NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Statement of Significant Accounting Policies

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

(a) Basis of presentation of the financial report

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

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

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

Compliance with IFRS

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

Historical Cost Convention

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

Critical Accounting Estimates

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

(b) Going concern

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

During the year ended 30 June 2015 the consolidated entity reported an operating profit after tax of $11.1 million (2014: $28.0 million) and at the reporting date total assets exceeded total liabilities by $40.6 million (2014: $42.1 million).

(c) Principles of consolidation

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

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

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

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

(d) Revenue

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.

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

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

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

(e) Cash and cash equivalents

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

(f) Plant and equipment

Cost 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:

	2015	2014
Leasehold improvements:	5 to 20 years	Not Applicable
Plant and equipment:	2.5 to 14 years	2.5 to 14 years

(g) Leases

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

Operating Leases

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

(h) Intangibles

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

Intellectual Property

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

Research and Development

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

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

Capitalised development costs have a finite life and are amortised on a systematic basis over the period from when the product becomes available for use and 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, for which amortisation has commenced, is approximately 18 years. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Statement of Comprehensive Income.

(i) Impairment of non-financial assets

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

(j) Income tax

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Statement of Significant Accounting Policies (continued)

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 $5.7 million (2014: $15.9 million) representing approximately 33.8% of profit before income tax. The parent entity, Acrux Limited, received franked dividends totaling $19.0 million from subsidiary companies. The parent entity's tax rate payable on this income is 15% however the franked dividends include an imputed tax credit of 30%. The excess franking credits convert to tax losses that can be used in future periods to offset taxable income. For accounting purposes the entity has not recognised a tax asset for these carried forward tax losses as the current operating structure of the entity is unlikely to produce the quantum of future taxable income to enable Acrux Limited to utilise these carried forward losses.

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

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

Bonus

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

Share-based Payments

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

Termination Benefits

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

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

(m) Comparatives

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

(n) Financial instruments

Non-derivative Financial Instruments

Financial Assets

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

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

Financial Liabilities

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

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

Derivative Financial Instruments

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

Such derivatives are measured at fair value and changes in value are recognised immediately in profit 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 certain currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and 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 Class Order CO 98/0100 and accordingly, amounts in the consolidated financial statements and Directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(r) Accounting standards issued but not yet effective at 30 June 2015

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 2017.

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

Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

AASB 9 amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit or loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income.

Chapter 6 *Hedge Accounting* supersedes the general hedge accounting requirements in AASB 139 *Financial Instruments: Recognition and Measurement*, which many consider to be too rules-based and arbitrary. Chapter 6 requirements include a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks. Some of the key changes from AASB 139 are as follows:

- to allow hedge accounting of risk components of non-financial items that are identifiable and measurable (many of which were prohibited from being designated as hedged items under AASB 139);
- changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments; and
- modification of the requirements for effectiveness testing (including removal of the 'brightline' effectiveness test that offset for hedging must be in the range 80-125%).

Revised disclosures about an entity's hedge accounting have also been added to AASB 7 *Financial Instruments: Disclosures*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Statement of Significant Accounting Policies (continued)

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument.

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

The available-for-sale investments held will be classified as fair value through other comprehensive income and will no longer be subject to impairment testing. The impairment loss recognised in the current year financial statements in relation to these statements was nil. Hedge accounting is likely to be applied to more of the entity's transactions in future transactions – the impact on the reported financial position and performance is dependent on the volume and value of future derivatives. Other impacts on the reported financial position and performance have not yet been determined.

Note 2: Critical Accounting Estimates and Judgements

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

(a) Income tax

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

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

(b) Impairment testing

The Company uses discounted cash flow models to determine that the parent entity's investments in and loans to its subsidiaries, and the capitalised development costs in the consolidated entity, are not being carried at a value that is materially in excess of recoverable value.

The models value each product or potential product by estimating future cash flows and discounting the future net cash flows for the probability of successful commercialisation, as well as for the time value of money using a discount rate of 12%. Revenue from a product is estimated using current market data and projections of market growth and potential market share.

(c) Employee benefits

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

(d) Share based payments

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

Note 3: Financial Instruments and Financial Risks

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

(a) Interest rate risk

(b) Currency risk

(c) Credit risk

(d) Liquidity risk

(e) Fair Values

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

(a) Interest rate risk

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

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at 30 June 2015 are shown in the table on the following page. Cash is the only financial asset or liability that is exposed to interest rate risk. A change in the average effective interest rate of 1% would change the net profit and equity of the consolidated entity by approximately $0.2 million (2014: $0.2 million).

At 30 June 2015, the consolidated entity had financial instruments with carrying amounts as shown in the following table:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Non interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate*	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 %	2014 %
(i) Financial assets										
Cash	19,067	2,774	4,000	23,000	1	1	23,068	25,775	2.9	2.2
Receivables	–	–	–	–	4,943	5,604	4,943	5,604		
Total financial assets	**19,067**	**2,774**	**4,000**	**23,000**	**4,944**	**5,605**	**28,011**	**31,379**		
(ii) Financial liabilities										
Trade creditors	–	–	–	–	106	217	106	217		
Sundry creditors and accruals	–	–	–	–	1,044	912	1,044	912		
Total financial liabilities	**–**	**–**	**–**	**–**	**1,150**	**1,129**	**1,150**	**1,129**		

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

(b) Currency risk

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

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

Bank accounts denominated in US dollars are maintained in order to facilitate receipts and payments. Cash reserves at 30 June 2015 included $0.2 million (2014: $0.2 million) denominated in US dollars. A change of 10% in the AUD/USD exchange rate at 30 June 2015 would have immaterial impact on the net profit and equity of the consolidated entity.

The balance of receivables at 30 June 2015 includes the right to receive US$3.6 million (2014: US$5.2 million) of Axiron royalties for the fourth quarter of the 2014/15 financial year. A change of 10% in the AUD/USD exchange rate at 30 June 2015 would change the consolidated net profit and equity by approximately $0.4 million (2014: $0.6 million).

During the reporting period, exchange rate risk was managed by eliminating US dollar revenue in excess of US dollar expenditure through spot and short-term forward sales of US dollars. The consolidated entity does not enter into forward exchange contracts. At balance date, there were nil (2014: 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.

(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 2015. 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 2015 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$4.7 million due from Eli Lilly under the license agreement for the commercialisation of Axiron. During future reporting periods, the consolidated entity is expected to continue to have a material credit exposure to Eli Lilly and Company and its subsidiaries, due to the royalties and milestone payments expected. At 30 June 2015, Eli Lilly's credit ratings were AA- (S&P) and A2 (Moodys). The credit rating and financial health of Eli Lilly are monitored regularly. The grant of the license under the license agreement is subject to payment by Eli Lilly of the amounts in accordance with the agreement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 3: Financial Instruments and Financial Risks (continued)

(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, $23.1 million (2014: $25.7 million) to settle these liabilities and to fund operating expenditure for the foreseeable future. The consolidated entity does not have an overdraft or loan facility. The maturity profile of the consolidated entity's cash term deposits is actively managed and compared with forecast liabilities to ensure that sufficient cash is available to settle liabilities as they fall due.

(e) Fair values

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

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

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

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

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

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

Note 4: Revenue

	2015 $'000	2014 $'000
Revenues from operating activities		
Revenue from product agreements	24,616	53,368
Grant revenue	23	21
Total revenues from operating activities	**24,639**	**53,389**
Other revenues		
Interest	564	470
Foreign exchange gain	165	–
Total revenues from non-operating activities	729	470
Total revenues from continuing operations	**25,368**	**53,859**

Note 5: Profit from Continuing Operations

	Notes	2015 $'000	2014 $'000
Profit from continuing operations before income tax has been determined after the following specific expenses:			
Employee benefits expense			
Wages and salaries		2,329	2,050
Workers' compensation costs		8	6
Superannuation costs		181	172
Payroll taxes		109	92
Training expenses		59	26
Total employee benefits expense		**2,686**	**2,346**
Depreciation of non-current assets			
Plant and equipment		52	40
Total depreciation of non-current assets		**52**	**40**
Amortisation of non-current assets			
Intellectual property		95	95
Research and development		1,278	1,278
Total amortisation of non-current assets		**1,373**	**1,373**
Total depreciation and amortisation expenses		**1,425**	**1,413**
Rental expense on operating leases		294	282
External research and development expenses		705	756

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 6: Income Tax

	2015 $'000	2014 $'000
(a) Income tax recognised in profit or loss:		
Current tax	5,949	13,749
Deferred tax	(448)	2,237
(Over)/under provision in prior years	175	(99)
Income tax expense/(credit) attributable to profit	**5,676**	**15,887**
(b) Reconciliation of income tax expense		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax from continuing operations	16,806	43,857
Prima facie income tax payable on profit before income tax at 30.0% (2014: 30.0%)	5,042	13,157
Add/(subtract) tax effect:		
Parent entity 15% tax rate[1]	208	233
Parent entity tax on unfranked dividend income	–	2,925
Parent entity net adjustment on franked dividend income	(2,092)	(3,000)
Non deductible expenses	270	128
Research and development tax incentive	(59)	(52)
Foreign tax credits written off	–	(10)
Over provision in prior years	175	(22)
Tax losses and temporary differences not brought to account	2,132	2,518
	634	2,720
Income tax expense attributable to profit	**5,676**	**15,877**
(c) Current tax		
Opening balance	4,526	1,675
(Over)/under provision in prior years	175	(110)
Provision for current year	5,949	13,870
Tax losses transferred from deferred tax	0	(121)
Tax payments	(8,886)	(10,788)
Current tax liability	**1,764**	**4,526**

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

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

	2015 $'000	2014 $'000
(d) Deferred tax		
Deferred tax relates to the following:		
Deferred tax assets		
The balance comprises:		
Accruals and provisions	90	145
Leasehold improvements	183	195
Patent expenses	799	711
Exchange differences	–	15
Share issue expenses	–	1
Tax losses	92	–
	1,164	**1,067**
Deferred tax liabilities		
The balance comprises:		
Exchange differences	35	–
Intangible assets	5,749	6,133
Accrued interest	8	31
Prepayments	21	–
	5,813	6,164
Net deferred tax assets/(liabilities)	(4,649)	(5,097)
(e) Deferred tax assets not brought to account		
Temporary differences	2	10
Tax losses	10,443	8,311
	10,445	**8,321**

Note 7: Dividends

(a) Dividends paid

	2015 $'000	2014 $'000
Dividends paid at 8 cents per share, franked (2014: 20 cents per share, unfranked)	13,322	33,304
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:	42,188	33,337

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 8: Earnings Per Share

	2015 $'000	2014 $'000
Profit from continuing operations	11,130	27,970
Profit used in calculating basic and diluted earnings per share	11,130	27,970

	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 earnings per share (cents)	6.70	16.80
Diluted earnings per share (cents)	6.70	16.80

Note 9: Cash and Cash Equivalent

	2015 $'000	2014 $'000
Cash at bank	19,068	2,775
Deposits at call	4,000	23,000
	23,068	**25,775**

Note 10: Receivables

	2015 $'000	2014 $'000
CURRENT		
Trade receivables	4,760	5,347
Other receivables	66	141
Prepayments	117	116
	4,943	**5,604**

(a) Provision for impairment

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

Note 11: Plant and Equipment

	Notes	2015 $'000	2014 $'000
Leasehold Improvements			
At cost		1,119	1,115
Accumulated amortisation		(1,115)	(1,115)
Total leasehold improvements	11(a)	4	–
Plant and Equipment			
At cost		213	166
Accumulated depreciation		(125)	(88)
Total plant and equipment	11(a)	88	78
Total plant and equipment		**92**	**78**

(a) Reconciliations

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

	2015 $'000	2014 $'000
Leasehold improvements		
Carrying amount at beginning	–	–
Additions	4	–
Amortisation expense	–	–
	4	–
Plant and equipment		
Carrying amount at beginning	78	93
Additions	62	25
Disposals	–	–
Depreciation expense	(52)	(40)
	88	**78**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 12: Intangible Assets

	Notes	2015 $'000	2014 $'000
Intellectual Property			
At cost		1,200	1,200
Accumulated amortisation		(1,044)	(949)
	12(a)	156	251
Capitalised Development			
Ellavie™			
External research and development expenses		766	766
Employee benefits capitalised		169	169
Other capitalised amounts		136	136
	12(a)	1,071	1,071
Axiron™			
External research and development expenses		17,415	17,415
Employee benefits capitalised		3,353	3,353
Other capitalised amounts		2,403	2,403
Accumulated amortisation		(4,006)	(2,729)
	12(a)	19,165	20,442
Net carrying amount		20,236	21,513
Total intangible assets		**20,392**	**21,764**

(a) Reconciliations

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

	2015 $'000	2014 $'000
Intellectual Property		
Carrying amount at beginning	251	346
Amortisation expense	(95)	(95)
	156	251
Capitalised Development		
Ellavie™		
Carrying amount at beginning	1,071	1,071
Additions	–	–
	1,071	1,071
Axiron™		
Carrying amount at beginning	20,442	21,720
Additions	–	–
Amortisation	(1,277)	(1,278)
	19,165	**20,442**

The remaining useful life of Axiron Capitalised Development is approximately 15 years.

Note 13: Payables

	2015 $'000	2014 $'000
Current		
Trade creditors	106	217
Sundry creditors and accruals	1,044	912
	1,150	**1,129**

Note 14: Provisions

	2015 $'000	2014 $'000
Current		
Employee entitlements	288	401
Non-Current		
Employee entitlements	19	11
Aggregate employee entitlements liability	**307**	**412**

Note 15: Contributed Equity

	2015		2014	
	No. of Shares	$'000	No. of Shares	$'000
(a) Issued and paid up capital				
Ordinary shares fully paid	166,521,711	95,873	166,521,711	95,873
(b) Movements in shares on issue				
Beginning of the financial year	166,521,711	95,873	166,521,711	95,873
Issued during the year:				
- Employee share option plans	–	–	–	–
Less Capital Raising Expenses	–	–	–	–
Fair value of shares issued on exercise of employee share options	–	–	–	–
Contributions from share issues	–	–	–	–
At reporting date	**166,521,711**	**95,873**	**166,521,711**	**95,873**

(c) Share Options

Employee Share Option Plan

The consolidated entity operates an employee share option plan. During the financial year no options were exercised (2014 Nil), 2,000,000 new options were issued under the plan during the financial year (2014: 1,855,000). Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. At 30 June 2015 2,915,000 options were held by key management personnel (2014: 1,340,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 15: Contributed Equity (continued)

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2015 was $0.85.

	2015 No.	2014 No.
(i) Movement in the number of share options held under Employee Share Option Plan are as follows:		
Opening balance	1,855,000	–
Granted during the year	2,000,000	1,855,000
Exercised during the year	–	–
Lapsed during the year	(475,000)	–
Closing balance	**3,380,000**	**1,855,000**

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

(iii) Details of lapsed options

	2015 No.	2014 No.
Key Management Personnel	425,000	–
Employee	50,000	–
Lapsed during the year	**475,000**	**–**

(d) Capital management

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

During 2015, the Board paid dividends of $13.3 million (2014: $33.3 million). The amounts and ratio of future dividends have not been determined.

Note 16: Share Based Payments

(a) Employee share option plan

Details of the options granted are provided below:

2014								
Grant date	Expiry date	Exercise price	Balance at the beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Exercisable at the end of the year
7/31/2013	7/31/2016	$4.30	1,255,000	–	–	(475,000)	780,000	780,000
11/21/2013	7/31/2016	$4.30	600,000	–	–	–	600,000	600,000
2/3/2015	2/3/2018	$1.32	–	2,000,000	–	–	2,000,000	2,000,000
				2,000,000	**–**	**(475,000)**	**3,380,000**	**3,380,000**

The weighted average remaining contractual life for share options outstanding at the end of the period was 1.98 years.

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%

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

Exercise price: $4.30

Grant date: 31 July 2013

Expiry date: 31 July 2016

Share price at grant date: $3.35

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

Expected dividend yield: 5%

Risk-free interest rate: 2.52%

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

Exercise price: $4.30

Grant date: 21 November 2013

Expiry date: 31 July 2016

Share price at grant date: $2.56

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

Expected dividend yield: 5.0%

Risk-free interest rate: 3.08%

(b) Expenses recognised from share-based payment transactions

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

	2015 $'000	2014 $'000
Options issued under the employee share option plan	760	638
Total expenses recognised from share based payment transactions	**760**	**638**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 17: Reserves and Accumulated Losses

	Notes	2015 $'000	2014 $'000
Share based payment reserve	17(a)	1,194	638
Accumulated losses	17(b)	(56,442)	(54,454)
(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		638	–
Transfer fair value of employee shares options to share capital		–	–
Employee share option expense for the period (including adjustment for service conditions not met)		760	638
Vested employee share options previously expensed, that lapsed during the period		(204)	–
Balance at end of year		**1,194**	**638**
(b) Accumulated losses			
Balance at the beginning of year		(54,454)	(49,120)
Vested employee share options that lapsed during the period		204	–
Net profit attributable to members of Acrux Limited		11,130	27,970
Accumulated losses at reporting date		(43,120)	(21,150)
Dividends paid		(13,322)	(33,304)
Accumulated losses at reporting date		**(56,442)**	**(54,454)**

Note 18: Non-Controlling Interests

The consolidated entity holds nil (2014: nil) Non-controlling interests at balance date.

Note 19: Cash Flow Information

	2015 $'000	2014 $'000
(a) Reconciliation of the cash flow from operations with profit after income tax:		
Profit from ordinary activities after income tax	11,130	27,970
Non-Cash Items		
Depreciation and amortisation	1,425	1,413
Share options expense	760	638
Unrealised foreign exchange gains	(163)	107
Changes in assets and liabilities		
Increase/(decrease) in tax liabilities	(2,762)	2,851
Decrease/(increase) in trade and other receivables	661	1,221
Increase/(decrease) in payables	21	(127)
Increase/(decrease) in employee entitlements	(105)	61
Increase/(decrease) in deferred taxes	(448)	2,237
	(611)	8,401
Net cash (outflows)/inflows from operating activities	**10,519**	**36,371**
(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	19,068	2,775
- At call deposits with financial institutions	4,000	23,000
Closing cash balance	**23,068**	**25,775**

(c) Credit stand-by arrangement and loan facilities

The consolidated entity has credit card facilities with the National Australia Bank and American Express available to the extent of $161,000 (2014: $101,000). As at 30 June 2015 the consolidated entity had unused facilities of $147,599 (2014: $93,153).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 20: Commitments

	2015 $'000	2014 $'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	302	294
- Later than one year and not later than five years	606	908
Aggregate lease expenditure contracted for at reporting date	**908**	**1,202**

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

Note 21: Key Management Personnel Compensation

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

	2015 $'000	2014 $'000
Compensation by category:		
Short-term employment benefits	1,282	1,219
Post-employment benefits	73	69
Termination benefits	–	–
Equity	760	356
	2,115	**1,644**

Note 22: Loans to Key Management Personnel

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

Note 23: Related Party Disclosures

Wholly-owned group transactions

Loans

Loans were made by Acrux Limited to its subsidiaries under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period were nil (2014: nil).

Non-interesting bearing loans were made by Acrux Commercial Pty Ltd to its subsidiary, Fempharm Pty Ltd. The aggregate amount receivable from Fempharm Pty Ltd at the end of the reporting period was $4,895,370 (2014: $4,486,184).

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

Acrux DDS Pty Ltd, a wholly owned subsidiary of Acrux Limited, entered into two research and commercialisation collaboration agreements with Hexima Limited on 8 October 2013. Ross Dobinson was previously the Executive Chairman of Hexima Limited. During the reporting period Acrux DDS Pty Ltd received nil (2014: $5,260.37) from Hexima for the reimbursement of expenses directly related to the collaboration agreements. At the end of the reporting period there were no amounts outstanding to be paid to or received from Hexima.

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

Note 24: Auditor's Remuneration

	2015 $'000	2014 $'000
Amounts paid and payable to Pitcher Partners for:		
(i) Audit and other assurance services		
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	106	92
- Other assurance services	13	–
	119	**92**

Note 25: Segment Information

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

Additional information on revenue:

	2015 $'000	2014 $'000
Product/Service		
Axiron	24,255	52,528
Other revenue	1,113	1,331
Total revenue	**25,368**	**53,859**
Country of Origin		
Australia	752	491
Outside Australia:		
Switzerland	24,255	52,528
United States	144	169
Other	217	671
	25,368	**53,859**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 26: Parent Entity Details

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

	Parent Entity	
	2015 $'000	**2014 $'000**
(a) Summarised statement of financial position		
Assets		
Current assets	6,204	523
Non-current assets	19,000	19,000
Total assets	**25,204**	**19,523**
Liabilities		
Current liabilities	924	296
Non-current liabilities	–	–
Total liabilities	**924**	**296**
Net assets	**24,280**	**19,227**
Equity		
Share capital	95,873	95,873
Profit reserve	4,293	–
Accumulated losses	(77,080)	(77,284)
Share based payments reserve	1,194	638
Total equity	**24,280**	**19,227**
(b) Summarised statement of comprehensive income		
Profit for the year	17,615	29,530
Other comprehensive income for the year	–	–
Total comprehensive income for the year	**17,615**	**29,530**

Note 27: Controlled Entities

	Country of Incorporation	Percentage Owned 2015	Percentage Owned 2014
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%

Note 28: Contingencies

There were no contingencies at 30 June 2015 (2014: Nil).

Note 29: Subsequent Events

The Board resolved to issue 1,000,000 Options to the Chief Executive Officer, Mr. Kotsanis on 22 July 2015 at an exercise price of $1.11 per share. The Options comprise the long term incentive component of the remuneration package for the Chief Executive Officer and were issued pursuant to the terms of the Chief Executive Officer Share Option Plan, which was approved at the Acrux Limited Extraordinary General Meeting on 3 February 2015. Shares allocated on exercise of the Options will rank equally from the date of exercise.

There has been no other matter or circumstance, which has arisen since 30 June 2015 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2015, of the consolidated entity, or

(b) the results of those operations, or

(c) the state of affairs, in financial years subsequent to 30 June 2015, of the consolidated entity.

Note 30: Company Details

The registered office of the company is:

Acrux Limited
103 – 113 Stanley Street
West Melbourne VIC 3003