end of the 2018 financial year. We have made good progress on our existing and newer pipeline projects and are tracking to our internal expectations.

Financial performance

The financial results in the 2017 financial year were solid, with revenue above our expectations. Growth in R&D expenditure of 67% to further the development of both new and existing products in our pipeline was in line with our expectations. Profit after tax was impacted by a non-cash impact of an impairment of the intangible asset value for Axiron® of $10.69 million.

Cash reserves increased over the prior financial year by 15.7% to $34 million.

Axiron®

The launch of a generic of Axiron® in July 2017 occurred later than anticipated. As a result, revenue during the 2017 financial year was higher than expected. Sales by our licensee, Eli Lilly and Company, of Axiron® for the 2017 financial year totalled US$143 million compared to US$149.3 million in the prior year. The Federal Circuit in Washington DC is scheduled to hear the Axiron® IP Appeal on 5 October 2017, and Acrux expects an outcome from the hearing within six months after that date.

Axiron® litigation

As has been previously communicated, we and our licensee Eli Lilly and Company filed lawsuits against a number of companies that have filed an application for a generic of Axiron® for infringement of specified issued US patents. The first two of these lawsuits were filed in May and November 2013. Formal litigation proceedings began in June 2016 in the United States District Court for the Southern District of Indiana against these generic companies. The relevant patents include claims relating to the formulation, application of testosterone to the axilla and to the applicator used to apply Axiron®.

On 22 August 2016 in the US (23 August Melbourne AEST), 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® have been 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 is valid but not infringed by the majority of parties. Lilly and Acrux are represented by Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, which is a firm with significant expertise in patent litigation in the US. The conduct of the lawsuit does not have a material impact on Acrux's operating expenditure. Acrux may receive additional income if it successfully prosecutes the Appeal.

Since 2014, a number of pending product liability lawsuits have been filed against Acrux and Eli Lilly in the United States District Court for the Northern District of Illinois, including claims that assert injury caused by testosterone replacement therapy. These cases, brought by private plaintiffs, were consolidated for pre-trial purposes in the United States District Court for the Northern District of Illinois under the Multi-District Litigation Rules as Testosterone Replacement Therapy Products Liability Litigation, MDL No. 2545. The conduct of the lawsuits will not have a material impact on Acrux's operating expenditure.

Acrux strategic direction

Acrux has transformed itself with the goal of creating a diversified portfolio of marketed products to generate its future income streams. Evidence of this is the solid progress we have made during the last financial year in the development of our pipeline. We devoted the majority of our development resources and expenditure to the pipeline of topical and transdermal generic products, which now includes seven separate generic products. The number of active development projects is consistent with our planned expansion of our pipeline of products. The generic pipeline is being developed in addition to our activities developing topical specialty products, in particular our onychomycosis development project for the treatment of fungal infections of the nail bed.

Acrux generic pipeline will continue to expand

The development of the Acrux generic pipeline is based upon the selection of generic product candidates from within the topical or transdermal sector of the pharmaceutical market in the US.

CEO and Managing Director's report continued

The generic product pipeline of the Company can be characterised by its attractive projected internal rates of return, with a collectively lower risk profile and faster pathway to approval than could be achieved with product development of specialty products or new chemical entities. Each of the topical or transdermal generic products in the Acrux pipeline has been assessed for its commercial prospects specifically in the US market. Based on March 2017 IMS data, collectively annual sales of topical and transdermal products in the US are approximately US$18 billion. The addressable annual market in the US for the seven generic products in our pipeline is collectively US$1.07 billion.

We have completed formulation development activities for our first three generic projects and are now in the process of transferring our product to our contracted external manufacturing organisation to manufacture exhibit batches for regulatory submission purposes. We expect to begin filing our first generic dossiers with the FDA in the US in the middle of the 2018 calendar year.

Acrux has continued to evaluate additional generic topical and transdermal projects and expects to add an additional five new generic projects to its active development pipeline during the 2018 financial year, for a total of 12 generic products in its pipeline. These additional generic projects will be developed in a sequential manner as our analytical and formulation development capacity allows.

Our goal is to develop a portfolio of topical and transdermal generics and generate a strong, sustainable revenue stream from the products. We believe that by the early part of the next decade, revenue from our commercialised generic products could match the revenue that until recently was generated from Axiron®.

Acrux antifungal for onychomycosis

During the 2017 financial year, Acrux conducted a number of pre-clinical studies to support the submission to the FDA for a Pre-IND meeting, which has been scheduled for 2 October 2017. The FDA meeting will discuss the Company's plans for its clinical development of its product. During the financial year, Acrux also filed new intellectual property for its preferred formulation of efinaconazole. In May 2017, as expected, the US Patent and Trademark Office (PTO) instituted an *inter partes* review (IPR) proceeding filed by Acrux against a Jublia® patent.

Estradiol spray

The estradiol spray was the first product to be developed by Acrux.

Lenzetto® is the trade name given to the estradiol product by our licensee Gedeon Richter in Europe. Lenzetto® was launched during the second half of the 2016 financial year in nine countries including Germany, Poland, Hungary and Romania. Gedeon Richter has continued to launch in additional countries throughout the 2017 financial year.

Looking forward

The Acrux team has invested enormous organisational energy into our pipeline. Our pipeline has grown substantially and the progress of our projects is a direct reflection of the collective efforts of the team throughout 2017. I would like to sincerely thank the team responsible for our growth. I firmly believe we are positioning the Company to take advantage of the commercial opportunities with our goal to create a company with a diversified on-market portfolio and a broad pipeline of financially attractive products.

Michael Kotsanis
CEO and Managing Director

Corporate governance statement

This statement summarises the corporate governance policies and procedures adopted by the Board and discloses the extent to which the Company has followed the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles) during and since the reporting period. The Company's corporate governance principles, details of which can be found on the Company's website (www.acrux.com.au), comprise:

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

1. The Board of Directors

1.1 Board Role and Charter

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

a. evaluating, approving and monitoring the strategic and financial plans and performance objectives of the Company;

b. evaluating, approving and monitoring the annual budgets and business plans;

c. evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions including the issue of any securities of the Company;

d. monitoring and approving all financial reports and all other reporting and external communications by the Company;

e. evaluating Board and individual Director performance;

f. appointing, removing and managing the performance of, and the succession planning for, a Chief Executive Officer or an Executive Director;

g. overseeing and ratifying the terms of appointment including remuneration and, where appropriate, ratifying removal of Senior Management;

h. monitoring Senior Management performance and their implementation of strategy and ensuring appropriate resources are available;

i. monitoring the Company's performance in relation to maintaining appropriate standards of corporate governance; and

j. approving and monitoring the Company's risk management strategy including internal controls, accountability systems and their effectiveness.

The Board has delegated the day to day management of the Company to the Chief Executive Officer who, in turn, may delegate to Senior Management. The delegations to the Executive Director include:

a. developing business plans, budgets and Company strategy for consideration by the Board and, to the extent approved by the Board, implementing those plans, budgets and strategy;

b. operating the business of the Company within the parameters determined by the Board and keeping the Board promptly informed of all developments material to the Company and its business;

c. identifying and managing operational risks and formulating strategies for managing those risks for consideration by the Board; and

d. managing the Company's financial and other reporting mechanisms and control and monitoring systems to ensure that they capture all relevant material information on a timely basis and are functioning effectively.

1.2 Board composition

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

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

The current Board is made up of a Chairman (Ross Dobinson), three Non-Executive Directors (Timothy Oldham, Simon Green and Geoffrey Brooke) and an Executive Director (Michael Kotsanis). Bruce Parncutt resigned as a Non-Executive Director on 7 December 2016. The names of the Directors, the dates of their appointments, their Non-Executive, Executive or independent status and whether they will seek election at the 2017 Annual General Meeting are set out in the table on the next page.

1. The Board of Directors continued

1.2 Board Composition continued

The details of their background, skills and experience are set out on page 18 of this report.

Name	Appointed/resigned	Non-Executive	Executive	Independent	Seeking election at 2017 AGM
Ross Dobinson	Appointed 19 March 1998	Yes[1]	No	No	Yes[2]
Bruce Parncutt	Resigned 7 December 2016	Yes	No	Yes	No[3]
Timothy Oldham	Appointed 1 October 2013	Yes	No	Yes	No[2]
Michael Kotsanis	Appointed 3 November 2014	No	Yes	No	No[4]
Simon Green	Appointed 1 June 2016	Yes	No	Yes	No[2]
Geoff Brooke	Appointed 1 June 2016	Yes	No	Yes	No[2]

1. Ross Dobinson held the position of Executive Chairman from 1 July 2012 until Michael Kotsanis was appointed Chief Executive Officer on 3 November 2014.
2. Ross Dobinson, Timothy Oldham, Simon Green and Geoff Brooke were re-elected on 10 November 2016.
3. Bruce Barncutt resigned 7 December 2016.
4. Michael Kotsanis is the Managing Director.

1.3 Director independence

Pursuant to the recommendations of ASX Principle 2, the Board Charter ideally requires the Board to include a majority of Non-Executive independent Directors, have a Non-Executive independent Chairman and to have different persons filling the roles of Chairman and Chief Executive Officer. The Board appointed Ross Dobinson as Executive Chairman following the departure of the former Chief Executive Officer and Managing Director at the end of the 2012 financial year. Notwithstanding the Board Charter, the Board determined that with his extensive experience, the current needs of the Company were best served by appointing Ross into an Executive role. Michael Kotsanis was subsequently appointed as Chief Executive Officer on 3 November 2014. Ross Dobinson has simultaneously ceased his Executive responsibilities with the Company. In accordance with the recommendation of ASX Principle 2.5 and since the appointment of Michael Kotsanis, the roles of Chair and Chief Executive Officer were not exercised by the same individual. The Chair is responsible for the leadership of the Board, for ensuring that the Board functions effectively and, where appropriate, communicating the views of the Board to the public. The Chair sets the agendas for Board meetings and manages the conduct of meetings by facilitating open discussion between Board members, between the Board and Management and with the public.

1.4 Terms of Director appointment

The Chairman, Non-Executive Directors and Managing Director have formal letters of appointment. Remuneration of the Non-Executive Directors, Managing Director and the terms of appointment of the Chairman are disclosed in the Remuneration Report.

1.5 Access to information and independent advice

All Directors have unrestricted access to employees of the Company and, subject to the law, access to all Company records and information held by the Company, its employees and advisors. The Board receives an agenda, detailed financial and operational reports and, where relevant, reports of the Board Committees for each Board meeting. Each Director is entitled to obtain independent professional advice at the Company's expense for the purpose of assisting them in performing their duties. A Director who wishes to obtain such advice must first obtain the approval of the Chair (which approval must not be unreasonably withheld) and must provide the Chair with the reason for seeking such advice, the identity of the person from whom the advice will be sought and the likely cost of obtaining such advice. Except in certain circumstances detailed in the Board Charter, advice obtained in this manner is made available to the Board as a whole.

1.6 Human capital and nomination committee

The current members of the Human Capital and Nomination Committee of the Board are Timothy Oldham (Chair), Geoff Brooke and Simon Green. Geoff Brooke joined the Committee on 5 June 2017, replacing Bruce Parncutt. The Committee met on 7 December 2016 and 22 June 2017, with all members attending. Members of the Committee are chosen having regard to their skills and experience in relation to the matters for which the Committee is responsible. Members of the Committee have unrestricted access to company records, Management and advisers and the external auditors.

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

a. establish a formal and transparent procedure for the selection and appointment of new Directors to the Board;

b. identify suitable candidates to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board;

c. consider processes for the orientation and education of new Directors and developing ongoing policies to facilitate continuing education and development of Directors;

d. periodically assess the skills required for each Director to discharge competently the Director's duties;

e. regularly review the structure, size and composition of the Board and the effectiveness of the Board as a whole;

f. establish and conduct an appropriate evaluation of the Board's process and of existing Directors, including an evaluation of whether each Director is contributing the time required of him or her for Board duties;

g. recommend to the Board a policy and framework for Senior Management's remuneration;

h. review and monitor the implementation of the human resources plan of the Company and succession planning for Senior Management; and

i. review and recommend to the Board the total individual remuneration package of each member of Senior Management, including any bonuses, incentive payments, and participation in any share or share option plans in accordance with the policy and framework for Senior Management's remuneration. In accordance with the recommendations of ASX Principle 2.4, the Committee's Charter further provides that, where practical, a majority of the Committee must be independent Non-Executive Directors and the Chair must be a Non-Executive Director who is not the Chair of the Company. Executive Directors may not be members of the Committee. A further recommendation of ASX Principle 2.1 is that the Committee have at least three members.

The Company's Code of Conduct, which has been in place since 2005, contains a principle of equal opportunity to be applied in all human resource decisions and in the workplace environment. The Committee has supplemented the Code of Conduct principle by adopting a formal diversity policy. However, the Committee has not yet set measurable objectives for gender diversity. The workforce at Acrux is small and the majority of positions require specialist qualifications and experience. The Committee believes specific diversity objectives are impractical at this time. At the date of this report, 61% of Acrux's workforce were female. The Senior Management team consists of two female and three male members, while the five current Board members are male. The Committee and the Board will review the potential need for formal diversity objectives in future as the Company evolves.

1.7 Audit and risk committee

The current members of the Audit and Risk Committee are Geoff Brooke (Chair), Timothy Oldham and Ross Dobinson. During the financial year Geoff Brooke joined the Audit and Risk Committee on 14 February 2017, replacing Bruce Parncutt. The Committee met on 9 August 2016, 17 February 2017 and 30 March 2017, with only one absence at one meeting by members. Members are chosen having regard to their skills and experience in relation to the matters for which the Committee is responsible. Members of the Committee have unrestricted access to company records, Senior Management, advisers and the external auditors. The Committee's role, as set out in its Charter, in general terms is:

a. overseeing the Company's system of financial reporting for the purpose of safeguarding its integrity, including viewing all regular financial reports and other formal announcements relating to the Company's financial performance prepared for release to the ASX, regulators and the public before making appropriate recommendations to the Board;

b. determining the extent of internal audit activities required and monitor the effectiveness of those activities (note that the Committee has determined that the Company, due to its size, does not presently warrant establishing a separate internal audit function);

c. monitoring the performance and activities of the external auditor including:

- overseeing the process for the appointment, reappointment and removal of the external auditors (including audit engagement letters), overseeing the rotation of the principal audit partner and reviewing the level of the external auditors' fees;
- assessing the performance and independence of the external auditors and the quality of the audit work performed;
- requiring, reviewing and monitoring compliance with the audit plan of the external auditors, including the scope of the plan and the levels of financial statement materiality;
- reviewing reports from the external auditors and meeting with the external auditors at least once annually in the absence of Management and also meeting with the external auditors as requested by the Board, the Committee or the external auditors; and
- receiving, reviewing, developing and implementing policy on the engaging of the external auditors to supply non-audit services.

d. overseeing and reviewing the Company's financial and risk Management compliance and internal control framework including:

- overseeing the creation, implementation and maintenance of the risk management system of the Company and its controlled entities and their internal control framework, including information systems;
- reviewing the effectiveness of the Company's implementation of its risk management systems and internal controls on an ongoing basis and reviewing the outcome of any non-financial audits;
- requiring management to report to the Board at least annually on whether the Company's material business risks are being managed effectively;
- developing an understanding of the overall business environment, relevant laws and codes of importance to the Company and the programs that the Company has in place to provide reasonable assurance of compliance;
- reviewing the Company's occupational health and safety policies and ensuring regular reporting to the committee on issues related to occupational health and safety;
- reviewing insurance coverage and claims trends; and

1. The Board of Directors continued

1.7 Audit and risk committee continued

- ensuring that the Chief Executive Officer and the Chief Financial Officer state in writing to the Board annually that:
  - i. the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with the relevant accounting standards;
  - ii. the statement in (i) above is founded on a sound system of risk management and control which implements the policies adopted by the Board; and
  - iii. the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects. The Board has received the report from Management referred to above, advising whether the Company's material business risks are being managed effectively.

The Board received the statement in writing referred to above from the Chief Executive Officer and the Chief Financial Officer on 22 August 2017. In accordance with the recommendations of ASX Principle 4.1, the Committee's Charter provides that the Committee have at least three members, Executive Directors may not be members of the Committee, a majority of the Committee must be independent Directors and the Chair must not be the Chair of the Company.

1.8 Director and Senior Management remuneration and performance

The remuneration structure for Senior Management and Directors and the amounts paid to each during the year are set out in the Remuneration Report section of the Directors' Report on page 22. Non-Executive Directors are remunerated by way of fees only and do not participate in Executive remuneration schemes, nor do they receive options, bonus payments or retirement benefits (other than statutory superannuation payments). At the end of each financial year, the performance of Senior Executives against the company and their personal goals is assessed. At the same time personal goals and development plans for the next financial year are set, to be aligned with the Company's objectives. The review of Senior Management team members is carried out by the Chief Executive Officer and the results are subject to further review and approval by the Chair of the Human Capital and Nomination Committee. The review of the Chief Executive Officer's performance is carried out by the Human Capital and Nomination Committee and the Committee's remuneration recommendations are then approved by the Board. A performance evaluation in accordance with this process was undertaken in respect of the year ended 30 June 2017. A formal review of the performance of the Board and its Committees was not undertaken during the year ended 30 June 2017.

2. Disclosure and communication

2.1 Continuous disclosure

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

a. gives guidance as to the information that may need to be disclosed;

b. gives guidance for dealing with market analysts and the media;

c. establishes regular reminders to Directors and Senior Management to actively consider whether there is any price sensitive information which needs disclosure; and

d. allocates responsibility for approving public disclosures and shareholder communications.

2.2 Communications with shareholders

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

a. annual and half-yearly reports;

b. regular shareholder updates conducted by teleconference;

c. media releases, public announcements and investor briefings; and

d. annual general meetings.

All the above communications are posted on the Company's website (www.acrux.com.au). Shareholders are encouraged to receive shareholder materials electronically and can do so by visiting our investor centre, located on the Company's website. In addition, the Company is committed to using general meetings of the Company to effectively communicate with shareholders and to allow reasonable opportunities for informed shareholder participation at these meetings. Where possible the Company will comply with the ASX Best Practice Guidelines for the content of notices of meeting. Further, the external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit of the Company and the preparation and content of the auditor's report. The Company is committed to further developing its communications strategies to optimise shareholder communication.

3. Share trading

Under the Company's share trading policy, the Directors, Senior Executives and all other employees of the Company (and their collective associated persons) are prohibited from trading in the Company's shares if they are in possession of inside information. In addition, the Directors, Senior Executives and all other employees (and their collective associated persons) are prohibited from trading in the Company's shares during the periods starting at the end of either the financial year or the half year and ending when the financial results related to these periods are released to the market. The Directors, Senior Executives and all other employees of the Company (and their collective associated persons) may not trade in the Company's shares without the approval of the Company Secretary (who must obtain approval from the Chair) and only if they have provided a statement that they are not in possession of material non-public information. Such approval expires after five business days. If the Chair wishes to trade in the Company's shares, proper approval must be obtained from the Chair of the Audit and Risk Committee or the Company Secretary.

4. Conduct and ethics

The Directors and Management of the Company and its controlled entities are committed to observing high standards of ethics and behaviour in all of the Company's activities, including the Company's interaction with its shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates. The Company has adopted a Code of Conduct which provides the ethical and legal framework for how the Company will conduct its business and how the Company will relate to shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates. Issues covered by the Code of Conduct are:

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

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

The conduct covered by the policy is conduct that is:

a. illegal, dishonest, fraudulent or corrupt;

b. in breach of Commonwealth or state legislation or local authority by-laws;

c. in breach of applicable industry practices, such as Good Laboratory Practice, Good Clinical Practice or Good Manufacturing Practice;

d. unethical (being either a breach of the Company's Code of Conduct or generally);

e. gross mismanagement;

f. a serious or substantial waste of resources;

g. an unsafe work practice;

h. failure to comply with agreements with the Company's commercial partners;

i. a breach of proper environmental practice;

j. other serious improper conduct; and

k. any other conduct that may cause financial or non-financial loss to the Company or otherwise be detrimental to the interests of the Company.

Directors' report

The Directors present their report, together with the Financial Report of the consolidated entity consisting of Acrux Limited (the Company) and its controlled entities (the Group), for the financial year ended 30 June 2017 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:

		Appointed/resigned
Ross Dobinson	Chairman	Appointed 19 March 1998
Bruce Parncutt	Non-Executive Director	Resigned 7 December 2016
Timothy Oldham	Non-Executive Director	Appointed 1 October 2013
Michael Kotsanis	Managing Director and 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 period 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:

	Board		Committee meetings			
			Audit and risk		Human capital and nominations	
	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
Ross Dobinson[3]	12	12	3	3	2	2
Bruce Parncutt[2]	5	4	1	1	1	1
Timothy Oldham[3]	12	12	3	3	2	2
Michael Kotsanis[3]	12	12	3	3	2	2
Simon Green[3]	12	12	3	3	2	2
Geoffrey Brooke[3]	12	10	3	2	2	2

1. The number of meetings held during the period the Director was a member of the Board or Committee.
2. Resigned as Non-Executive Director 7 December 2016.
3. 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

	2017 $'000	2016 $'000
Revenue	**23,934**	28,557
Net (loss)/profit after tax	**(243)**	12,981
(Loss)/earnings per share	**(0.15) cents**	7.80 cents
Cash on hand	**33,974**	29,360

The consolidated loss after income tax attributable to the members of Acrux Limited was $0.243 million (2016 profit: $12.981 million). Loss per share was 0.15 cents (2016: earnings per share 7.80 cents).

Review of operations

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

Mission

Acrux is a pharmaceutical company dedicated to developing and commercialising branded and generic transdermal and topical pharmaceuticals for global markets.

Business strategy

Acrux is developing a range of topically applied products with seven generic products and one speciality product under active development in its pipeline. The Company uses its internal development capabilities and know-how on existing drugs to develop generics which target the substantial US market for topical products and to develop improved formulations of an existing product.

The development time required for generic products is substantially shorter than is typical for new drug development. Intellectual property (IP) remains an important cornerstone of our product development strategy, both in terms of creating new IP (where relevant), and ensuring freedom to operate in the fields in which we develop products.

Marketed topical portfolio

The existing topical portfolio includes the Company's commercialised products: Axiron®, Evamist® and Lenzetto®. Axiron® global sales by our commercial partner (Eli Lilly and Company) over the 12 months ended 30 June 2017 were US$143.0 million compared to US$149.3 million for the prior year. On 5 July 2017, Perrigo announced that they had launched a generic version of Axiron® in the United States. The Authorised Generic version of Axiron® was subsequently launched through a marketing and distribution agreement between Eli Lilly and Company and a leading authorised generics company. On 18 August 2017, Teva Pharmaceutical Industries Ltd announced that they had launched a generic version of Axiron® in the United States.

Topical generic portfolio

Acrux has signed contract manufacturing agreements with the Canadian company Groupe Parima, which is an FDA approved manufacturing facility for topical products. These contracts govern both exhibit batch manufacturing and commercial manufacturing for the initial generic products Acrux is developing. Acrux is nearing completion of the technical transfer and exhibit batches for its initial three generic products.

Antifungal development

During the financial year, the Company selected its lead product for the treatment of onychomycosis, filing new intellectual property for the product. Acrux also filed an *Inter Partes* Review (IPR) of an existing patent in the field. The Company's candidate (ACR-065) is an improved formulation of Jublia®, which contains the antifungal agent efinaconazole.

Acrux has a confirmed date for a Pre-Investigational New Drug Application (Pre-IND) meeting with the FDA on 3 October 2017 and will progress into clinical trials based on the FDA responses to the Company's Pre-IND submission.

Key events during year

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

- Net sales of Axiron® for the 2016/17 financial year totalled US$143.0 million (2015/16: US$149.3 million) and were not impacted by generic competition.
- Contract manufacturing agreements executed with Groupe Parima Inc. to manufacture exhibit batches for the Company's initial generic projects.
- Solid progress on our topical generic pipeline with seven active projects under development at financial year end.
- Lenzetto® continues to be launched progressively in specific countries within the European Union by our licensee (Gedeon Richter).
- IPR petition for review of an existing Jublia® patent instituted by the US Patent and Trademark Office in May 2017 with the final written decision expected within 12 to 18 months.

Operating results

The consolidated loss before tax was $0.094 million primarily attributable to a non-cash impairment loss of $10.680 million (2016: profit $18.092 million). The consolidated loss after tax was $0.243 million (2016 profit: $12.981 million).

Revenue

Revenue for the financial year decreased by $4.6 million (16.1%) to $23.9 million (2016: $28.6 million). Royalty revenue from Axiron® decreased 10% to $22.8 million (2016: $25.3 million) reflecting a decline in Axiron® global sales by Eli Lilly and Company. On a constant currency basis royalty revenue from Axiron® declined 6.1% or $1.4 million. No milestone revenue was received for the financial year compared to milestone revenue of US$2.0 million received from Gedeon Richter for Lenzetto® approvals in Europe during the prior financial year. Interest on cash deposits was $0.6 million (2016: $0.5 million).

Expenses

Total expenses for the financial year were $24.028 million (2016: $10.465 million) comprising of: a) a non-cash (pre-tax) loss of $10.680 million in relation to the impairment of Axiron® capitalised development costs, and b) operational expenditure of $13.348 million. The impairment loss is a result of a re-assessment of the estimated future discounted cash flows from the Axiron® product utilising current market data for the Testosterone market in the United States and the generic market penetration since 6 July 2017.

Total operating expenditure for the financial year increased by 27.6% to $13.3 million (2016: $10.5 million). The increase represents progression of and increased investment in research and development (R&D). The R&D is consistent with our announced strategy to commercialise topical generic opportunities.

Employee benefits increased to $4.3 million (2016: $3.6 million) reflecting the increased resources required for our development pipeline. Remaining expenses totalled $9.0 million (2016: $6.9 million), with increases in external research and development costs of $1.8 million for contract manufacturer engagement and API procurement for the manufacture of exhibit batches. In addition, professional fees of $1.2 million were incurred associated with the execution of our IP strategy. These increases were partially offset by lower royalty payments to Monash Investment Trust of $0.1 million (2016: $1.0 million). Foreign exchange loss of $0.5 million was incurred (2016: $0.8 million).

Income tax

Income tax expense of $0.149 million (2016: $5.111 million) was recorded for the financial year. The reduction on the prior financial year is attributable to the lower operating profit (excluding the impairment loss) and the reversal of the deferred tax liability associated with the impaired portion of Axiron® capitalised development costs not being realised as initially contemplated. 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 $21.8 million (2016: $28.2 million, which included a Lenzetto® milestone receipt of USD$2.0 million). Royalties received from Axiron® were down 16% to $21.5 million reflecting lower sales generated by Eli Lilly and Company. The Company paid $10.7 million to suppliers and employees (2016: $7.9 million) as a consequence of increased investment in our R&D pipeline. Interest received on cash reserves was $0.6 million (2016: $0.5 million) due to higher average cash reserve balances during the financial year. This is consistent with the Company's strategy of preserving cash to fund the development of our generic portfolio. Income tax payments increased to $6.3 million from $4.3 million in the prior financial year primarily attributable to timing.

Capital expenditure was $0.6 million, up 166.9% on the prior financial year as the Company carried out upgrades on existing equipment and improved our internal analytical and testing capabilities.

Cash reserves at the end of the period were $34.0 million (2016: $29.4 million).

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 4,774,000 (30 June 2016: 4,794,000), representing 2.9% of the Company's issued share capital. Further details of share based payments are provided in Note 16 of the Financial Report which follows the Directors' Report.

Significant changes in the state of affairs

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

Dividends

The Directors have not declared an interim or final dividend for the 2017 financial year.

After balance date events

On 5 July 2017, Perrigo announced that they had launched a generic version of Axiron® in the United States. On the same day an Authorised Generic version of Axiron® was launched in the United States through a marketing and distribution agreement between Eli Lilly and Company and a leading authorised generics company. The Authorised Generic provides patients with the similar experience of the Axiron® branded product at a price that competes with generics. Acrux will receive a royalty from the sales of Axiron® and the Authorised Generic.

On 18 August 2017, Teva Pharmaceutical Industries Ltd announced that they had launched a generic version of Axiron® in the United States.

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

Likely developments

For the foreseeable future, the consolidated entity's financial results will be materially influenced by the sales performance of both Axiron® and the Authorised Generic of Axiron® in the United States and the development of the consolidated entity's product pipeline,involving transition of pipeline products from preclinical activities to submission of regulatory filings. Under a licence agreement with Eli Lilly and Company, the consolidated entity receives royalties on worldwide sales of Axiron® by Eli Lilly and Company.

Generic competition will result in material reductions in market share for Axiron®. Initial indications are that in the first month since generic launch, Axiron® and Eli Lilly and Company's Authorised Generic (on which the Company also earns royalties) have retained approximately 50% of the Axiron® pre-generic market share.

Environmental regulation

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

Laboratory waste

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

Trade water waste

An agreement exists with City West Water to ensure compliance under the *Water Industry Act 1994* and *Water Industry Regulations1995*. This agreement ensures that the acceptance of trade waste into the sewage network is managed effectively and that City West Water is aware of the type and quantities of waste disposed of by the consolidated entity.

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

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
3 February 2015	2,000,000	$1.32	February 2018
22 July 2015	1,000,000	$1.11	July 2018
22 July 2016	1,000,000	$0.96	July 2019
25 January 2017*	774,000	$0.36	January 2021
	4,774,000		

* Options issued under the Employee Share Plan on 25 January 2017 are unvested. Options may vest 12 months after grant date, assuming performance measures are achieved.

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

A total of 1,000,000 options over unissued ordinary shares were granted to the CEO during the financial year.

Shares issued on exercise of options

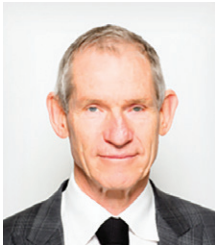
There were no shares issued during the financial year from the exercise of share options.

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 2016 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, Executive Chairman; prior to 1 July 2012, Non-Executive Chairman.

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.

Bruce Parncutt AO

Resigned
7 December 2016

Responsibilities

Prior to resignation, Non-Executive Director, member of the Human Capital and Nomination Committee and Chair of the Audit and Risk Committee.

Qualifications

BSc, MBA

Experience

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

Timothy 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

Timothy 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. He has recently stepped down as the CEO and Managing Director of Cell Therapies Pty Ltd, which is a leading Asia Pacific provider of manufacturing and distribution of cell-based therapeutics. Timothy was President of Asia Pacific for Hospira Inc. (2007–2012), having held a variety of senior management roles with Mayne Pharma (2002–2007) prior to its acquisition by Hospira. These roles encompassed the development and commercialisation of pharmaceuticals, devices, biologics and cellular therapies. Prior to this, Timothy was an engagement manager with McKinsey & Co (1997–2001). Timothy has been Chairman of the European Generic Medicines Association Biosimilars, a Director of the Alliance for Regenerative Medicine and Biotechnology Committee, a Director of the Generic Medicines Industry Association and a member of the Pharmaceutical Industry Strategy Group. He is also a Director of Respiri Ltd (ASX:RSH) and a 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.

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.

* Sharon Papworth held the position of Chief Financial Officer and Company Secretary for the period 29 September 2014 to 10 October 2016.

Directors' and Executives' interests in shares and options

Directors' and Executives' relevant interests in shares of Acrux Limited and options over shares in the Company as at the date of this report are detailed below:

	Total no. of shares	Total no. of options
Directors		
Ross Dobinson	1,372,593	-
Timothy Oldham	16,150*	-
Geoff Brooke	75,750	-
Michael Kotsanis	-	4,000,000
Executives		
Tim Bateman	-	95,000
Charles O'Sullivan	-	90,000
Felicia Colagrande	1,500	90,000
Nina Webster	6,100	55,000
Total	1,472,093	4,330,000

* Related party interests of Timothy Oldham hold 400 shares of Acrux Limited.

Directors' interests in contracts

Directors' interests in contracts are disclosed in Note 23 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 Company and its controlled entities. Officers indemnified include the Company Secretary, all Directors and all Executive officers participating in the management of the Company and its controlled entities.

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

Remuneration report (audited)

The Directors present the consolidated entity's 2017 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 Company and its controlled entities; and

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

Remuneration policy

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

- remuneration is set at levels intended to attract, 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 options under the employee share option plan (ESOP). All permanent staff are eligible to participate in the short term incentive plan and 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 Company aims to set the level of fixed remuneration based on market rates for comparable jobs in the Company's industry sector. The Company 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 incentive plans is to implement annual business plans to increase shareholder value. The Human Capital and Nominations Committee is working with a remuneration consultant to review the long term incentive structure. Any modifications considered appropriate will be recommended to shareholders for approval as required.

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 Company'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 up to 25% of his fixed remuneration.

The key principles of the plan are:

- Payments under the short term incentive plan are at the discretion of the Board.
- The amount of at-risk remuneration payable under the short term incentive plan is dependent upon the overall level of achievement of the year's business objectives.
- The Board assesses the level of achievement of the business objectives at the end of the year.
- For staff other than Senior Executives, 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 P*ooled 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, which is the employee share option plan, is for employees other than the CEO and it is subject to the following terms:

- the Board may issue options to eligible employees;
- the options vest 12 months from issue, assuming performance measures are met;
- vested options expire three years after grant;
- the options lapse on termination of employment, other than through death or redundancy; and
- the exercise price is set at a 15% premium to the volume weighted average market price of the Company's shares 30 days prior to grant and comprise three tranches:
  - tranche one was granted on 25 January 2016 and as a result of not meeting the performance measure did not vest;
  - tranche two was granted on 25 January 2017; and
  - tranche three eligibility will be assessed by the Board on or after 25 January 2018.

For further details refer to Note 16 to the accounts.

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 five days prior to grant and comprise three tranches.
  - tranche one was granted on 3 February 2015;
  - tranche two was granted on 22 July 2015; and
  - tranche three was granted on 22 July 2016.

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

Remuneration report (audited) continued

Company performance

The following table summarises Company performance and key performance indicators:

	2017	2016	2015	2014	2013
Revenue ($'000)	**23,934**	28,557	25,368	53,859	16,528
% increase in revenue	**-16%**	13%	-53%	226%	58%
Profit/(loss) before tax ($'000)	**(94)**	18,092	16,806	43,857	10,041
% increase in profit before tax	**-101%**	8%	-62%	337%	104%
Change in share price (%)	**-69%**	-15%	-16%	-71%	-17%
Dividend paid to shareholders ($'000)	**-**	9,991,303	13,321,737	33,304,342	13,319,737
Total remuneration of key management	**2,032,539**	1,909,941	2,114,293	1,644,449	1,038,615
Total performance based remuneration	**198,179**	209,110	176,603	103,891	127,016

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 consolidated entity 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 and Company Secretary	Commenced 3 October 2016
Sharon Papworth	Chief Financial Officer and Company Secretary	Last day of employment 28 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

A total of 1,000,000 share options were issued by Acrux Limited to the Chief Executive Officer, Mr Kotsanis, on 22 July 2016 under the CEO share option plan. Share options issued to Mr Kotsanis vest on grant.

A further 800,000 share options were issued to eligible employees other than the CEO under the employee share option plan, following shareholder approval at the Annual General Meeting held on 17 November 2015. Share options issued under this plan vest upon the Company achieving performance metrics approved by the Board.

(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.

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

	Primary							
2017	**Salary $**	**Bonus * $**	**Post-employment super $**	**Termination benefits $**	**Equity options $**	**Total $**	**Equity as a % of total $**	**Bonus as a % of total $**
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%**
2016								
Michael Kotsanis[1]	389,892	100,000	19,308	-	225,400	734,600	31%	14%
Sharon Papworth[3]	211,507	34,125	19,308	-	6,029	270,969	2%	13%
Felicia Colagrande[4]	178,082	28,190	19,308	-	6,029	231,609	3%	12%
Charles O'Sullivan[5]	178,082	28,493	19,308	-	6,029	231,912	3%	12%
Nina Webster[6]	121,395	18,302	13,272	-	3,808	156,777	2%	12%
	1,078,958	209,110	90,504	-	247,295	1,625,867	15%	13%

* 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 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 Company 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's fees of the Non-Executive Chairman Ross Dobinson are provided by Espasia Pty Ltd. The contract for Director's fees can be terminated by either party by giving three months' notice in writing. For the 2016/17 financial year the contract provided for fees of $118,000 per annum in respect of Director's fees.

For the 2016/17 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 Company 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.

Remuneration report (audited) continued

Remuneration of Directors continued

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							
2017	Fees $	Bonus* $	Post-employment super $	Termination benefits $	Equity options $	Total $	Equity as a % of total $	Bonus as a % of total $
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**	**-**	**-**
2016								
Ross Dobinson[1]	118,000	-	-	-	-	118,000	-	-
Bruce Parncutt[2]	70,000	-	6,650	-	-	76,650	-	-
Timothy Oldham[3]	70,000	-	6,650	-	-	76,650	-	-
Geoff Brooke[4]	5,833	-	554	-	-	6,387	-	-
Simon Green[4]	5,833	-	554	-	-	6,387	-	-
	269,666	-	14,408	-	-	284,074	-	-

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, 3 November 2014. The remuneration details of Mr Kotsanis have been disclosed in the Executive remuneration table.

Number of shares held by key management personnel

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

Directors and Executives	Balance 1/07/16	Granted as remuneration	Options exercised	Net change other	Balance 30/06/17
Directors					
Ross Dobinson[1]	1,372,593	-	-	-	1,372,593
Timothy Oldham[2]	16,150	-	-	-	16,150
Geoff Brooke[3]	-	-	-	75,750	75,750
Executives					
Nina Webster[4]	6,100	-	-	-	6,100
Felicia Colagrande[5]	1,500	-	-	-	1,500
Total	**1,396,343**	**-**	**-**	**75,750**	**1,472,093**

1. Appointed Non-Executive Chairman post appointment of the Chief Executive Officer, 3 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.

Number of employee share options held by key management personnel

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

Directors and Executives	Balance 1/07/16	Granted as remuneration	Options exercised	Net change other	Balance 30/06/17	Value of options granted at grant date	Value of options expensed in 30/06/2017
Directors							
Ross Dobinson[1]	600,000	-	-	(600,000)	-	-	-
Executives							
Michael Kotsanis[2]	3,000,000	1,000,000	-	-	4,000,000	183,000	183,000
Tim Bateman[3]	-	95,000	-	-	95,000	13,975	5,823
Nina Webster[4]	235,000	55,000	-	(235,000)	55,000	8,091	8,039
Felicia Colagrande[5]	235,000	90,000	-	(235,000)	90,000	13,239	12,912
Charles O'Sullivan[6]	95,000	90,000	-	(95,000)	90,000	13,239	12,912
Total	**4,165,000**	**1,330,000**	**-**	**(1,165,000)**	**4,330,000**	**231,544**	**222,686**

1. Appointed Non-Executive Chairman post appointment of the Chief Executive Officer, November 2014. Previously Executive Chairman from 1 July 2012.
2. Appointed Chief Executive Officer and Managing Director 3 November 2014.
3. Appointed Chief Financial Officer and Company Secretary 10 October 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.
6. Appointed Portfolio Director 1 July 2015.

Voting and comments made at the Company's 2016 Annual General Meeting (AGM)

At the Company's most recent AGM, a resolution to adopt the prior year's Remuneration Report was put to the vote and at least 75% of 'yes' votes were cast in favour of the adoption of that report. No comments were made by shareholders in relation to the Remuneration Report that was adopted at the AGM.

This is the end of the audited Remuneration Report.

Court proceedings

Formal trial proceedings concluded in July 2016 in the United States District Court for the Southern District of Indiana 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®. In each instance, the patents are owned by Acrux DDS, a wholly owned subsidiary of Acrux Limited and exclusively licensed to Eli Lilly and Company, our licensee for Axiron®. On 22 August 2016, the United States District Court for the Southern District of Indiana ruled the formulation and axilla application patents granted by the United States Patent and Trademark Office for Axiron® have been 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 ruled to be valid but this patent was not infringed by the majority of the Defendants. The decision allows FDA-approved generic versions of Axiron® to enter the US marketplace, pending an appeal.

On 23 August 2016, in the United States, Eli Lilly and Company and Acrux announced that they would appeal the Court's decision. In the event that the decision is overturned as a consequence of the Appeal and the Courts determine that the patents are valid and have been infringed, the generics can be withdrawn from the market and the company marketing the branded product can seek monetary damages from the Defendants. At the time of writing this report the Appeal proceedings are underway with the Appeal expected to be heard in the fourth quarter of 2017.

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 US 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. 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 Acrux operating expenditure.

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 of entities in the consolidated group during the year, namely Pitcher Partners (Melbourne), network firms of Pitcher Partners 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 auditor 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 Company 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 auditor's own work, acting in a management or decision making capacity for the Company or any of its related entities, acting as an advocate for the Company or any of its related entities, or jointly sharing risks and rewards in relation to the operations or activities of the Company or any of its related entities.

	2017 $	2016 $
Amounts paid or payable to Pitcher Partners (Melbourne) for non-audit services	**104,888**	27,885
Total auditors' remuneration for non-audit services	**104,888**	27,885

Auditors' Independence Declaration

A copy of the Auditor's 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 22nd day of August 2017

Geoff Brooke
Non-Executive Director

Melbourne
Dated this 22nd day of August 2017

Auditor's independence declaration to the Directors of Acrux limited

PITCHER PARTNERS

ACRUX LIMITED

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ACRUX LIMITED

In relation to the independent audit for the year ended 30 June 2017, 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

22 August 2017

PITCHER PARTNERS
Melbourne

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Revenue	4	**23,934**	28,557
Employee benefits expense	5	**(4,277)**	(3,582)
Directors' fees		**(382)**	(284)
Share options expense		**(279)**	(275)
Depreciation and amortisation expense	5	**(1,560)**	(1,492)
Impairment losses	5	**(10,680)**	-
Occupancy expense		**(493)**	(417)
External research and development expense		**(3,239)**	(1,430)
Professional fees		**(1,827)**	(632)
Royalty expense		**(136)**	(988)
Foreign exchange loss	5	**(457)**	(772)
Other expenses		**(698)**	(593)
Total expenses		**(24,028)**	(10,465)
(Loss)/profit before income tax		**(94)**	18,092
Income tax expense	6	**(149)**	(5,111)
Net (loss)/profit for the year		**(243)**	12,981
Total comprehensive income for the year		**(243)**	12,981
Total comprehensive income attributable to:			
Members of the parent	17(b)	**(243)**	12,981
Non-controlling interest	19	**-**	-
		(243)	12,981
(Loss)/earnings per share for profit attributable to the equity holders of the parent entity:			
Basic (loss)/earning per share	8	**(0.15) cents**	7.80 cents
Diluted (loss)/earnings per share	8	**(0.15) cents**	7.80 cents

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

Consolidated statement of financial position

As at 30 June 2017

	Notes	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	9	**33,974**	29,360
Receivables	10	**5,623**	4,783
Total current assets		**39,597**	34,143
Non-current assets			
Plant and equipment	11	**778**	262
Intangible assets	12	**6,839**	18,966
Deferred tax asset	6	**92**	-
Total non-current assets		**7,709**	19,228
Total assets		**47,306**	53,371
Current liabilities			
Payables	13	**1,819**	1,900
Current tax payable	6	**1,136**	3,503
Provisions	14	**407**	335
Total current liabilities		**3,362**	5,738
Non-current liabilities			
Provisions	14	**19**	17
Deferred tax liabilities	6	**-**	3,727
Total non-current liabilities		**19**	3,744
Total liabilities		**3,381**	9,482
Net assets		**43,925**	43,889
Equity			
Contributed equity	15	**95,873**	95,873
Reserves	17(a)	**1,215**	1,454
Retained earnings	17(b)	**(53,163)**	(53,438)
Equity attributable to equity holders of the parent		**43,925**	43,889
Non-controlling interests	19	**-**	-
Total equity		**43,925**	43,889

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 2017

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 July 2015		95,873	1,194	(56,442)	40,625
Profit for the period				12,981	12,981
Total comprehensive income for the year		-	-	12,981	12,981
Transactions with owners in their capacity as owners:					
Employee share scheme	17(a)	-	275	-	275
Vested employee share options that lapsed during period	17(a)	-	(15)	15	-
Dividends paid	7	-	-	(9,992)	(9,992)
Balance as at 30 June 2016		95,873	1,454	(53,438)	43,889
Balance as at 1 July 2016		**95,873**	**1,454**	**(53,438)**	**43,889**
Profit/(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	17(a)	**-**	**279**	**-**	**279**
Vested employee share options that lapsed during period	17(a)	**-**	**(518)**	**518**	**-**
Balance as at 30 June 2017		**95,873**	**1,215**	**(53,163)**	**43,925**

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

Consolidated statement of cash flows

For the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Cash flow from operating activities			
Receipts from product agreements		**21,822**	28,208
Payments to suppliers and employees		**(10,748)**	(7,923)
Interest received		**637**	515
Income tax paid		**(6,335)**	(4,294)
Net cash provided by operating activities	18(a)	**5,376**	16,506
Cash flow from investing activities			
Payment for property, plant and equipment		**(629)**	(236)
Net cash used in investing activities		**(629)**	(236)
Cash flow from financing activities			
Dividends paid		**-**	(9,992)
Net cash used in financing activities		**-**	(9,992)
Net increase in cash and cash equivalents		**4,747**	6,278
Cash and cash equivalents at beginning of year		**29,360**	23,068
Foreign exchange differences on cash holdings		**(133)**	14
Cash and cash equivalents at end of the year	18(b)	**33,974**	29,360

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 2017

1. Statement of significant accounting policies

The following are the significant accounting policies adopted by the consolidated entity in the preparation and presentation of the Financial Report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of 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 consolidated entity. 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, Victoria, 3000, 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 entity'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 2017 the consolidated entity reported an operating loss after tax of $0.2 million (2016: profit $13.0 million) and at the reporting date total assets exceeded total liabilities by $43.9 million (2016: $43.9 million).

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent 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 derecognised from the date that control ceases.

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 asset is held ready for use.

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

The useful lives for each class of assets are:

	2017	**2016**
Leasehold improvements	**5 to 20 years**	5 to 20 years
Plant and equipment	**2.5 to 14 years**	2.5 to 14 years

(g) Leases

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

1. Statement of significant accounting policies continued

(h) Intangibles continued

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 Axiron® and estradiol, for which amortisation has commenced, is approximately 18 years and 10 years respectively. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Statement of Comprehensive Income.

(i) Impairment of non-financial assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136 *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 Statement of Comprehensive Income.

(j) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities 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 30%. At 30 June 2014 Acrux Limited's tax paying subsidiaries had utilised all accumulated tax losses. The majority of the consolidated entity's taxable income is earned by these subsidiary companies.

Income tax expense for the financial year was $0.1 million (2016: $5.1 million) and is primarily comprised of income tax expense on underlying operating profit (excluding impairment loss), non-deductible expenses, tax losses within Acrux Limited that cannot be utilised against taxable profits within subsidiary companies as PDFs are not allowed to consolidate for tax purposes and reversal of the deferred tax liability that would have been incurred as the Axiron® capitalised development costs were realised.

During the financial year two of Acrux Limited's wholly owned subsidiary companies (Acrux Commercial Pty Ltd and Fempharm Pty Ltd) formed a tax consolidated group which will allow for the utilisation of carried forward tax losses in Fempharm Pty Ltd.

The utilisation of Fempharm Pty Ltd's carried forward tax losses as an offset against the taxable income of the consolidated entity is limited to 5.8% in any one tax year. The 5.8% allowable fraction is calculated referencing the market value of assets that Fempharm Pty Ltd transferred into the tax consolidated group.

(k) Provisions

Provisions are recognised when the consolidated entity 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 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

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

Bonus

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

Share based payments

The consolidated entity operates an employee share option plan. The fair value of the options is recognised as an expense in the Statement of Comprehensive Income in the period(s) during which the employee becomes entitled to exercise the options.

The fair value of options at grant date is determined using a Binomial option pricing model, and is recognised as an employee expense over the period during which the employees became entitled to the option (the vesting period).

Termination benefits

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

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

(m) Comparatives

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

1. Statement of significant accounting policies continued

(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 consolidated entity. Trade liabilities are normally settled 30 days from month end.

Derivative financial instruments

In prior years the consolidated entity 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.

(o) Foreign currency translations and balances

Functional and presentation currency

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

Transactions and balances

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

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

(q) Rounding amounts

The parent entity and the consolidated entity 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 dollars, or in certain cases, to the nearest dollar (where indicated).

(r) Accounting Standards issued but not yet effective at 30 June 2017

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.

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

AASB 9 *Financial instruments*

This standard will replace AASB 139 *Financial Instruments: Recognition and Measurement*. The key changes that may affect the Company 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.

The effective date is annual reporting periods commencing on or after 1 January 2018.

Although the Directors anticipate that the adoption of AASB 9 may have an impact on the Company's financial instruments, the impact of AASB 9 has not yet been quantified.

1. Statement of significant accounting policies continued

(r) Accounting Standards issued but not yet effective at 30 June 2017 continued

AASB 116 *Leases*

AASB 116 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 is:
  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 effective date is annual reporting periods commencing on or after 1 January 2019.

Although the Directors anticipate that the adoption of AASB 116 may have an impact on the Group's accounting for its operating leases, the impact has not yet been quantified. These Standards however, are not expected to significantly impact the Group's financial statements.

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 Company uses discounted cash flow models to determine that the capitalised development costs in the consolidated entity are not being carried at a value that is materially in excess of recoverable value. The models value each product by estimating future cash flows 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:

- Multiple cash flow scenarios have been forecast where appropriate, including impact of generic product launch and consideration of the Axiron® patent Appeal's success, providing a weighted average of the possible scenarios.
- 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 10.5 years, which is justified based on the products' patents' lives.
- The cash flows have been discounted using a post-tax rate of 12%.

The Company recorded a non-cash impairment loss of $10.680 million for the financial year and is a result of a reassessment of the estimated future discounted cash flows from the Axiron® product utilising current market data for Testosterone market in the United States and the generic market penetration since 6 July 2017.

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

3. Financial risk management and fair value measurements

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

(a) interest rate risk;

(b) currency risk;

(c) credit risk;

(d) liquidity risk; and

(e) fair values.

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

(a) Interest rate risk

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

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at 30 June 2017 are shown in the table below. 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/(loss) and equity of the consolidated entity by approximately $0.3 million (2016: $0.2 million).

At 30 June 2017 the consolidated entity had financial instruments with carrying amounts as shown in the following table:

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Non-interest bearing		Total carrying amount per balance sheet		Weighted average effective interest rate*	
Financial instruments	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**	**2017 %**	**2016 %**
(i) Financial assets										
Cash	10,126	8,801	23,847	20,558	1	1	33,974	29,360	1.9	2.6
Receivables	-	-	-	-	5,623	4,783	5,623	4,783		
Total financial assets	**10,126**	**8,801**	**23,847**	**20,558**	**5,624**	**4,784**	**39,597**	**34,143**		
(ii) Financial liabilities										
Trade creditors	-	-	-	-	564	606	564	606		
Sundry creditors and accruals	-	-	-	-	1,255	1,294	1,255	1,294		
Total financial liabilities	-	-	-	-	1,819	1,900	1,819	1,900		

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

3. Financial risk management and fair value measurements continued

(b) Currency risk

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

Bank accounts denominated in US dollars are maintained in order to facilitate receipts and payments. Cash reserves at 30 June 2017 included $9.4 million (2016: $0.5 million) denominated in US dollars. A change of 10% in the AUD/USD exchange rate at 30 June 2017 would change the net profit/(loss) and equity of the consolidated entity by approximately $1.0 million (2016: immaterial).

The balance of receivables at 30 June 2017 includes the right to receive US$4.0 million (2016: US$3.2 million) of Axiron® royalties for the fourth quarter of the 2016/17 financial year. A change of 10% in the AUD/USD exchange rate at 30 June 2017 would change the consolidated net profit/(loss) and equity by approximately $0.5 million (2016: $0.4 million).

The consolidated entity does not enter into forward exchange contracts. At balance date, there were nil (2016: nil) forward exchange contracts. The accounting policy for forward exchange contracts is detailed in Note 1(n).

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

(c) Credit risk

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

Cash reserves form the majority of the consolidated entity's financial assets at 30 June 2017. Acrux Limited is a Pooled Development Fund. The Pooled Development Fund Act restricts the investment of cash reserves to deposits with an Australian bank licensed to take deposits. This policy is also followed for all cash held by the other companies within the consolidated entity.

At 30 June 2017 the consolidated entity had a material credit risk exposure to Eli Lilly and Company and its subsidiaries. The receivables recorded on the consolidated entity's balance sheet contains an amount of AUD$5.3 million due from Eli Lilly and Company under the licence agreement for the commercialisation of Axiron®. During future reporting periods, the consolidated entity is expected to continue to have a material credit exposure to Eli Lilly and Company and its subsidiaries, due to the royalties and milestone payments expected. At 30 June 2017, Eli Lilly and Company's credit ratings were AA-(S&P) and A2 (Moodys). The credit rating and financial health of Eli Lilly and Company are monitored regularly. The grant of the licence under the licence agreement is subject to payment by Eli Lilly and Company of the amounts in accordance with the agreement.

(d) Liquidity risk

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

The financial liabilities of the consolidated entity at the balance date are all expected to mature within three months of the balance date. The consolidated entity has sufficient cash reserves, $34.0 million (2016: $29.4 million), to settle these liabilities and to fund operating expenditure for at least two years based on current cash flow forecasts. The consolidated entity does not have an overdraft or loan facility. The maturity profile of the consolidated entity's cash term deposits is actively managed and compared with forecast liabilities to ensure that sufficient cash is available to settle liabilities as they fall due.

(e) Fair values

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the Consolidated Statement of Financial Position and notes to the consolidated financial statements. Financial 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.

4. Revenue

	2017 $'000	2016 $'000
Revenue from operating activities		
Revenue from licensing agreements	**23,321**	28,009
Other revenues		
Interest	**613**	548
Foreign exchange gain	**-**	-
Total revenues from non-operating activities	**613**	548
Total revenue from continuing operations	**23,934**	28,557

5. (Loss)/profit from continuing operations

	2017 $'000	2016 $'000
(Loss)/profit from continuing operations before income tax has been determined after the following specific expenses:		
Employee benefits expense		
Wages and salaries	**3,541**	3,042
Superannuation costs	**292**	245
Other employee benefits expense	**444**	295
Total employee benefits expense	**4,277**	3,582
Depreciation of non-current assets		
Plant and equipment	**111**	65
Buildings	**2**	1
Total depreciation of non-current assets	**113**	66
Amortisation of non-current assets		
Intellectual property	**62**	94
Capitalised research and development	**1,385**	1,332
Total amortisation of non-current assets	**1,447**	1,426
Total depreciation and amortisation expenses	**1,560**	1,492
Impairment losses	**10,680**	-
Rental expense on operating leases	**303**	297
Foreign exchange loss	**457**	772

(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.*

Employee costs	**3,981**	3,312
Laboratory costs	**2,829**	985
Facility costs	**831**	688
Other costs	**1,606**	551
Research and development related costs	**9,247**	5,536

* This differs from the classification of research and development costs pursuant to AASB 138 which only comprises direct costs.

6. Income tax

	2017 $'000	2016 $'000
(a) Income tax recognised in profit or loss:		
Current tax	**4,197**	6,016
Deferred tax	**(3,819)**	(922)
(Over)/under provision in prior years	**(229)**	17
Income tax expense attributable to profit or loss	**149**	5,111
(b) Reconciliation of income tax expense		
The prima facie tax payable on (loss)/profit before income tax is reconciled to the income tax expense as follows:		
(Loss)/profit before tax from continuing operations	**(94)**	18,092
Prima facie income tax payable on (loss)/profit before income tax at 30.0% (2016: 30.0%)	**(28)**	5,428
Add/(subtract) tax effect:		
Non-deductible expenses	**63**	31
Research and development tax incentive	**-**	(89)
(Over)/under provision in prior years	**(229)**	17
Tax losses utilised not previously brought to account	**(136)**	(606)
Parent entity net adjustment and tax losses and temporary differences not brought to account	**479**	330
	177	(317)
Income tax expense attributable to profit or loss	**149**	5,111
(c) Current tax		
Opening balance	**3,503**	1,764
(Over)/under provision in prior years	**(229)**	17
Provision for current year	**4,197**	6,016
Prior year refund received	**296**	179
Tax payments	**(6,631)**	(4,473)
Current tax liability	**1,136**	3,503

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.

6. Income tax continued

	2017 $'000	2016 $'000
(d) Deferred tax		
Deferred tax relates to the following:		
Deferred tax assets		
The balance comprises:		
Accruals and provisions	**114**	93
Leasehold improvements	**168**	177
Patent expenses	**1,141**	831
Exchange differences	**38**	-
Tax losses	**741**	547
	2,202	1,648
Deferred tax liabilities		
The balance comprises:		
Exchange differences	**48**	(8)
Intangible assets	**2,052**	5,366
Prepayments	**7**	-
Accrued interest	**3**	17
	2,110	5,375
Net deferred tax assets/(liabilities)	**92**	(3,727)
(e) Deferred tax assets not brought to account		
Temporary differences	**33**	(313)
Tax losses	**10,992**	11,258
	11,025	10,945

7. Dividends

Nil dividends were paid during the financial year (2016: 6 cents per share, franked)	**-**	9,992
Balance of franking account on a tax paid basis at financial year-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years:	**42,837**	36,492

8. (Loss)/earnings per share

(Loss)/profit from continuing operations	**(243)**	12,981
(Loss)/profit used in calculating basic and diluted earnings per share	**(243)**	12,981
	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	**-**	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**166,521,711**	166,521,711
Basic (loss)/earnings per share (cents)	**(0.15)**	7.80
Diluted (loss)/earnings per share (cents)	**(0.15)**	7.80

9. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank	**10,127**	8,802
Deposits at call	**23,847**	20,558
	33,974	29,360

10. Receivables

Current		
Trade receivables	**5,487**	4,561
Other receivables	**45**	149
Prepayments	**91**	73
	5,623	4,783

(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.

11. Plant and equipment

	Notes	2017 $'000	2016 $'000
Leasehold improvements			
At cost		**1,145**	1,137
Accumulated amortisation		**(1,118)**	(1,116)
Total leasehold improvements	**11(a)**	**27**	21
Plant and equipment			
At cost		**924**	431
Accumulated depreciation		**(173)**	(190)
Total plant and equipment	**11(a)**	**751**	241
Total plant and equipment		**778**	262

(a) Reconciliations

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

Leasehold improvements		
Carrying amount at beginning	**21**	4
Additions	**8**	18
Amortisation expense	**(2)**	(1)
	27	21
Plant and equipment		
Carrying amount at beginning	**241**	88
Additions	**621**	218
Depreciation expense	**(111)**	(65)
	751	241

12. Intangible assets

	Notes	2017 $'000	2016 $'000
Intellectual property			
At cost		**1,200**	1,200
Accumulated amortisation	12(a)	**(1,200)**	(1,138)
		-	62
Capitalised development			
Estradiol			
External development expenditure capitalised		**1,071**	766
Employee benefits capitalised		**-**	169
Other capitalised amounts		**-**	136
Accumulated amortisation		**(160)**	(54)
	12(a)	**911**	1,017
Axiron®			
External development expenditure capitalised		**23,171**	17,415
Employee benefits capitalised		**-**	3,353
Other capitalised amounts		**-**	2,403
Accumulated amortisation and impairment losses		**(17,243)**	(5,284)
	12(a)	**5,928**	17,887
Net carrying amount		**6,839**	18,904
Total intangible assets		**6,839**	18,966

(a) Reconciliations

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

Intellectual property		
Carrying amount at beginning	**62**	156
Amortisation	**(62)**	(94)
	-	62
Capitalised development		
Estradiol		
Carrying amount at beginning	**1,017**	1,071
Additions	**-**	-
Amortisation	**(106)**	(54)
	911	1,017
Axiron®		
Carrying amount at beginning	**17,887**	19,165
Additions	**-**	-
Amortisation	**(1,279)**	(1,278)
Impairment losses recognised	**(10,680)**	-
	5,928	17,887

The remaining useful life of Axiron® capitalised development is approximately 13 years.

The remaining useful life of estradiol capitalised development is approximately nine years.

For further details of the impairment loss please see Note 2(b) of the Financial Report.

13. Payables

	2017 $'000	2016 $'000
Current		
Trade creditors	**564**	606
Sundry creditors and accruals	**1,255**	1,294
	1,819	1,900

14. Provisions

Current		
Employee entitlements	**407**	335
Non-current		
Employee entitlements	**19**	17
Aggregate employee entitlements liability	**426**	352

15. Contributed equity

	2017		2016	
(a) Issued and paid up capital	**No. of shares**	**$'000**	**No. of shares**	**$'000**
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

Employee share option plan

The consolidated entity operates two employee share option plans. During the financial year no options were exercised (2016: nil), 1,800,000 new options were issued under the plans during the financial year (2016: 1,794,000). Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. At 30 June 2017, 4,330,000 options were held by key management personnel (2016: 4,260,000).

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2017 was $0.22.

15. Contributed equity continued

	2017 No.	2016 No.
(i) Movement in the number of share options held under employee share option plan are as follows:		
Opening balance	**5,139,000**	3,380,000
Granted during the financial year	**1,800,000**	1,794,000
Exercised during the financial year	**-**	-
Lapsed during the financial year	**(2,165,000)**	(35,000)
Closing balance	**4,774,000**	5,139,000

	$'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	-	-

	2017 No.	2016 No.
(ii) Details of lapsed options		
Key management personnel	**1,260,000**	-
Employees	**905,000**	35,000
Lapsed during the year	**2,165,000**	35,000

(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 2017, the Board paid dividends of nil (2016: $10.0 million).

The amounts and ratio of future dividends have not been determined.

16. 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
31 July 2013	31 July 2016	$4.30	745,000	-	-	(745,000)	-	-
21 November 2013	31 July 2016	$4.30	600,000	-	-	(600,000)	-	-
3 February 2015	3 February 2018	$1.32	2,000,000	-	-		2,000,000	2,000,000
22 July 2015	22 July 2018	$1.11	1,000,000	-	-		1,000,000	1,000,000
25 January 2016	25 January 2020	$0.82	794,000	-	-	(794,000)	-	-
22 July 2016	22 July 2019	$0.96	-	1,000,000	-		1,000,000	1,000,000
25 January 2017	25 January 2021	$0.36		800,000	-	(26,000)	774,000	-
			5,139,000	1,800,000	-	(2,165,000)	4,774,000	4,000,000

The weighted average remaining contractual life for share options outstanding at the end of the period was 1.82 years.

16. Share based payments continued

(a) Employee share option plans continued

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 25 January 2016 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: $0.82
Grant date: 25 January 2016
Performance period: 12 months from grant date
Expiry date: 25 January 2020, assuming performance metrics achieved
Share price at grant date: $0.64
Expected price volatility of the Company's shares: 64%
Expected dividend yield: 8.99%

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%

16. Share based payments continued

(a) Employee share option plans continued

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

Exercise price: $4.30
Grant date: 21 November 2013
Expiry date: 31 July 2016
Share price at grant date: $2.56
Expected price volatility of the Company's shares: 37%
Expected dividend yield: 5.0%
Risk free interest rate: 3.08%

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

Exercise price: $4.30
Grant date: 31 July 2013
Expiry date: 31 July 2016
Share price at grant date: $3.35
Expected price volatility of the Company's shares: 38%
Expected dividend yield: 5%
Risk free interest rate: 2.52%

	2017 $'000	2016 $'000
(b) Expenses recognised from share based payment transactions		
The expense recognised in relation to the share based payment transactions was recorded within share options expense in the Statement of Comprehensive Income were as follows:		
Options issued under the employee share option plans	**(279)**	275
Total expenses recognised from share based payment transactions	**(279)**	275

17. Reserves and accumulated losses

	Notes	2017 $'000	2016 $'000
Share based payment reserve	17(a)	**1,215**	1,454
Accumulated losses	17(b)	**(53,163)**	(53,438)

(a) Share based payment reserve

(i) Nature and purpose of reserve

This reserve is used to record the value of equity benefit provided to employees and Directors as part of their remuneration. Refer Note 15 for details.

(ii) Movement in reserve

Balance at the beginning of year	**1,454**	1,194
Transfer fair value of employee shares options to share capital	**-**	-
Employee share option expense for the year (including adjustment for service conditions not met)	**279**	275
Vested employee share options previously expensed, that lapsed during the year	**(518)**	(15)
Balance at end of year	**1,215**	1,454

17. Reserves and accumulated losses continued

	2017 $'000	2016 $'000
(b) Accumulated losses		
Balance at the beginning of year	**(53,438)**	(56,442)
Vested employee share options that lapsed during the year	**518**	15
Net (loss)/profit attributable to members of Acrux Limited	**(243)**	12,981
Accumulated losses at reporting date	**(53,163)**	(43,446)
Dividends paid	**-**	(9,992)
Accumulated losses at reporting date	**(53,163)**	(53,438)

18. Cash flow information

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

(Loss)/profit from ordinary activities after income tax	**(243)**	12,981
Non-cash items		
Depreciation and amortisation	**1,560**	1,492
Share options expense	**279**	275
Unrealised foreign exchange losses/(gains)	**133**	(14)
Impairment losses	**10,680**	-
Changes in assets and liabilities		
(Decrease)/increase in tax liabilities	**(2,367)**	1,739
(Increase)/decrease in trade and other receivables	**(840)**	160
(Decrease)/increase in payables	**(81)**	750
Increase in employee entitlements	**74**	45
(Decrease) in deferred taxes	**(3,819)**	(922)
	5,619	3,525
Net cash inflows from operating activities	**5,376**	16,506

(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:

– Cash at bank	**10,127**	8,802
– At call deposits with financial institutions	**23,847**	20,558
Closing cash balance	**33,974**	29,360

(c) Credit stand by arrangement and loan facilities

The consolidated entity has credit card facilities with financial institutions available to the extent of $120,000 (2016: $154,000). As at 30 June 2017 the consolidated entity had unused facilities of $100,029 (2016: $141,114).

19. Non-controlling interests

The consolidated entity holds nil (2016: nil) non-controlling interests at balance date.

20. Commitments

	2017 $'000	2016 $'000
Lease expenditure commitments		
Operating leases (non-cancellable)		
(i) Non-cancellable operating leases contracted for but not capitalised in the accounts:		
(ii) Minimum lease payments		
– Not later than one year	**312**	306
– Later than one year and not later than five years	**-**	289
Aggregate lease expenditure contracted for at reporting date	**312**	595

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 four years from 1 June 2014, with an option to extend for a further period of four years. The lease contract contains market review clauses in the event that Acrux DDS Pty Ltd exercises its option to renew. The Company does not have an option to purchase the leased asset at the expiry of the lease period.

21. Key management personnel compensation

Details of key management personnel Compensation are contained within the Remuneration Report section of the Directors' Report.
A breakdown of the aggregate components of key management personnel's compensation is provided below:

Compensation by category	2017 $'000	2016 $'000
Short term employment benefits	**1,692,675**	1,557,734
Post-employment benefits	**117,178**	104,912
Equity	**222,686**	247,295
	2,032,539	1,909,941

22. Loans to key management personnel

There were no loans made to key management personnel during the financial year.

23. 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 payable to controlled entities by the parent entity at the end of the reporting period were $8,028,827 (2016 receivable: $8,787,894).

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 $5,233,091 (2016: $5,063,995).

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.

24. Auditor's remuneration

	2017 $	2016 $
Amounts paid and payable to Pitcher Partners for:		
(i) Audit and other assurance services		
– An audit or review of the Financial Report of the entity and any other entity in the consolidated entity	**110,294**	91,000
– Taxation compliance and consulting	**49,490**	28,755
– Other non-audit services	**55,398**	-
	215,182	119,755

25. Segment reporting

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

Geographical segment information	2017 $'000	2016 $'000
Revenue		
Australia	**613**	553
Switzerland[1]	**22,785**	25,335
United States	**356**	128
Other	**180**	2,541
	23,934	28,557

1. Axiron® revenue is receivable from a Swiss subsidiary of Eli Lilly and Company.

All assets are located in Australia.

Product information	2017 $'000	2016 $'000
Revenue by product group/service		
Axiron®	**22,785**	25,335
Other	**1,149**	3,222
	23,934	28,557

26. Controlled entities

		Percentage owned	
	Country of incorporation	2017	2016
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%

27. Parent entity details

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

	Parent entity	
	2017 $'000	2016 $'000
(a) Summarised Statement of Financial Position		
Assets		
Current assets	**18,429**	18,248
Non-current assets	**19,000**	19,000
Total assets	**37,429**	37,248
Liabilities		
Current liabilities	**10,501**	9,611
Non-current liabilities	**-**	-
Total liabilities	**10,501**	9,611
Net assets	**26,928**	27,637
Equity		
Share capital	**95,873**	95,873
Profit reserve	**7,390**	7,390
Accumulated losses	**(77,550)**	(77,080)
Share based payments reserve	**1,215**	1,454
Total equity	**26,928**	27,637
(b) Summarised Statement of Comprehensive Income		
(Loss)/profit for the financial year	**(1,001)**	13,089
Other comprehensive income for the financial year	**-**	-
Total comprehensive income for the financial year	**(1,001)**	13,089

28. Contingencies

There were no contingencies at 30 June 2017 (2016: nil).

29. Subsequent events

On 5 July 2017, Perrigo announced that they had launched a generic version of Axiron® in the United States. On the same day an Authorised Generic version of Axiron® was launched in the United States, through a marketing and distribution agreement between Eli Lilly and Company and a leading authorised generics company. The Authorised Generic provides patients with the similar experience of the Axiron® branded product at a price that competes with generics. Acrux will receive a royalty from the sales of Axiron® and the Authorised Generic.

On 18 August 2017, Teva Pharmaceutical Industries Ltd announced that they had launched a generic version of Axiron® in the United States.

There has been no other matter or circumstance which has arisen since 30 June 2017 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2017, of the consolidated entity; or

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 30 June 2017, of the consolidated entity.

30. Company details

The registered office of the Company is:

Acrux Limited
103–113 Stanley Street
West Melbourne
Victoria 3003

Directors' declaration

The Directors declare that:

1. In the Directors' opinion, the financial statements and notes thereto, as set out on pages 14 to 56, 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 consolidated entity as at 30 June 2017 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 2017.

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

Ross Dobinson
Non-Executive Chairman

Melbourne
Dated this 22nd day of August 2017

Geoff Brooke
Non-Executive Director

Melbourne
Dated this 22nd day of August 2017

Independent auditor's report to the members of Acrux Limited

PITCHER PARTNERS

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 2017, 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 2017 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.

PITCHER PARTNERS

ACRUX LIMITED
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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 Refer to page 31 consolidated balance sheet, note 2(b) on page 40 and note 12 on page 47.	
The consolidated entity had $17.5 million ($19.0 million as at 30 June 2016) of capitalised development costs as at 30 June 2017 prior to impairment loss. We view intangible assets in relation to capitalised development costs to be a Key Audit Matter as a result of a combination of factors: 1. There are a number of possible scenarios impacting the future cash flow generated associated with capitalised development costs. The possible scenarios are primarily based on the outcome of legal action of an appeal regarding the underlying patents and associated impacts of generics entering the market. Key assumptions include; revenue from a product being 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, discount rate and foreign exchange rate. A weighted average is calculated for the possible scenarios. 2. At 30 June 2017, the directors recognised an impairment loss of $10.7 million.	Our procedures included amongst others: • Critically evaluating management's value in use discounted cash flow methodology in accordance with the applicable accounting standard. • Assessing the key assumptions used in the cash flow models; • Assessing the appropriateness of the multiple cash flow scenarios utilised and the associated weightings; • Testing the mathematical accuracy of the discounted cash flow models; • Assessing the discount rate used in the discounted cash flow models; • Performing sensitivity analyses; and • Assessing the appropriateness of the disclosures included in Notes 2 and 12 to the financial report in respect of impairment testing.

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INDEPENDENT AUDITOR'S REPORT
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Key Audit Matter	**How our audit addressed the key audit matter**
Recoverability of Deferred Tax Assets Refer to note 1(j) on page 36, note 2(a) on page 40 and note 6 on page 44.	
The Group has $2.2 million of deferred tax assets recognised at 30 June 2017 ($1.6m at 30 June 2016) relating to timing differences and tax losses incurred by the subsidiary Acrux DDS Pty Ltd. 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. These benefits are realised by reducing tax payable on future taxable profits. We view the deferred tax assets as a Key Audit Matter due to the management judgement required in forecasting future taxable profit. Management's key assumptions include but are not restricted to: • The introduction of new generic products into the market.	Our procedures included but were not limited to: • Reviewing and assessing management's key assumptions relating to the forecasts of future taxable profit and evaluating the reasonableness of the assumptions underlying the preparation of these forecasts; • Undertaking sensitivity analyses around the key management assumptions; • Challenging management's forecast growth rates and timing of cash receipts; and • 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 2017, 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.

PITCHER PARTNERS

ACRUX LIMITED
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INDEPENDENT AUDITOR'S REPORT
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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.

PITCHER PARTNERS

ACRUX LIMITED
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INDEPENDENT AUDITOR'S REPORT
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- 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.

PITCHER PARTNERS

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

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 22 to 27 of the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Acrux Limited and its controlled entities, for the year ended 30 June 2017, 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

22 August 2017

Shareholder information

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report, as at 31 August 2017:

Shareholders

The Company has 166,521,711 ordinary fully paid shares on issue, held by 7,378 shareholders and 4,774,000 options outstanding, held by 24 people. The Company does not have any other shares or options or other equity securities on issue. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. No voting rights attach to the options.

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

Distribution schedule

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

Category	Number of shareholders	%	Securities
1 to 1,000	1,432	0.5%	809,178
1,001 to 5,000	2,640	4.6%	7,726,105
5,001 to 10,000	1,231	6.0%	9,999,491
10,001 to 50,000	1,598	22.3%	37,127,024
50,001 to 100,000	276	12.0%	20,044,927
100,001 and over	201	54.5%	90,814,986
Total	**7,378**	**100.0%**	**166,521,711**

1,981 shareholders hold less than a marketable parcel of fully paid ordinary shares (being the Company's main class of securities), based on the market price at the date set out above.

Substantial holders

Under the ASX Listing Rules 'Substantial Holder' means, in general terms, a person who either alone or with their associates has an interest in 5% or more of the voting shares of the Company. As at 31 August 2017, the Company did not have any substantial holders.

Twenty largest holders of fully paid ordinary shares in Acrux Limited

	Shareholder	Number of fully paid ordinary shares	Percentage of total capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,906,502	7.15%
2	MR HUGH RICHARD ELPHINSTONE	5,100,000	3.06%
3	CITICORP NOMINEES PTY LIMITED	4,885,277	2.93%
4	ASIA UNION INVESTMENTS PTY LTD	3,500,000	2.10%
5	MR PAUL COZZI	3,000,000	1.80%
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,667,005	1.60%
7	MR IAN VICTOR LANCINI & MRS DEBRA ANN LANCINI	2,045,000	1.23%
8	TMPA HOLDINGS PTY LTD	1,815,914	1.09%
9	DURBIN SUPERANNUATION PTY LTD	1,695,000	1.02%
10	BOND STREET CUSTODIANS LIMITED	1,500,000	0.90%
11	BERNE NO 132 NOMINEES PTY LTD	1,500,000	0.90%
12	MR MICHAEL SCOTT SYLVESTER & MRS RECHAELLE SARAH SYLVESTER	1,450,000	0.87%
13	MR CHRISTOPHER MURRAY ABBOTT	1,400,000	0.84%
14	HISHENK PTY LTD	1,100,000	0.66%
15	ADAM JAMAL	1,060,297	0.64%
16	MR EDMOND WING KIN CHEUNG & MRS ELIZA SIU LING CHEUNG	1,057,442	0.64%
17	DORVELL PTY LTD	1,039,640	0.62%
18	MR DAVID LEROY BOYLES	1,000,000	0.60%
19	MS LINLIN LI	993,000	0.60%
20	MR ALLEN JAMES KIRBY	900,000	0.54%
Total		**49,615,077**	**29.79%**

Market listing

Acrux Limited is quoted on the Australian Securities Exchange (ASX). Share prices can be obtained from most Australian national newspapers and from the ASX website (www.asx.com.au). The shares of the Company are not quoted on any other stock exchange. The following are the share prices for the end of each quarter of the financial year ending 30 June 2017:

Quarter ended 30 September 2016	33.0 cents
Quarter ended 31 December 2016	31.0 cents
Quarter ended 31 March 2017	29.0 cents
Quarter ended 30 June 2017	21.5 cents

The closing share price on 31 August 2017 was 26.0 cents.

Pooled Development Fund

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

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

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

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

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

Equally, an investor will not be entitled to any deduction or capital loss on the sale of the Company's shares. Shares held in a PDF cannot be held as trading stock. Accordingly, share traders cannot treat PDF shares as trading stock.

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

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

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

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

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

Glossary

Term	Abbreviation	Description
Abbreviated New Drug Application	ANDA	Abbreviated New Drug Applications (ANDAs) are termed 'abbreviated' because they are generally not required to include preclinical (animal) and clinical (human) data to establish safety and effectiveness of a generic drug product. Instead, generic applicants must scientifically demonstrate that their product is bioequivalent (i.e., performs clinically in the same manner as the innovator drug). Once approved, an applicant may manufacture and market the generic drug product to provide a safe, effective, low-cost alternative. All approved products, both innovator and generic, are listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations (Orange Book).
Axiron®		Brand name for Acrux's unique testosterone replacement therapy solution product licensed globally to Lilly and which is approved in various countries. The Axiron® trademark is owned Lilly.
Bioequivalence/ Bioavailability		Bioequivalence studies compare the bioavailability of the proposed drug product with that of the Reference Listed Drug (RLD) product containing the same active ingredient. Bioequivalence is defined as the absence of a significant difference in the rate and extent to which the drug (active ingredient) becomes available at the site of drug action when administered at the same dose under similar conditions.
Elanco		Elanco provides products and knowledge services to improve animal health and food animal production in more than 70 countries around the world. The company has nearly 7,000 employees worldwide. Founded in 1954, Elanco is a division of Eli Lilly and Company. Worldwide headquarters and research facilities are located in Greenfield, Indiana.
Eli Lilly and Company	Lilly	Lilly is a global healthcare company that was founded more than a century ago and is located in Indianapolis, Indiana, U.S.A. Lilly employs 41,000 people worldwide and has more than 8,000 employees engaged in research and development. Clinical research is conducted in more than 55 countries with research and development facilities located in six countries. Lilly has products marketed in 120 countries and has manufacturing plants located in 13 countries.
Ellavie®		Alternative brand name for Acrux's estradiol spray product. The Ellavie® trademark is owned by Acrux.
Estradiol		Estradiol is a form of estrogen, a female sex hormone produced by the ovaries. Estrogen is necessary for many processes in the body.
Estrogen		Generic term for any substance, natural or synthetic, that exerts biologic effects characteristic of estrogenic hormones.
Evamist®		Brand name for Acrux's unique estradiol spray product in the United States. The Evamist® trademark is owned by Perrigo Company Plc.
European Medicines Agency	EMA	European Union agency responsible for the protection of public and animal health through the scientific evaluation and supervision of medicines.
Food and Drug Administration	FDA	The FDA is responsible for protecting and promoting public health through the regulation and supervision of prescription, over-the-counter pharmaceutical drugs (medications), vaccines, biopharmaceuticals and veterinary products in the United States.
Gedeon Richter		Gedeon Richter Plc., headquartered in Budapest/Hungary, is a major pharmaceutical company in Central Eastern Europe, with an expanding direct presence in Western Europe. Richter's consolidated sales were approximately EUR 1.25 billion in 2016. The product portfolio of Richter covers almost a range of therapeutic areas, including gynaecology, central nervous system and cardiovascular areas. Richter is a significant player in the female healthcare field worldwide.
Generic		A generic medicine is a medicine that provides the same quality, safety and efficacy as the original brand name product, which undergoes strict scrutiny before it is licensed and given market approval by national regulatory authorities.

Glossary continued

Term	Abbreviation	Description
Hypogonadism		Hypogonadism occurs when the body's sex glands produce little or no hormones. In men, these glands (gonads) are the testes.
Lenzetto®		Brand name for Acrux's unique estradiol spray in the European Union. The Lenzetto® trademark is owned by Gedeon Richter.
Net profit after tax	NPAT	Total amount earned during the financial reporting period after deducting income tax expense. The financial statements are audited and comply with relevant accounting principles, taxation laws and accounting standards.
New Drug Application	NDA	When the sponsor of a new drug believes that enough evidence on the drug's safety and effectiveness has been obtained to meet FDA (or other national health regulator) requirements for marketing approval, the sponsor submits to the regulator a New Drug Application (NDA). The application must contain data from specific technical viewpoints for review, including chemistry, pharmacology, medical, biopharmaceutics and statistics. If the NDA is approved, the product may be marketed in that country.
NRx		New prescriptions over a period of time
Onychomycosis		Onychomycosis is a fungal infection of the toenails or fingernails that may involve any component of the nail unit, including the matrix, bed, or plate. Onychomycosis can cause pain, discomfort, and disfigurement and may produce serious physical and occupational limitations, as well as reducing quality of life.
Paragraph 4 filing	PIV	A type of ANDA submitted during the patent term of the originator product. The filing asserts that either the patents supporting the originator product are invalid or that they are not applicable (not infringed) to the product that is the subject of the ANDA.
Testosterone		Testosterone is a naturally occurring sex hormone that is produced in a man's testicles.
Topical		Topical is a route of administration wherein active pharmaceutical ingredients are applied to, or affect a localised area of the surface of the body.
Transdermal		Transdermal is a route of administration wherein active pharmaceutical ingredients are delivered across the skin for systemic distribution. Examples include Axiron®, Evamist® and Lenzetto®.
TRx		Total number of prescriptions over a period of time.

Corporate directory

Acrux Limited and subsidiary companies

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www.linkedin.com/company/acrux
www.acrux.com.au

Australian Stock Exchange code 'ACR'

Information about the Company, including disclosures to the Australian Stock Exchange, can be found on the Company's website.

If you require further information about Acrux, please contact the Company's Chief Financial Officer and Company Secretary on +61 3 8379 0100.

Share registry

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