

ACRUX Annual Report 2010

Yesterday
Today
Tomorrow



The 2009/10 financial year was a breakthrough year for Acrux. Our financial position and prospects were comprehensively transformed by the largest product licensing deal in the history of Australian biotechnology. The deal was the culmination of years of innovation, planning and execution of every detail in the development of Axiron™.

Yesterday

A clear strategy and a detailed investment proposal were presented to shareholders in 2007. New capital of \$23 million was raised to complete the development of Axiron. Acrux remained focused on careful execution of every detail of the development plan.

Cash

\$14.7m

as at 30 June 2009

Loss

\$7.7m

2008/09

Share Price

\$1.13

as at 30 Jun 2009



Today

After reporting positive Phase 3 trial results and submitting a marketing application for Axiron to the US Food and Drug Administration (FDA), Acrux signed a global licence agreement with Eli Lilly. Acrux may earn up to US\$335 million plus royalties on worldwide sales of Axiron. The deal enabled Acrux to report its maiden profit for 2009/10.

Maiden Profit

\$46.6m

2009/10

Diluted Earnings per Share

28.7cents

2009/10

Revenue

\$56.1m

2009/10

Cash

\$58.6m

as at 30 June 2010

Share price

\$2.39

as at 30 September 2010

Share Price Growth

112%

since 30 June 2009

Promoted into S&P/ASX 300 index

AusBiotech – Roche 2009 Excellence Award for outstanding contribution to the biotechnology industry by a company

2010 Governor of Victoria Export Awards – winner of Victorian Export Award for Innovation Excellence and winner of Large Services Award category

2010 Entrepreneur Of The Year award for listed companies (southern region)

Tomorrow

Acrux expects the outcome of the FDA's review of the Axiron marketing application by the first quarter of calendar 2011. Subject to FDA approval, which would enable Eli Lilly to launch Axiron into the largest testosterone therapy market, Acrux intends to commence payment of dividends to shareholders in 2011.

Next milestone payment of

US\$87m

from Eli Lilly, subject to FDA approval of the Axiron marketing application

Further commercial milestone payments of up to

US\$195m

Royalties on worldwide sales of Axiron

Outcome of application to extend Axiron patent protection to 2026

Outcome of FDA review of marketing application for first animal health product

Outcome of review of marketing application for estradiol spray in Sweden and appointment of distributors in Europe

Advance the development of further products or technologies

The Board's decision to undertake the Phase 3 development of Axiron and fund the full development internally has been vindicated. Viewed in the broader context of the last decade's development by the Company the decision could be viewed as a logical and perhaps not particularly bold move, but our experience with female hormone therapy showed that product differentiation is a critical issue and that consumers' preferences and regulatory requirements are difficult to anticipate.

Acrux clearly has a technology platform but the real commercial worth of the various applications of the platform are difficult to quantify with any degree of accuracy. We have taken steps to realign the commercial exploitation of our female health applications and hope to be able to report progress on this front and with veterinary pharmaceutical applications in the near future.

The board is also focussing on the best way to maximise shareholder value in the context of the Company's intellectual property, human capital and sustainable competitive advantage. This process will become more urgent following the anticipated approval of the Axiron marketing application. The Board is committed to ensuring that there are appropriate returns to shareholders and appropriate management of the Company's asset base.

Management has been assessing alternative and/or complementary intellectual property since the Company's inception and this process has accelerated recently in view of the forthcoming gap in terms of having a material development project for the Company. We anticipate reporting on progress with this assessment in the first quarter of 2011.



Ross Dobinson
Chairman



1.

1. Ross Dobinson, BBus

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

Ross has been a Director since 1998 and was appointed Chairman in January 2006. He is a founder and former CEO of Acrux. Ross has a background in investment banking and stockbroking. He is currently Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. He was appointed chairman of Hexima Limited on 21 July 2010 (ASX: HXL). He is also a director of Starpharma Holdings Limited, since May 1997 (ASX: SPL) and a number of unlisted companies including TPI Enterprises Ltd.



2.

*2. Ken Windle
BPharm, MPS*

Non-Executive Deputy Chairman, Chair of the Human Capital Committee and Chair of the Audit and Risk Committee

Ken has been a Director since 2001. He held a series of global commercialisation and senior management positions in Glaxo and Glaxo Wellcome, serving as a member of the Group Executive and Commercial and Operations Committees. Head of Global Commercial Operations, CEO of Glaxo Australia from 1986-95, Regional Director, Asia Pacific 1995-2001. Ken is currently Chairman and CEO of Advent Pharmaceuticals Pty Ltd, Chairman of Cerylid Limited and a director of Aus Bio Limited. Ken is also a member of the Innovation Australia Board, Governor of the Woolcock Institute and Monash University's Victorian College of Pharmacy. He has served as a Consultant to the Prime Minister's Science Council on Industry Development, and the Pharmaceuticals Industry Strategy Group, and was a Director of the Singapore Economic Development Board. Ken was twice Chairman of the APMA (now known as Medicines Australia) and has twice been a winner of the Governor of Victoria Export Prize.



3.

*3. Professor Barrie Finnin
BPharm, PhD, PhC*

Non Executive director, member of the Human Capital Committee and member of the Audit and Risk Committee

Barrie has been a Director since 1999 and is a co-inventor of Acrux's technology. He is currently an adjunct Professor in the Faculty of Pharmacy and Pharmaceutical Sciences, Monash University, Australia. Barrie has more than 15 years experience in the management of commercially funded research in an academic setting. He has conducted projects at various phases of drug development and manufacture for major pharmaceutical companies, and has experience in the design and commissioning of GMP manufacturing. He also has experience as an external evaluator of new drug applications for the Australian Therapeutic Goods Administration (TGA).



4.

*4. Dr Richard Treagus
BScMed, MBChB, MPharmMed, MBA*

Chief Executive Officer and Managing Director

Richard joined Acrux as CEO in May 2006. He is a medical doctor, with 19 years experience in the international pharmaceutical industry. Having commenced with Roche in a Medical Advisory capacity, Dr Treagus soon transitioned into a variety of senior commercial roles. He was responsible for the Sales, Marketing and Strategic business development at Aspen Pharmacare (JSE: APN, South Africa) and a member of the Senior Executive team that took the company through a rapid growth phase following the acquisition of South African Druggists in February 1999. As the General Manager of Sales, Marketing and Business Development at Sigma (ASX: SIP), Richard played an integral role in establishing growth opportunities for the business and concluding a variety of acquisitions and licensing deals. More recently, Richard has led the commercialisation activities at Acrux, in particular partnering and licensing negotiations.



*Axiron*TM



Testosterone deficiency in men (hypogonadism) is associated with a number of symptoms including lethargy, depression, reduced libido and decrease in muscle mass and bone density. The FDA is currently reviewing Acrux's marketing application for Axiron as a new testosterone replacement therapy for hypogonadal men.

Yesterday

Compelling opportunity identified

- Accessible market of US\$0.6 billion, growing at 15% per annum
- Clear product differentiation and patient benefits
- Strong Phase 2 clinical trial results
- Patent protection granted to 2017 and pending to 2026

Clear strategy and detailed plan presented to shareholders in 2007, including commitment to secure licensing deal with global marketing partner in H1 2010

\$23m capital raised to fund the development plan

Careful execution of every detail of the plan

- International Phase 3 clinical trial
- Commercial manufacturing established in partnership with Orion Corporation in Finland
- Market research positively confirming product design and patient benefits
- Preparation of marketing application to FDA

Today

Positive Phase 3 trial results in September 2009

Marketing application filed with the FDA in January 2010

Global licence agreement with Eli Lilly signed in March 2010

- US\$50m received on signing
- Milestone payments of up to US\$285m
- Substantial royalties on worldwide sales

Manufacturing transfer to Orion, commercial scale-up and full supply chain completed

Market growth continues

- Accessible market now US\$1.2 billion, growing at 20% per annum

Tomorrow

Outcome of FDA review of Axiron marketing application by Q1 2011

Next milestone payment of US\$87m from Eli Lilly, subject to FDA approval of the marketing application

Royalties on worldwide sales of Axiron

Further commercial milestone payments of up to US\$195m

Eli Lilly is the ideal commercial partner for Axiron

- Top ten global pharma company
- Leadership in men's health through erectile dysfunction therapy Cialis®, now rivalling Pfizer's Viagra® as the largest selling product in this category
- Distribution in 143 countries, including high growth emerging markets

Outcome of application to extend Axiron patent protection to 2026

Increasing scientific understanding of the role that testosterone plays in the health of men



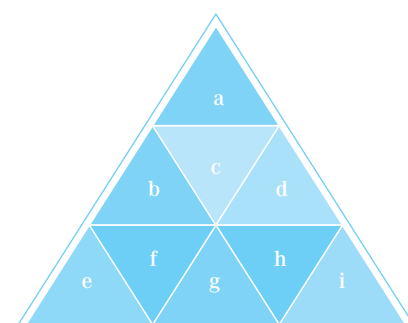
In March 2010, Acrux announced the largest product licensing deal in the history of Australian biotechnology. Under the terms of the agreement, which granted Eli Lilly worldwide rights to commercialise Axiron, Acrux received an up-front payment of US\$50 million and is eligible for US\$87 million subject to the issuance of a marketing authorisation by the FDA, US\$3 million on the transfer of manufacturing assets, up to US\$195 million in potential commercialisation milestones and royalties on worldwide sales. We expect that the cash flows from royalties will comprise a substantial part of the value of the deal to Acrux. This outcome was the culmination of years of innovation, planning and execution of every detail of the Axiron development programme.

In 2007, Acrux received an offer to license Axiron during the Phase 2 clinical trial, in line with Acrux's practice of partnering products prior to Phase 3 trials. The board and management carefully assessed Axiron's potential. There was a well defined, accessible market of US\$0.6 billion, growing at 15% per annum and the patient benefits of Axiron compared with existing treatments were clear. Axiron was protected until 2017 by Acrux's core technology patents and applications for additional patents to 2026 had been filed. The results from the Phase 2 clinical trial were compelling and, based on previous guidance received from the FDA, were strongly indicative of likely success in a Phase 3 trial.

The board concluded that shareholder returns could be multiplied many times over by completing the remaining development of Axiron prior to licensing to a marketing partner. In July 2007 Acrux presented to shareholders a detailed plan to execute this strategy, committing to the outcome of an enhanced partnering deal in the first half of 2010. \$23 million in new capital was raised from shareholders specifically to fund this project.

During the subsequent three years, Acrux has focused on the execution of every element of the plan. This has included the Phase 3 clinical trial at 26 sites in the USA, Europe and Australia, detailed market research with patients and prescribers to confirm product attributes and patient benefits, preparation of the marketing application to FDA and establishing commercial manufacturing in partnership with Orion Corporation in Finland. The manufacturing set-up, including the supply chain for all components, was a complex and critical element of the programme. Unlike a tablet or injection for example, Axiron is a unique product form, which has entailed commissioning dedicated filling and packaging machinery for installation at Orion.

Execution of every detail



- | | |
|--------------------|----------------------|
| a. Clinical data | b. Supply chain |
| c. Patents | d. Container closure |
| e. Unit cost | f. Funding |
| g. Brand name | h. Product features |
| i. Market research | |

In September 2009, Acrux reported positive results from the Phase 3 trial. The trial demonstrated that after 4 months of treatment with Axiron, 84% of subjects achieved average blood levels of testosterone within the normal range, exceeding the requirement of 75% that was agreed with the FDA. In addition, after only 2 weeks of treatment, it was found that 76% of subjects had average blood levels of testosterone within the normal range. Analysis of mood, sexual desire, sexual activity and sexual performance before and after 4 months of treatment showed statistically significant improvement from baseline across all measures. Acrux prepared and submitted the marketing application for Axiron to the FDA in January 2010.

Following the announcement of the Phase 3 results, Acrux received strong interest in Axiron from a range of potential partners. On a number of measures, Eli Lilly presented a compelling offer and Acrux believes that Lilly is the ideal commercial partner for Axiron.

Firstly, worldwide sales of Lilly's erectile dysfunction treatment Cialis^{®1} grew to US\$1.6 billion in 2009, now rivalling Pfizer's Viagra[®] as the largest selling product in this category. We view this as an impressive achievement, giving confidence that Lilly has the marketing expertise and capabilities in men's health that will enable Acrux to achieve the full commercial potential of Axiron.

Secondly, Lilly has considerable commercial strength worldwide, with products distributed in 143 countries. This was an important consideration, as Acrux believes that many of the ex-USA markets such as Asia and South America offer great potential for growth over the next 10 years and beyond.

Thirdly, Lilly has a heritage and track record of seeking improved clinical outcomes based on the best science of the day. Acrux views the increasing scientific understanding of the role that testosterone plays in the health of men as an exciting development. There is a body of data proposing that testosterone levels may be a factor in men suffering from a cluster of conditions, such as obesity, metabolic syndrome and type 2 diabetes².

Finally, Acrux already had a productive partnership in place with Lilly's animal health division, Elanco. The experience with Elanco gave confidence that Acrux and Lilly would continue to forge a close and effective working relationship during the FDA review process and preparations for commercialisation of Axiron.

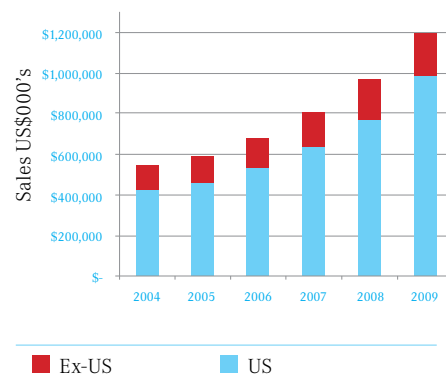
The testosterone therapy market has continued to grow strongly since 2007 and in 2009 sales reached US\$1.2 billion, 20% higher than the previous year. Sales in the US market alone, which is Lilly's first target for Axiron, were US\$1 billion. Acrux's execution of the Axiron plan continues, working closely with Lilly and Orion towards commercial launch, subject to the outcome of the FDA's review of our marketing application, which we expect by the first quarter of 2011. The next milestone payment from Lilly of US\$87 million will be payable if the FDA issues a marketing authorisation.

Acrux's achievements with Axiron were recognised by the AusBiotech – Roche 2009 Excellence Award for outstanding contribution to the biotechnology industry by a company, two 2010 Governor of Victoria Export Awards, as well as the 2010 Ernst & Young Entrepreneur Of The Year award for listed companies (southern region).

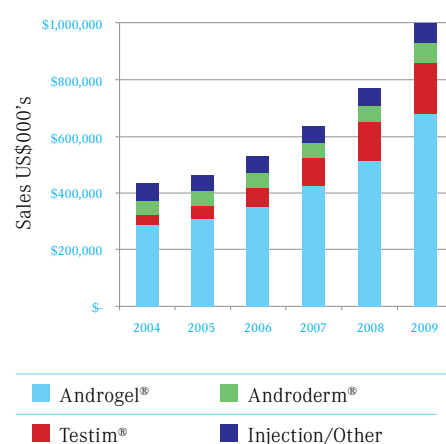
¹ Cialis[®] is a trademark of Eli Lilly & Company

² (Jones, T.H. (Barnsley/Sheffield) (eds): Advances in the Management of Testosterone Deficiency. Front Horm Res. Basel, Karger, 2009, vol 37, pp 74-90).

Testosterone Therapy Global Market Sales



Testosterone Therapy US Market Sales



Other Products



Whilst Axiron continues to be the primary focus of the business, our animal health and female health products are also approaching important development and commercial milestones. In addition, we are critically evaluating potential new product and technology opportunities which could enable us to increase returns to shareholders through leverage of the skills and experience gained from the development of Axiron.



Animal health

As well as commercialising Axiron, Eli Lilly is developing products for global veterinary markets, utilising Acrux's technology to deliver drugs through the skin of animals. Marketing applications for the first product are currently being reviewed by the FDA and the European Medicines Evaluation Agency (EMA). If the applications are approved, we expect Lilly to advance the development and registration of a number of other products. Acrux will earn milestone payments on the approval of marketing applications, as well as royalties on worldwide sales.

Other applications

Acrux's product formulations containing nicotine for smoking cessation and NSAIDs for pain relief are currently being evaluated for further development or partnering.

Female health

The first product developed by Acrux was the estradiol spray for women to treat menopause symptoms (branded Evamist™ in the USA). Evamist is distributed in the United States by Acrux's licensee KV Pharmaceutical (KV). In 2009, KV underwent a significant restructuring of its business following a number of product recalls and the suspension of its manufacturing activities by the FDA. This suspension did not impact Evamist, which is manufactured for KV by a third party, FDA-approved, contract manufacturer in the USA. We have continued to monitor closely KV's financial position as well as its ongoing efforts to meet the FDA's requirements to regain a state of compliance with Good Manufacturing Practice. Although Evamist sales remain below expectations, prescription numbers have continued to trend positively with approximately 18,000 prescriptions dispensed in June 2010. Royalties from Evamist sales do not yet provide Acrux with significant revenues.

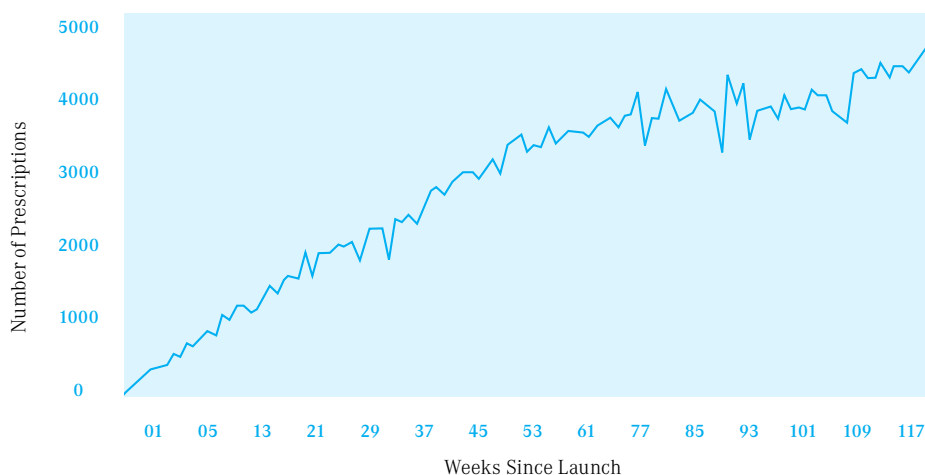
Acrux currently has marketing applications for the estradiol spray filed with the Swedish regulatory authority (MPA), as well the Swiss regulatory authority (SwissMedic). Review decisions for both of these applications are anticipated during the 2010/11 financial year.

The product is licensed to Vifor in Switzerland, Dream Pharma in South Korea and Aspen Pharmacare in South Africa and Australia. We recently announced the termination of a distribution agreement with HRA-Pharma for the major European markets. A new distributor will be appointed following approval of the Swedish marketing application.

In April 2010, we announced that Acrux had successfully regained the US rights to Luramist™, its testosterone spray for women to treat hypoactive sexual desire disorder, from former licensee Vivus Inc. following our action to enforce the contractual performance obligations of Vivus. We are currently considering regulatory and partnering options with respect to completing the development of this novel product.

Following on from our success in forging global partnerships with Eli Lilly and Orion, we are currently exploring strategic alternatives for our portfolio of female health products, including contraceptive sprays, with the stated objective of maximising the returns for our shareholders.

Evamist Weekly Prescriptions Since Launch



Total Revenue

\$56.1m

2009/10 Financial Year

Profit After Tax

\$46.6m

2009/10 Financial Year

Acrux's maiden profit of \$46.6 million, resulting in diluted earnings per share of 28.7 cents, recovered in one year most of the accumulated losses since inception of the business. The profit was driven by revenue from the licence agreement with Eli Lilly for Axiron. Subject to FDA approval of Axiron and receipt of the next milestone payment of US\$87 million from Eli Lilly, Acrux intends to commence payment of dividends in 2011.

Revenue

Total revenue for the financial year was \$56.1 million (2009: \$3.5 million). Revenue from product agreements totalled \$54.9 million (2009: \$0.6 million), including US\$50 million from Eli Lilly on signing of the Axiron licence agreement. Interest income contributed \$1.0 million (2009: \$1.6 million) and government grant income added \$0.2 million (2009: \$0.7 million). Prior year revenue also included foreign currency gains of \$0.6 million.

Cash flow

Net cash inflow before new share capital was \$42.6 million (2009: \$19.6 million outflow). The exercise of employee share options contributed a further \$1.3 million to the inflow of cash. Cash reserves at 30 June 2010 were \$58.6 million (2009: \$14.7 million).

Expenses

Reported operating expenditure was \$6.9 million (2009: \$11.2 million). Total expenditure, before the capitalisation of \$5.9 million development costs relating to Axiron and Ellavie™, fell to \$12.8 million from \$23.9 million in the prior financial year. The total expenditure before capitalisation included \$3.8 million of external research and development expenditure, down from \$13.1 million in the prior financial year.

Employee benefits expense, before the capitalisation of development costs and excluding the non-cash share options expense, fell to \$3.9 million (2009: \$4.4 million), as the level of Axiron development activity reduced. The non-cash employee share options expense also reduced to \$0.1 million (2009: \$0.8 million), with no further options granted during the reporting period.

Professional fees reduced to \$0.9 million from \$3.4 million in the prior financial year. The prior year included expenses associated with action taken to enforce the contractual performance obligations of Vivus Inc. under the Development and Commercialisation Agreement relating to Luramist™. The agreement was terminated following that action.

Royalty expenses for the reporting period increased to \$1.9 million, representing royalties due to Monash University following the receipt of the revenue on signing of the Axiron licence agreement.

The non-cash income tax expense of \$2.6 million reflects the first time recognition of the benefit of tax losses, offset by a deferred tax liability for temporary differences between taxable profit and accounting profit that are expected to reverse in future periods. There was no current tax liability at 30 June 2010.



Net Cash InFlow

\$42.6m

before new Share Capital

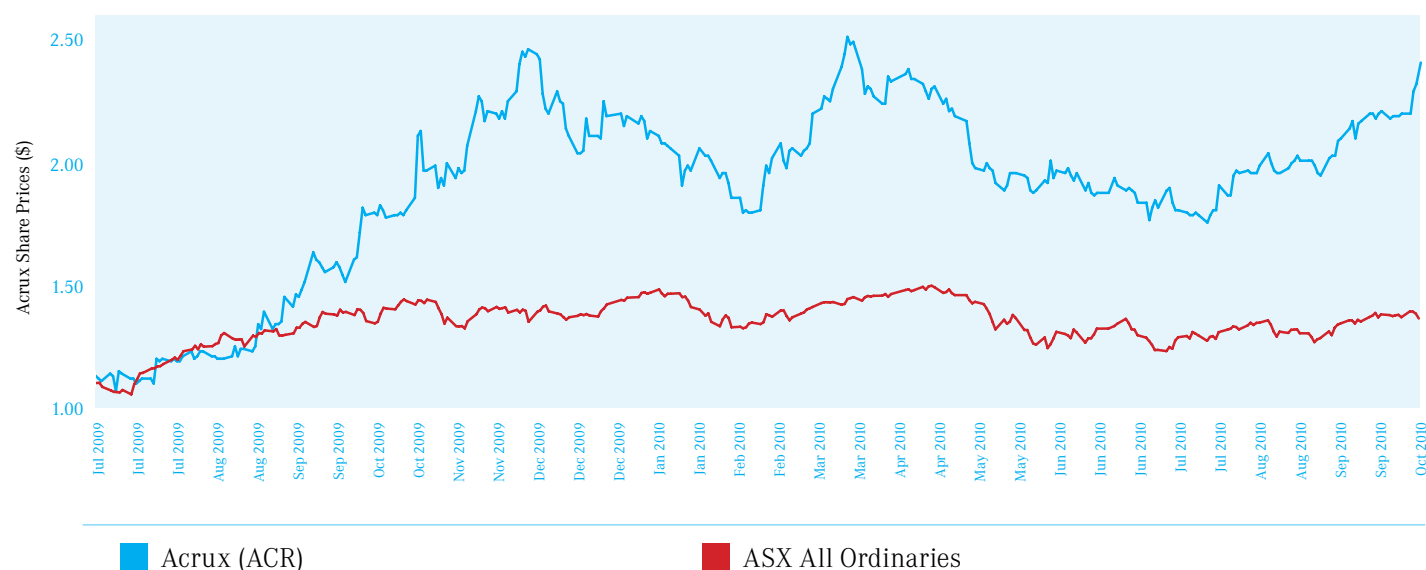
Earnings Per Share

28.7c

Fully Diluted

	30 June 2010 \$m	30 June 2009 \$m
Revenue from product agreements	54.9	0.6
Grant income	0.2	0.7
Interest and other income	1.0	2.2
Total revenue	56.1	3.5
Total expenditure	(12.8)	(23.9)
Profit before capitalised development	43.3	(20.4)
Capitalised Axiron	5.6	12.4
Capitalised Ellavie	0.3	0.3
Profit before tax	49.2	(7.7)
Income tax expense	(2.6)	-
Profit after tax	46.6	(7.7)
Diluted earnings per share	28.7 cents	(4.8 cents)
Net cash inflow before new capital	42.6	(19.7)
New share capital net proceeds	1.3	0.1
Net cash inflow	43.9	(19.6)
Net cash	58.6	14.7

Acrux Share Price \$





1.



5.

*1. Dr Richard Treagus
BScMed, MBChB, MPharmMed, MBA*

*Chief Executive Officer and
Managing Director*

Richard joined Acrux as CEO in May 2006. He is a medical doctor, with 19 years experience in the international pharmaceutical industry. Having commenced with Roche in a Medical Advisory capacity, Dr Treagus soon transitioned into a variety of senior commercial roles. He was responsible for the Sales, Marketing and Strategic business development at Aspen Pharmacare (JSE: APN, South Africa) and a member of the Senior Executive team that took the company through a rapid growth phase following the acquisition of South African Druggists in February 1999. As the General Manager of Sales, Marketing and Business Development at Sigma (ASX: SIP), Richard played an integral role in establishing growth opportunities for the business and concluding a variety of acquisitions and licensing deals. More recently, Richard has led the commercialisation activities at Acrux, in particular partnering and licensing negotiations.



2.



6.



3.



7.

*2. Jon Pilcher
BSc (Hons), ACA*

*Chief Financial Officer and
Company Secretary*

John joined Acrux in October 2002 and was appointed Chief Financial Officer in March 2004. He was reappointed Company Secretary in July 2006, having previously held that position from June 2003 to March 2005. This period included the listing of Acrux on the Australian Stock Exchange. Prior to joining Acrux, Jon was a Senior Manager at ANZ Banking Group and spent seven years with international pharmaceutical groups, Medeva and Celltech, based in the UK, where he held senior financial positions in the Research & Development and Corporate functions. He qualified as a Chartered Accountant in 1991 and holds a Bachelor of Science (in Biotechnology) from the University of Reading in the UK.



4.



3. Adam Watkinson PhD, MBA

Chief Scientific Officer

Adam joined Acrux in July 2005. He has a wealth of experience in the area of drug delivery in general, and transdermal delivery in particular. Prior to Acrux he worked at UK specialty pharma company ProStrakan as a Project Manager and Drug Delivery Research Manager. Prior to ProStrakan, Adam played key roles at An-eX, a UK company that provides R&D development services in the area of percutaneous absorption to the pharmaceutical, cosmetic and agrochemical industries. Adam has an MBA from Cardiff University, a PhD from the Welsh School of Pharmacy in the area of transdermal delivery and a BSc in Chemistry from the University of Bath. He has published extensively on his research and holds an Honorary Chair in the School of Pharmacy at the University of London.

4. Nina Wilkins PhD, M.I.P.Law

Director of Business Development

Nina began working with Acrux in 2001. Nina spent six years in research and development at Wyeth in the UK, gaining experience from formulation development through to pharmaceutical scale-up and technology transfer. Nina is responsible for the strategic identification, development and maintenance of commercial partnerships. She has previously held leadership roles at Acrux in project management and R&D and continues to be responsible for the intellectual property portfolio. Nina holds a PhD in transdermal delivery from Cardiff University, a Bachelor degree in Pharmacology and a Masters of Intellectual Property Law from Melbourne University.

5. Hugh Alsop BSc (Hons), MBA

Director of Business Development

Hugh joined Acrux from Sigma Pharmaceuticals Pty Ltd in August 2006. Hugh was responsible for successfully expanding Sigma's export markets in Europe and Asia through the completion of a number of out-licensing, manufacturing and distribution agreements. In addition to managing Sigma's export portfolio, Hugh was also responsible for the commercial aspects of Sigma's contract manufacturing business, focusing on maximising existing relationships and seeking new growth opportunities for the business. Prior to Sigma, Hugh spent 8 years at Mayne Pharma (FH Faulding & Co) in a variety of roles focused on global strategic development of their injectible business. Hugh holds a Bachelor of Science (in Chemistry) from the University of Melbourne and an MBA from Melbourne Business School.

6. Tina Soulis BSc, PhD

Director of Clinical Development

Tina joined Acrux in May 2006 and was appointed Director of Clinical Development in July 2007. Tina has over 15 years of experience in drug development, particularly in the design, management and implementation of clinical trials. Her experience encompasses all stages of drug development in many therapeutic areas and geographical regions. Prior to joining Acrux Tina held a senior clinical position with Kendle that involved the leadership of projects for numerous biotechnology and pharma clients. Prior to Kendle, Tina was a research manager responsible for a team of scientists developing new drugs for the management of diabetic disease. Tina holds a Bachelor of Science (in Biochemistry and Physiology) and a PhD in Medicine from the University of Melbourne.

7. Clive Blower BSc (Hons), PhD

Director of Technical Affairs and Product Development

Clive joined Acrux in October 2007 from Mayne Pharma where he held a number of senior management positions, the most recent of which was Development Manager, Injectable Development. Clive has experience in all stages of product development including Pre-Clinical, Active Pharmaceutical Ingredient (API) Sourcing, Regulatory Affairs, Intellectual Property, Manufacturing, Engineering, Quality Control, Quality Assurance and Commercial. While employed at Mayne he contributed to the development and launch of more than 25 pharmaceutical products.

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

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

- statement of corporate governance principles
- code of conduct
- board charter
- audit and risk committee charter
- human capital committee charter
- continuous disclosure and shareholder reporting policy
- share trading policy.

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

- risk management policy
- director and senior executive performance policies
- whistleblower policy.

1. The Board Of Directors

1.1 Board Role and Charter

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

- (a) evaluating, approving and monitoring the strategic and financial plans and performance objectives for the Company;
- (b) evaluating, approving and monitoring the annual budgets and business plans;
- (c) evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions including the issue of any securities of the Company;
- (d) monitoring and approving all financial reports and all other reporting and external communications by the Company;
- (e) evaluation of board and individual director performance;
- (f) appointing, removing and managing the performance of, and the succession planning for, the chief executive officer;

- (g) overseeing and ratifying the terms of appointment and, where appropriate, removal, of senior management, including their remuneration;
- (h) monitoring senior management performance and their implementation of strategy and ensuring appropriate resources are available;
- (i) monitoring the Company's performance in relation to best practice principles of corporate governance; and
- (j) approving and monitoring the Company's risk management strategy and internal controls and accountability systems and their effectiveness.

The board has delegated the day to day management of the Company to the chief executive officer who, in turn, may delegate to senior management. The delegations to the chief executive officer include:

- (a) developing business plans, budgets and company strategies for consideration by the board and, to the extent approved by the board, implementing those plans, budgets and strategies;
- (b) operating the business of the Company within the parameters determined by the board and keeping the board promptly informed of all developments material to the Company and its business;
- (c) identifying and managing operational risks and formulating strategies for managing those risks for consideration by the board; 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 currently has three non-executive directors and one executive director. The names of the directors at the date of this report, the year of their appointment, their status as non-executive, executive or independent director and whether they retire at the 2010 annual general meeting are set out in the table below. The details of their background, skills and experience are set out on page 3 of this report.

Name	Year Appointed	Non-Executive	Executive	Independent	Retiring at AGM
Ross Dobinson	1998	Yes	No	Yes	No
Ken Windle	2001	Yes	No	Yes	No
Barrie Finnin	1999	Yes	No	Yes	Yes
Richard Treagus	2007	No	Yes	No	No

1.3 Director Independence

In accordance with the recommendations of ASX Principle 2, the board charter requires the board to include a majority of non-executive independent directors, a non-executive independent chairman and to have different persons filling the roles of chairman and chief executive officer.

At all times during and since the end of the financial year a majority of board members were independent, non-executive directors, as recommended in ASX Principle 2.2.

The chair of the board, Ross Dobinson, is an independent non-executive director. 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 agenda for board meetings, and manages their conduct and facilitates open discussion between board members, between the board and management and with the public.

1.4 Terms of Director Appointment

The non-executive directors, who were all appointed prior to the listing of the Company on the Australian Stock Exchange in September 2005, do not have formal letters of appointment. The terms of appointment of the executive director are disclosed in the Remuneration Report.

1.5 Access to Information and Independent Advice

All directors have unrestricted access to communicate with employees of the Company and, subject to the law, access to all company records and information held by the Company, its employees and advisors. The board receives for each board meeting an agenda, detailed financial and operational reports and the reports of the board committees.

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

1.6 Human Capital Committee

The members of the human capital committee of the board are Ken Windle (Chair), Barrie Finnin and Ross Dobinson. The committee met twice during the year ended 30 June 2010, 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:

- establish a formal and transparent procedure for the selection and appointment of new directors to the board;
- identify suitable candidates to fill board vacancies as and when they arise and nominating candidates for the approval of the board;
- consider processes for the orientation and education of new directors and developing ongoing policies to facilitate continuing education and development of directors;
- assess periodically the skills required for each director to discharge competently the director's duties;
- regularly review the structure, size and composition of the board and the effectiveness of the board as a whole;
- 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;
- recommend to the board a policy and framework for senior employees' remuneration;
- review and monitor the implementation of the human resources plan of the Company and senior management succession planning; and

- (i) review and recommend to the board the total individual remuneration package of each member of senior management, including any bonuses, incentive payments, and participation in any share or share option plans in accordance with the policy and framework for senior employees' remuneration.

In accordance with the recommendations of ASX Principle 2.4, the committee's charter further provides that, where practical, a majority of the committee must be independent non-executive directors and the chair must be a non-executive director who is not the chair of the Company. Executive directors may not be members of the committee. These requirements were met at all times during and since the end of the financial year.

1.7 Audit and Risk Committee

The members of the audit and risk committee of the board are Ken Windle (Chair), Ross Dobinson and Barrie Finnin. The risk and audit committee met twice during the year ended 30 June 2010, with all members attending. Members are chosen having regard to their skills and experience in relation to the matters for which the committee is responsible. Members of the committee have unrestricted access to company records, management, advisers and the external auditors.

The committee's role, as set out in its charter, in general terms is to:

- (a) oversee the Company's system of financial reporting for the purpose of safeguarding its integrity, including viewing all regular financial reports and other formal announcements relating to the Company's financial performance prepared for release to the ASX, regulators and the public before making appropriate recommendations to the board;
- (b) determine the extent of internal audit activities required and monitor the effectiveness of those activities (note that the committee has determined that the Company, due to its size, does not presently warrant establishing a separate internal audit function);
- (c) monitor the performance and activities of the external auditor including:
 - overseeing the process for the appointment, re-appointment and removal of the external auditors (including audit engagement letters), overseeing the rotation of the principal audit partner and reviewing the level of the external auditors' fees;

- assessing the performance and independence of the external auditors and the quality of the audit work performed;
- requiring, reviewing and monitoring compliance with the audit plan of the external auditors, including the scope of the plan and the levels of financial statement materiality;
- reviewing reports from the external auditors and meeting with the external auditors at least once annually in the absence of management and also meeting with the external auditors as requested by the board, the committee or the external auditors; and
- receiving, reviewing, developing and implementing policy on the engaging of the external auditors to supply non-audit services.
- (d) oversee and review the Company's financial and risk management compliance and internal control framework including:
 - overseeing the creation, implementation and maintenance of the risk management system of the Company and its controlled entities and their internal control framework, including information systems;
 - reviewing the effectiveness of the Company's implementation of its risk management systems and internal controls on an on-going basis and reviewing the outcome of any non-financial audits;
 - requiring management to report to the board at least annually on whether the Company's material business risks are being managed effectively;
 - developing an understanding of the overall business environment, relevant laws and codes of importance to the Company and the programmes that the Company has in place to provide reasonable assurance of compliance;
 - reviewing the Company's occupational health and safety policies and ensuring regular reporting to the committee on issues related to occupational health and safety;
 - reviewing insurance coverage and claims trends;
 - ensuring that the chief executive officer and the chief financial officer state in writing to the board annually that:
 - 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 is founded on a sound system of risk management and control which implements the policies adopted by the board; and
 - the Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.

The board has received the report from management, referred to above, on whether the Company's material business risks are being managed effectively. The board received the statement in writing from the chief executive officer and the chief financial officer, referred to above, on 23 August 2010.

In accordance with the recommendations of ASX Principle 4.2, the committee's charter provides that a majority of the committee must be independent non-executive directors and the chair must be a non-executive director who is not the chair of the Company. Executive directors may not be members of the committee. These requirements were met at all times during and since the end of the financial year.

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 pages 24-31.

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

At the end of each financial year, the performance of senior executives against personal goals is assessed and personal goals and development plans for the next financial year are set, aligned with the Company's objectives. The review of senior management team members is carried out by the chief executive officer and the results are subject to further review and approval by the human capital committee. The review of the chief executive officer is carried out by the human capital committee and approved by the board. A performance evaluation in accordance with this process was undertaken in respect of the year ended 30 June 2010.

A formal review of the performance of the board and its committees was not undertaken during the year ended 30 June 2010.

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 means including:

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

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

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



3. Share Trading

Under the Company's share trading policy all employees and directors of the Company and its related companies are prohibited from trading in the Company's shares if they are in possession of inside information. Subject to this, trading can occur at any time.

The directors, the chief executive officer, the company secretary and persons reporting directly to the chief executive officer (and their associated persons) may not trade in shares in the Company without the approval of the company secretary (or the chair in the case of the company secretary) and only if they have first given a statement that they are not in possession of material non-public information. Such approval expires after five business days.

4. Conduct And Ethics

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

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

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

In addition the Company has adopted a 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 the Company's code of conduct;
- (i) failure to comply with agreements with the Company's commercial partners;
- (j) a breach of proper environmental practice;
- (k) other serious improper conduct; and
- (l) any other conduct that may cause financial or non-financial loss to the Company or otherwise be detrimental to the interests of the Company

The directors present their report together with the financial report of the consolidated entity consisting of Acrux Limited and the entities it controlled for the financial year ended 30 June 2010 and the independent audit report thereon. This financial report has been prepared in accordance with Australian equivalents of International Financial Reporting Standards.

Principal Activities

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

Operating Results

The consolidated profit, after income tax and non controlling equity interest, attributable to the members of Acrux Limited was \$46.6 million (2009: loss \$7.7 million). Diluted earnings per share were 28.7 cents, compared with a loss per share of 4.8 cents in the prior financial year.

Review of Operations

Vision

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

Business Strategy

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

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

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

Operating Results

Acrux recorded its first consolidated profit, driven by revenue of \$54.7 million on signing a global licence agreement with Eli Lilly for the commercialisation of Axiron™. The consolidated profit after tax was \$46.6 million, compared with a loss of \$7.7 million in the prior financial year.

Revenue

Total revenue for the financial year was \$56.1 million (2009: \$3.5 million). Revenue from product agreements totaled \$55.0 million (2009: \$0.6 million). Interest income contributed \$1.0 million (2009: \$1.6 million) and government grant income added \$0.2 million (2009: \$0.7 million). Prior year revenue also included foreign currency gains of \$0.6 million.

Operating Expenditure

Reported operating expenditure was \$6.9 million (2009: \$11.2 million). Total expenditure before the capitalisation of development costs relating to Axiron and Ellavie™ fell to \$12.8 million from \$23.9 million in the prior financial year. The total expenditure before capitalisation included \$3.8 million of external research and development expenditure, down from \$13.1 million in the prior financial year. Phase 3 development expenditure for Axiron was \$5.6 million, with \$0.4 million product registration expenditure for Ellavie.

Employee benefits expense, before the capitalisation of development costs and excluding the non-cash share options expense, fell to \$3.9 million (2009: \$4.4 million), as the level of Axiron development activity reduced. The non-cash employee share options expense also reduced to \$0.1 million (2009: \$0.8 million), with no further options granted during the reporting period.

Professional fees reduced to \$0.9 million from \$3.4 million in the prior financial year. The prior year included expenses associated with action taken to enforce the contractual performance obligations of Vivus Inc. under the Development and Commercialisation Agreement relating to the testosterone spray for women (Luramist™). The agreement was terminated following that action.

Royalty expenses for the reporting period increased to \$1.9 million, representing royalties due to Monash University following the receipt of the revenue on signing of the Axiron licence agreement.

Income tax expense of \$2.6 million (2009: Nil) reflects the first time recognition of the benefit of tax losses, offset by a deferred tax liability for temporary differences between taxable profit and accounting profit which are expected to reverse in future periods. There was no current tax liability at 30 June 2010.



Cash flow

Net cash inflow before new share capital was \$42.6 million (2009: \$19.7 million outflow). The exercise of employee share options contributed \$1.3 million to the inflow of cash.

Contributed Equity

The exercise of employee share options added \$1.3 million to contributed equity (2009: \$0.1 million). Tax credits associated with capital raising expenses also added \$1.3 million (2009: Nil).

The number of employee share options on issue at the end of the reporting period was 6.0 million (2009: 7.1 million), representing 3.7% of the issued share capital. These options have exercise prices between 51 cents and \$1.84 per share.

Key events

- July 2009 – Completion of Phase 3 trial of Axiron.
- September 2009 – Positive results from the Phase 3 trial of Axiron.
- October 2009 – Acrux received the AusBiotech – Roche 2009 Excellence Award for outstanding contribution to the biotechnology industry by a company.
- January 2010 – New Drug Application (NDA) submitted to the US Food and Drug Administration (FDA), seeking marketing authorisation for Axiron.
- March 2010 – Exclusive global licence agreement signed with Eli Lilly for the commercialisation of Axiron.
- April 2010 – NDA for Axiron accepted for substantive review by the FDA.
- May 2010 – Settlement agreement signed with Vivus Inc., under which all rights to Luramist reverted to Acrux and all disputes relating to Luramist were settled.

Significant Changes in the State of Affairs

Acrux's first consolidated profit after tax resulted in consolidated cash and cash equivalents of \$58.6 million at 30 June 2010, compared with \$14.7 million at 30 June 2009. In March 2010, a global licence agreement was signed with Eli Lilly for the commercialisation of Axiron. Under the agreement, a wholly owned subsidiary of Acrux Limited may receive up to US\$335 million in milestones as well as royalties on worldwide sales of Axiron. The first milestone payment of US\$50 million was received on signing of the agreement. The next milestone of US\$87 million is payable subject to the issuance by the FDA of a marketing authorisation for Axiron.

After Balance Date Events

In July and August 2010 Acrux Commercial Pty Ltd placed orders to purchase further manufacturing equipment in preparation for the commercial production of Axiron. The combined total of these orders is EURO 429,972. These items of equipment are to be installed at Orion's manufacturing facility in Finland.

In August 2010, a distribution agreement between Fempharm Pty Ltd and Laboratoire HRA Pharma was terminated. On termination, Fempharm Pty Ltd has an obligation to repay fees of EURO 150,000 to Laboratoire HRA Pharma.

There has been no other matter or circumstance, which has arisen since 30 June 2010 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2010, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2010, of the consolidated entity.

Likely Developments

The Company will continue to pursue its operating strategy to create shareholder value. In the opinion of the directors, disclosure of any further information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation

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

Laboratory Waste

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

Trade Water Waste

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

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

Dividend Paid, Recommended and Declared

No dividends have been paid, declared or recommended since the start of the financial year.

Shares Under Option

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

Date options granted	Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
19 April 2006	32,000	79.0c	April 2011
24 November 2008	2,692,495	90.0c	July 2011
27 March 2007	30,000	\$1.57	March 2012
30 August 2007	2,625,000	\$1.84	August 2012
4 March 2008	300,000	\$1.84	March 2013
26 February 2009	268,000	51.0c	February 2014
20 April 2009	18,000	77.0c	April 2014
	5,965,495		

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

Shares Issued On Exercise of Options

Ordinary shares of Acrux Limited issued during or since the end of the financial year as a result of the exercise of an option were as follows:

Date issued	Shares issued Number	Amount paid per share \$
17 August 2009	35,000	0.790
7 October 2009	10,000	0.790
13 October 2009	10,000	0.690
13 October 2009	15,000	0.790
15 October 2009	150,000	0.770
21 October 2009	20,000	0.790
22 October 2009	40,000	0.940
23 October 2009	110,000	1.840
27 October 2009	1,000	0.790
29 October 2009	10,000	0.790
5 November 2009	60,000	0.790
9 November 2009	65,000	0.790
9 November 2009	70,000	1.840
12 November 2009	195,000	1.840
25 November 2009	60,000	0.790
26 November 2009	100,000	0.790
1 December 2009	10,000	0.940
3 December 2009	10,000	0.790
7 December 2009	10,000	0.790
23 February 2010	10,000	0.790
5 March 2010	10,000	0.790
11 March 2010	40,000	0.940
11 March 2010	20,000	0.790
12 March 2010	10,000	0.940
18 March 2010	15,000	0.790
19 March 2010	70,000	0.790
Total	1,156,000	

There are no amounts unpaid on shares issued as a consequence of the exercise of options.

Indemnification and Insurance of Directors and Officers

During the financial year, the consolidated entity has paid premiums in respect of an insurance contract to indemnify officers against liabilities that may arise from their position as officers of the Company and its controlled entities. Officers indemnified include the company secretary, all directors and all executive officers participating in the management of the Company and its controlled entities. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the insurance contract.



Proceedings on Behalf of the Consolidated Entity

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

Directors' Meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were as follows:

<i>Directors</i>	Committee Meetings					
	Directors' Meetings		Audit & Risk		Human Capital	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
R Dobinson	11	10	2	2	2	2
H K Windle	11	10	2	2	2	2
B C Fynn	11	10	2	2	2	2
R Treagus	11	11	-	-	-	-

Directors' and Executives' Interests in Shares and Options

Directors' and Executives' relevant interests in shares of Acrux Limited and options over shares in the Company as at 30 June 2010 are detailed below.

	Total No. of Shares	Total No. of Options
<i>Directors</i>		
R Dobinson	3,355,866	-
H K Windle	678,000	-
B C Fynn	3,232,148	-
R Treagus	110,000	3,992,495
<i>Executives</i>		
J Pilcher	63,100	413,000
A Watkinson	-	250,000
N Webster	6,000	288,000
H Alsop	50,000	250,000
C Blower	-	250,000
T Soulis	-	125,000
Total	7,495,114	5,568,495

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 22 to the financial statements.

Auditor's Independence Declaration

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

Non-Audit Services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, are 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*.

Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:

	2010 \$	2009 \$
Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:		
Other assurance services	27,050	27,800

Human Capital Committee

The human capital committee carries out the following functions in relation to the remuneration of senior management:

- (a) recommending to the board a policy and framework for senior employees' remuneration which should aim to set remuneration which:
 - (i) is competitive, fair and designed to attract employees of high quality, experience and integrity;
 - (ii) motivates senior employees to pursue the long term growth and success of the Company within the appropriate control framework; and
 - (iii) establishes a clear relationship between the performance of senior management and their remuneration;
- (b) reviewing and recommending to the board the total individual remuneration package of each member of senior management (including the chief executive officer), including any bonuses, incentive payments, and participation (including the level of participation) in any share or share option plans in accordance with the policy and framework for senior employees' remuneration;
- (c) reviewing benchmarks against which salary reviews are made;
- (d) reviewing and recommending the establishment and terms of any employee share or share option plan or other incentive plan and recommending any changes to the board;
- (e) reviewing and recommending on the superannuation arrangements of the Company and its controlled entities; and
- (f) ensuring that equity-based senior management remuneration is made in accordance with thresholds set in plans approved by shareholders.

Remuneration Policy

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

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

Remuneration Structure

The remuneration of employees is structured in two parts:

- **Fixed Remuneration**, which comprises salary, superannuation and other benefits in lieu of salary; and
- **Variable Remuneration**, which comprises a short term incentive in the form of cash and a long term incentive in the form of options under the employee share option plan (ESOP). All permanent staff are eligible to participate in the short term incentive plan and the ESOP. However the level of participation varies according to the level of seniority and the ability to influence the performance of the business.

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

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

Business Objectives

Each financial year the board, in conjunction with senior management, sets the business objectives aimed to be achieved during the year to implement the Company's business plan. The objectives are segmented into various business areas relevant to the business plan. Stretch targets beyond the business objectives are set at the same time.

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

The key principles of the plan are:

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

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



Long Term Incentive Plans

The purpose of the long term incentive plans are to align the interests of the senior executives more closely with those of the shareholders to achieve long term sustained superior performance. There are two plans currently in place: an Employee Share Option Plan and an individual plan in respect of the Chief Executive Officer.

The key principles of the Employee Share Option Plan are:

- At the discretion of the board, options to acquire shares in the Company may be granted to employees;
- The options may not be exercised for two years after grant and expire five years after grant;
- On termination of employment, options lapse other than in certain exceptional circumstances;
- The exercise price is at the discretion of the board, but has typically been set at a 15% premium to the market price of the Company's shares on the grant date; and
- The number of options outstanding and exercised in the previous five years must not exceed 10% of the Company's issued share capital.

Options have also been granted under the employment contract of the Chief Executive Officer. The terms of these options are detailed below.

The board has also approved an Employee Share Purchase Plan. Under this plan, for every four shares in the Company purchased by an eligible employee, the Company will provide one free share up to a maximum value of \$1,000 per financial year. The Company will also pay brokerage costs associated with the share purchases. At the date of this report, an offer under the plan has not yet been made.

Remuneration and Termination of the Chief Executive Officer and Senior Management

The Chief Executive Officer and Managing Director, Dr Richard Treagus, is employed under an employment contract which may be terminated by either party by giving three months notice in writing. If the Company terminates the contract, Dr Treagus is entitled to a termination payment on expiry of the notice period equal to three months' fixed remuneration. Dr Treagus' remuneration comprises fixed remuneration, an annual short term incentive of up to 60% of his fixed remuneration and equity-based remuneration in the form of options. The level of short term incentive payable is dependent on the achievement of objectives, set by the board. The board has absolute discretion over the level of bonus payable.

Under the terms of the CEO's employment contract, 2,692,495 options representing 2% of the issued Share Capital at the date of the contract were granted to the CEO, at an exercise price of 90 cents. The closing share price on the grant date was 49.5 cents. These options are exercisable at any time up to 5 July 2011.

Other senior executives have no fixed term of employment and either party may terminate the employment contract on periods of written notice of six months (J. Pilcher and A. Watkinson), three months (N. Wilkins and C. Blower), or one month (H. Alsop and T. Soulis).

Other than statutory and contractual entitlements, no termination benefits are payable to senior executives on termination of employment.

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

Executives	Position
J Pilcher	Chief Financial Officer and Company Secretary
A Watkinson	Chief Scientific Officer
N Webster ¹	Director of Business Development
H Alsop	Director of Business Development
R Cull ²	Director of Regulatory Affairs and Quality
C Blower	Director of Product Development and Technical Affairs
T Soulis	Director of Clinical Development

¹ Nina Wilkins changed her name after the date of the 2008/09 Director's Report and took a period of maternity leave before returning to work part time.

² Resigned as Director of Regulatory Affairs and Quality on 24 December 2009.

Share Options

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

Options over unissued ordinary shares granted by Acrux Limited, or vested, during or since the financial year to Directors and Executives as part of their remuneration were as follows:

	Vested Number	Granted Number	Grant Date	Value per option at grant date	Terms and conditions for each		
					Exercise Price \$	First Exercise Date	Last Exercise Date
<i>Directors</i>							
R Treagus	1,300,000	-	30/08/07	0.37	1.840	30/08/09	30/08/12
<i>Executives</i>							
J Pilcher	300,000	-	30/08/07	0.37	1.840	30/08/09	30/08/12
A Watkinson	250,000	-	30/08/07	0.37	1.840	30/08/09	30/08/12
N Webster	250,000	-	30/08/07	0.37	1.840	30/08/09	30/08/12
H Alsop	250,000	-	30/08/07	0.37	1.840	30/08/09	30/08/12
R Cull ¹	250,000	-	30/08/07	0.37	1.840	30/08/09	30/08/12
C Blower	250,000	-	4/03/08	0.15	1.840	4/03/10	4/03/13
T Soulis	250,000	-	30/08/07	0.37	1.840	30/08/09	30/08/12
Total	3,100,000	-					

¹ Resigned as Director of Regulatory Affairs and Quality on 24 December 2009.

(b) Shares issued on exercise of compensation options

Shares issued on exercise of compensation options during or since the end of the financial year by Directors and Executives were as follows:

	Shares issued Number	Amount paid per share \$	Amount unpaid per share \$
Executives			
J Pilcher	100,000	0.790	-
A Watkinson	150,000	0.770	-
A Watkinson	125,000	0.790	-
N Webster	10,000	0.690	-
N Webster	85,000	0.790	-
H Alsop	100,000	0.940	-
R Cull ¹	250,000	1.840	-
T Soulis	125,000	1.840	-

¹ Resigned as Director of Regulatory Affairs and Quality on 24 December 2009.



For the purposes of disclosure of Executives' remuneration in the table below, options historically granted to Executives have been valued as required by AASB 2. A value on grant date has been estimated using a binomial valuation model, which requires assumptions to be made regarding the market price of Acrux Limited shares on the grant date and the expected volatility of the share price. The resulting value has been evenly recognised over the vesting period of the options, as required by the Standard.

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

	Primary		Post employment	Equity	Total	Equity as % of Total	Bonus as % of Total
	Salary \$	Bonus* \$	Super \$	Options \$	\$	%	%
2010							
J Pilcher	201,609	27,915	14,461	19,318	263,303	7%	11%
A Watkinson	182,263	26,067	20,461	7,694	236,485	3%	11%
N Webster	42,794	20,624	6,420	11,085	80,923	14%	25%
H Alsop	177,986	24,644	14,461	7,694	224,785	3%	11%
R Cull ¹	85,801	22,428	6,976	46,037	161,242	29%	14%
C Blower	156,406	21,656	14,461	12,612	205,135	6%	11%
T Soulis	140,331	20,208	14,448	7,694	182,681	4%	11%
	987,190	163,542	91,688	112,134	1,354,554	8%	12%
2009							
J Pilcher	193,854	13,167	13,744	58,671	279,436	21%	5%
A Watkinson	175,022	12,238	19,745	46,037	253,042	18%	5%
N Webster	143,223	10,137	13,744	47,189	214,293	22%	5%
H Alsop	171,140	11,624	13,744	47,887	244,395	20%	5%
R Cull ¹	155,751	10,782	13,744	46,037	226,314	20%	5%
C Blower	150,245	8,040	16,144	18,638	193,067	10%	4%
T Soulis	134,933	9,037	12,957	46,037	202,964	23%	4%
	1,124,168	75,025	103,822	310,496	1,613,511	19%	5%

* Bonus relates to achievement of objectives for prior financial year. The amount of bonus paid was 60% of the maximum amount payable in respect of the financial year ended 30 June 2009 and 30% of the maximum payable in respect of the financial year ending 30 June 2008.

¹ Resigned as Director of Regulatory Affairs and Quality on 24 December 2009.

Remuneration of Non-executive Directors

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

The present directors' fees are \$65,400 per annum, including superannuation for each non-executive director other than the chair who receives \$118,000 (increased from \$98,000 per annum effective 1 November 2010). 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 re-imbursement of reasonable expenses incurred by them.

No retirement allowances are paid to non-executive directors. No equity based remuneration is paid to non-executive directors. Non-Executive Directors do not receive any additional remuneration for being members of board committees.

For the purposes of disclosure of Directors' remuneration in the table below, options granted to Directors have been valued as required by AASB 2. A value on grant date has been estimated using a binomial valuation model, which requires assumptions to be made regarding the market price of Acrux Limited shares on the grant date and the expected volatility of the share price. The resulting value has been evenly recognised over the vesting period of the options, as required by the Standard.

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

	Primary		Post employment	Equity	Total	Equity as % of Total	Bonus as % of Total
	Salary/ Director's fees \$	Bonus* \$	Super \$	Options \$	\$	%	%
2010							
R Dobinson	111,364	-	-	-	111,364	0%	0%
H K Windle	15,400	-	50,000	-	65,400	0%	0%
B C Finnin	60,000	-	5,400	-	65,400	0%	0%
R Treagus	359,107	159,375	26,203	26,203	570,888	5%	28%
	545,871	159,375	81,603	26,203	813,052	3%	20%
2009							
R Dobinson	98,100	-	-	-	98,100	0%	0%
H K Windle	20,000	-	45,400	-	65,400	0%	0%
B C Finnin	60,000	-	5,400	-	65,400	0%	0%
R Treagus	341,249	94,500	33,750	400,942	870,441	46%	11%
	519,349	94,500	84,550	400,942	1,099,341	36%	9%

* Bonus relates to achievement of objectives for prior financial year. The amount of bonus paid was 71% of the maximum amount payable in respect of the financial year ended 30 June 2009 and 42% of the maximum payable in respect of the financial year ending 30 June 2008.



Number of options held by key management personnel

Directors and Executives	Balance 1/07/2009	Granted as Remuneration	Exercised	Lapsed	Balance 30/06/2010	Total Vested & Exercisable 30/06/2010	Total Unexercisable 30/06/2010
<i>Directors</i>							
R Dobinson	-	-	-	-	-	-	-
H K Windle	-	-	-	-	-	-	-
B C Finnin	-	-	-	-	-	-	-
R Treagus	3,992,495	-	-	-	3,992,495	3,992,495	-
<i>Executives</i>							
J Pilcher	513,000	-	(100,000)	-	413,000	300,000	113,000
A Watkinson	525,000	-	(275,000)	-	250,000	250,000	-
N Webster	383,000	-	(95,000)	-	288,000	250,000	38,000
H Alsop	350,000	-	(100,000)	-	250,000	250,000	-
R Cull ¹	250,000	-	(250,000)	-	-	-	-
C Blower	250,000	-	-	-	250,000	250,000	-
T Soulis	250,000	-	(125,000)	-	125,000	125,000	-
Total	6,513,495	-	(945,000)	-	5,568,495	5,417,495	151,000

¹ Resigned as Director of Regulatory Affairs and Quality on 24 December 2009.

Value of options held by key management personnel

Directors and Executives	Balance 1/07/2009 \$	Value Granted \$	Value Exercised \$	Value Lapsed \$	Balance 30/06/2010 \$
<i>Directors</i>					
R Dobinson	-	-	-	-	-
H K Windle	-	-	-	-	-
B C Finnin	-	-	-	-	-
R Treagus	640,990	-	-	-	640,990
<i>Executives</i>					
J Pilcher	155,261	-	(24,450)	-	130,811
A Watkinson	150,483	-	(58,283)	-	92,200
N Webster	121,944	-	(22,961)	-	98,983
H Alsop	113,670	-	(21,470)	-	92,200
R Cull ¹	92,200	-	(92,200)	-	-
C Blower	37,275	-	-	-	37,275
T Soulis	92,200	-	(46,100)	-	46,100
Total	1,404,023	-	(265,464)	-	1,138,559

¹ Resigned as Director of Regulatory Affairs and Quality on 24 December 2009.



Number of shares held by Key Management Personnel

Directors and Executives	Balance 1/07/2009	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2010
<i>Directors</i>					
R Dobinson	3,355,866	-	-	-	3,355,866
H K Windle	678,000	-	-	-	678,000
B C Finnin	3,370,356	-	-	(138,208)	3,232,148
R Treagus	110,000	-	-	-	110,000
<i>Executives</i>					
J Pilcher	314,500	-	100,000	(351,400)	63,100
A Watkinson	-	-	275,000	(275,000)	-
N Webster	3,000	-	95,000	(92,000)	6,000
H Alsop	-	-	100,000	(50,000)	50,000
R Cull ¹	92,000	-	250,000	(342,000)	-
C Blower	-	-	-	-	-
T Soulis	-	-	125,000	(125,000)	-
Total	7,923,722	-	945,000	(1,373,608)	7,495,114

¹ Resigned as Director of Regulatory Affairs and Quality on 24 December 2009.

Rounding of Amounts

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

Signed in accordance with a resolution of the directors.

R Dobinson
Chairman
Melbourne

Dated this 23rd day of August 2010

H K Windle
Director
Melbourne

Dated this 23rd day of August 2010



AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Acrux Limited

In relation to the independent audit for the year ended 30 June 2010, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.
- (ii) No contraventions of any applicable code of professional conduct.

S D Whitchurch

Partner

Dated this 23rd day of August 2010

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Consolidated Statement of Comprehensive Income

	Notes	2010 \$'000	2009 \$'000
Revenue	4	56,101	3,511
Employee benefits expense	5	(2,647)	(3,990)
External research and development expenses	5	(1,019)	(1,975)
Non-executive directors' fees		(242)	(229)
Professional fees		(873)	(3,387)
Royalty expense		(1,913)	(7)
Other expenses		(236)	(1,636)
		(6,930)	(11,224)
Profit/(loss) before income tax		49,171	(7,713)
Income tax expense	6	(2,617)	(3)
Profit/(loss) for the year		46,554	(7,716)
Total comprehensive income for the year		46,554	(7,716)
Total comprehensive income attributable to:			
Members of the parent	15	46,554	(7,716)
Non-controlling interest	16	-	-
		46,554	(7,716)
Basic earnings per share (cents per share)	7	29.08	(4.84)
Diluted earnings per share (cents per share)	7	28.70	(4.84)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

	Notes	2010 \$'000	2009 \$'000
Current assets			
Cash and cash equivalents	8	58,609	14,736
Receivables	9	564	611
Total current assets		59,173	15,347
Non-current assets			
Deferred tax assets	6	-	253
Plant and equipment	10	1,024	1,772
Intangible assets	11	23,408	17,578
Total non-current assets		24,432	19,603
Total assets		83,605	34,950
Current liabilities			
Payables	12	1,670	3,367
Short term provisions	13	305	314
Total current liabilities		1,975	3,681
Non-current liabilities			
Deferred tax liabilities	6	1,094	-
Long term provisions	13	67	46
Total non-current liabilities		1,161	46
Total liabilities		3,136	3,727
Net assets		80,469	31,223
Equity			
Contributed equity	14	85,786	83,211
Reserves	15(a)	2,061	1,953
Accumulated losses	15(b)	(7,378)	(53,941)
Equity attributable to the owners of Acrux Ltd		80,469	31,223
Non controlling interests	16	-	-
Total equity		80,469	31,223

The accompanying notes form part of these financial statements.



Consolidated Statement of Changes in Equity

	Notes	Contributed Equity \$'000	Reserves \$'000	Retained Earnings \$'000	Total Equity \$'000
Balance as at 1 July 2008		83,135	1,570	(46,596)	38,109
Loss for the period		-	-	(7,716)	(7,716)
Total comprehensive income for the year		-	-	(7,716)	(7,716)
Transactions with owners in their capacity as owners:					
Contributions	14(b)	76	-	-	76
Employee share options expense	15(a)	-	754	-	754
Lapsed employee share options	15	-	(371)	371	-
Total transactions with owners in their capacity as owners		76	383	371	830
Balance as at 30 June 2009		83,211	1,953	(53,941)	31,223
Balance as at 1 July 2009		83,211	1,953	(53,941)	31,223
Profit for the period		-	-	46,554	46,554
Total comprehensive income for the year		-	-	46,554	46,554
Transactions with owners in their capacity as owners:					
Contributions	14(b)	2,575	-	-	2,575
Employee share options expense	15(a)	-	117	-	117
Lapsed employee share options	15	-	(9)	9	-
Total transactions with owners in their capacity as owners		2,575	108	9	2,692
Balance as at 30 June 2010		85,786	2,061	(7,378)	80,469

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

	Notes	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts		55,940	1,218
Payments to suppliers and employees		(8,500)	(8,766)
Interest received		685	1,770
Foreign withholding tax paid		(6)	(3)
Net cash flows provided by/(used in) operating activities	17(a)	48,119	(5,781)
Cash flows from investing activities			
Proceeds from the sale of plant and equipment		1,014	-
Purchase of plant and equipment		(719)	(1,267)
Payment for capitalised development costs		(5,854)	(12,658)
Net cash flows used in investing activities		(5,559)	(13,925)
Cash flows from financing activities			
Net proceeds from issues of ordinary shares		1,313	76
Net cash flows provided by financing activities		1,313	76
Net increase/(decrease) in cash held		43,873	(19,630)
Add cash at the beginning of the year		14,736	34,366
Cash at end of year	17(b)	58,609	14,736

The accompanying notes form part of these financial statements.

Note 1: Statement of Significant Accounting Policies

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 as an individual parent entity and Acrux Limited and controlled entities as a consolidated entity. Acrux Limited is a company limited by shares, incorporated and domiciled in Australia.

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

The following is a summary of material 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

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with Australian equivalents to International Financial Reporting Standards ensures compliance with International Financial Reporting Standards (IFRSs).

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.

(b) 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 Acrux Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

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 fully consolidated from the date on which control is established. They are de-consolidated from the date that control ceases.

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

(c) Revenue recognition

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 product agreements is made up of revenue relating to events and revenue relating to product sales. Revenue relating to events is recognised upon completion of the event, which is the trigger point for the right to receive the revenue. Revenue relating to product sales is recognised in the period in which the sales occur.

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

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

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

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, deposits held at call with financial institutions.

(e) Plant and equipment

Cost

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

Depreciation

The depreciable amount of all fixed assets are depreciated 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:

	2010	2009
Leasehold improvements:	0.1 to 8 years	1.6 to 8 years
Plant and equipment:	2.5 to 14 years	2.5 to 14 years

Note 1: Statement of Significant Accounting Policies (Continued)

(f) Leases

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

Operating Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

(g) 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.

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 over the period from first commercial sale of the product 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 AASB5 and the date that the asset is derecognised.

(h) Impairment of assets

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

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

(i) 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.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability 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.

(j) 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 incurred.

Share-based payments

The consolidated entity operates an employee share option plan and an employee share scheme. The bonus element over the exercise price for the grant of shares and 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 total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. 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 market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an expense when the employees become entitled to the shares.

(k) Comparatives

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

(l) Financial instruments

Financial Assets

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

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.

(m) Foreign currency translations and balances

Functional and presentation currency

The financial statements of each of the consolidated entity's subsidiaries are measured using the primary economic environment in which that entity operates. 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.

Resulting exchange differences arising on settlement or re statement are recognised as revenues and expenses for the financial year.

(n) 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.

(o) Rounding amounts

The company is of a kind referred to in ASIC Class Order CO 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Note 2: Critical Accounting Estimates and Judgements

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

(a) Income taxes

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 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 a discounted cash flow model 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 model values each product being developed by the subsidiary by estimating future cashflows and discounting the future net cash flows for the probability of successful commercialisation and for the time value of money, using a pre tax discount rate of 16%. 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 and an employee share scheme. The bonus element over the exercise price for the grant of options is recognised as an expense in the Statement of Comprehensive Income in the period(s) when the benefit is earned. The value of the bonus element is calculated using a Binomial option pricing model. This model requires the input of a number of variables including an estimate of future volatility and a risk free interest rate. Volatility is estimated based on the historical movements in the Company's share price since listing on the Australian Stock Exchange. The risk free interest rate is the Reserve Bank of Australia's cash rate at the options grant date. The value from the pricing model is discounted to reflect the probability of staff remaining employed during the vesting period of the options, based on the historical staff turnover rate.

Note 3: Financial Instruments and Financial Risks

At 30 June 2010, the consolidated entity had financial instruments with carrying amounts as shown in the following table:

Financial Instruments	Fixed interest rate maturing in				Non interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	Floating interest rate		1 year or less							
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 %	2009 %
(i) Financial assets										
Cash	19,382	2,296	39,225	12,437	2	3	58,609	14,736	5.4	3.7
Receivables	-	-	-	-	564	611	564	611		
Total financial assets	19,382	2,296	39,225	12,437	566	614	59,173	15,347		
(ii) Financial liabilities										
Trade creditors	-	-	-	-	321	1,089	321	1,089		
Sundry creditors and accruals	-	-	-	-	1,349	2,278	1,349	2,278		
Total financial liabilities	-	-	-	-	1,670	3,367	1,670	3,367		

The net fair value of the financial assets and financial liabilities at 30 June 2010 was not materially different to the carrying amounts as disclosed in the balance sheet and notes to the financial statements.

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

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk
 - i. Interest rate risk
 - ii. Currency risk

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

(a) 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.

Cash reserves form the majority of the consolidated entity's financial assets at 30 June 2010. 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 2010, cash was deposited with three different banks in order to spread risk and ensure interest rate competitiveness.

At 30 June 2010, the consolidated entity did not have a material credit risk exposure to any single customer or group of customers. In future reporting periods, the consolidated entity is expected to have a material credit exposure to Eli Lilly and Company and its subsidiaries, due to the royalties and milestone payments expected under a licence agreement for the commercialisation of Axiron™. At 30 June 2010, Eli Lilly was the tenth largest pharmaceutical company in the world, with a market capitalisation of approximately US\$39 billion and a long term credit rating of A1. The credit rating and financial health of Eli Lilly are monitored regularly.

(b) 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, \$58.6 million (2009: \$14.7 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.

Note 3: Financial Instruments and Financial Risks (Continued)

(c) Market risk

(i) 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 2010, are shown in the table above. Cash is the only financial asset or liability that is exposed to interest rate risk. A change in the average effective interest rate during the reporting period of 1% would have changed the interest income, net profit and equity of the consolidated entity by approximately \$0.2 million. The consolidated entity's cash reserves increased significantly during the last quarter of the financial year, following the receipt of US\$50 million under the Axiron licence agreement with Eli Lilly. A change in the average effective interest rate during that quarter of 1% would have changed the interest income, net loss and equity of the consolidated entity for that quarter by approximately \$0.1 million.

(ii) 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 and expenses denominated in US dollars and Euros. Currency risk management strategies are regularly reviewed.

During the reporting period, exchange rate risk was managed by monitoring the natural hedge position. Revenues and cash reserves denominated in US dollars and Euros were used to fund US dollar and Euro expenditure, with excess revenue or expenditure eliminated by spot and short-term forward purchases or sales of US dollars and Euros.

Bank accounts denominated in US dollars and Euros are maintained in order to facilitate receipts and payments. Cash reserves at 30 June 2010 included \$0.8 million denominated in US dollars and \$0.9 million denominated in Euros. A change of 10% in the AUD/USD and AUD/Euro exchange rates at 30 June 2010 would not have had a material impact on the net profit or equity of the consolidated entity.

During the reporting period, the Consolidated Entity received revenues of \$54.8m denominated in US dollars and incurred capitalised development expenditures of approximately \$1.9 million denominated in US dollars and Euros. A payment of US\$50 million from Eli Lilly on signing of the Axiron licence agreement comprised the majority of the revenue denominated in US dollars. A change of 10% in the AUD/USD rate applicable to this payment would have changed the consolidated net profit and equity by approximately \$5 million.

In future periods, material amounts of revenue are expected to be received in US dollars and expenditure in US dollars is expected to be small, limiting the potential for natural hedging. Under the licence agreement for Axiron, a milestone payment of US\$87 million is due to be received from Eli Lilly, subject to the US Food and Drug Administration issuing a marketing authorisation for Axiron. A change in the AUD/USD exchange rates of 10% would change the Australian dollar equivalent of this revenue by approximately \$10 million.



Note 4: Revenue

	2010 \$'000	2009 \$'000
Revenues from operating activities		
Revenue from product agreements	54,904	650
Grant revenue	165	673
Total revenues from operating activities	55,069	1,323
Revenues from non-operating activities		
Foreign exchange gain	-	608
Interest	1,032	1,580
Total revenues from non-operating activities	1,032	2,188
Total revenues from continuing operations	56,101	3,511

Note 5: Profit from Continuing Operations

	Notes	2010 \$'000	2009 \$'000
Profit/(loss) from continuing operations before income tax has been determined after the following specific expenses:			
Employee benefits expense			
Wages and salaries		3,611	4,026
Workers' compensation costs		16	16
Superannuation costs		248	310
Training expenses		15	12
Share-based payments		117	754
Total employee benefits expense		4,007	5,118
Capitalised	10	(1,360)	(1,128)
Per Statement of Comprehensive Income		2,647	3,990
Depreciation of non-current assets			
Plant and equipment		197	228
Total depreciation of non-current assets		197	228
Amortisation of non-current assets			
Leasehold improvements		183	179
Intellectual property		95	192
Total amortisation of non-current assets		278	371
Total depreciation and amortisation expenses		475	599
Foreign currency exchange losses		226	-
Rental expense on operating leases		251	241
External research and development expenses		3,821	13,110
Capitalised	10	(2,802)	(11,135)
Per Statement of Comprehensive Income		1,019	1,975



Note 6: Income Tax

	2010 \$'000	2009 \$'000
(a) Income tax recognised in profit or loss:		
Current tax	6	3
Deferred tax	2,611	-
Income tax expense attributable to profit	2,617	3
(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/(loss) before tax from continuing operations	49,171	(7,713)
Prima facie income tax payable on profit before income tax at 25.0% for parent entity and 30.0% for subsidiaries (2009: 30.0% for all entities)	14,743	(2,314)
Add/(subtract) tax effect:		
Share option expense	29	226
Research and development tax concession	(41)	(411)
Foreign tax credits written off	6	3
Previously unrecognised tax losses	(16,082)	-
Previously unrecognised temporary differences	3,962	-
Tax losses and temporary differences not brought to account	-	2,499
	(12,126)	2,317
Income tax expense attributable to profit	2,617	3
(c) Income tax recognised directly in equity		
Deferred tax arising on share issue expenses	(1,264)	-

Note 6: Income Tax (Continued)

(d) Deferred tax balances	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
2010	\$'000	\$'000	\$'000	\$'000
Temporary differences				
Intangible assets	-	(6,545)	-	(6,545)
Accruals and provisions	-	295	-	295
Leasehold improvements	-	239	-	239
Patent expenses	-	658	-	658
Exchange differences	-	77	-	77
Accrued interest	-	(113)	-	(113)
Share issue expenses	-	(1,230)	1,264	34
	-	(6,619)	1,264	(5,355)
Unused tax losses and credits				
Tax losses	-	4,008	-	4,008
Foreign tax credits	253	-	-	253
	253	4,008	-	4,261
	253	(2,611)	1,264	(1,094)
2009				
Tax losses	-	-	-	-
Foreign tax credits	253	-	-	253
	253	-	-	253
			2010	2009
			\$'000	\$'000
(e) Deferred tax assets not brought to account				
Temporary differences			(285)	(4,249)
Tax losses			6,492	23,773
			6,207	19,524

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
- Groups containing a PDF are not permitted to consolidate for tax purposes.



Note 7: Earnings Per Share

	2010 \$'000	2009 \$'000
Profit/(loss) from continuing operations	46,554	(7,716)
Profit/(loss) used in calculating basic and diluted earnings per share	46,554	(7,716)
	No. of shares	No. of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	160,099,628	159,383,138
Effect of dilutive securities:		
Employee Share Options	2,083,440	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	162,183,068	159,383,138
Basic earnings per share (cents)	29.08	(4.84)
Diluted earnings per share (cents)	28.70	(4.84)

Note 8: Cash and Cash Equivalents

	2010 \$'000	2009 \$'000
Cash on hand	2	3
Cash at bank	19,382	2,296
Deposits at call	39,225	12,437
	58,609	14,736

Note 9: Receivables

Current		
Trade receivables	2	260
Other receivables	444	214
Prepayments	118	137
	564	611

Note 10: Plant and Equipment

	Notes	2010 \$'000	2009 \$'000
Leasehold Improvements			
At cost		1,115	1,113
Accumulated amortisation		(1,115)	(932)
Total leasehold improvements	10(a)	-	181
Plant and Equipment			
At cost		1,561	2,119
Accumulated depreciation		(537)	(528)
Total plant and equipment	10(a)	1,024	1,591
Total plant and equipment		1,024	1,772

(a) Reconciliations

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

<i>Leasehold improvements</i>			
Carrying amount at beginning		181	353
Additions		2	7
Amortisation expense		(183)	(179)
		-	181
<i>Plant and equipment</i>			
Carrying amount at beginning		1,591	559
Additions		715	1,260
Disposals		(1,085)	-
Depreciation expense		(197)	(228)
		1,024	1,591



Note 11: Intangible Assets

	Notes	2010 \$'000	2009 \$'000
Intellectual property			
At cost		1,200	1,200
Accumulated amortisation		(569)	(474)
Net carrying amount	11(a)	631	726
Capitalised development			
Ellavie™			
External research and development expenses		729	604
Employee benefits capitalised		116	-
Other capitalised amounts		117	-
	11(a)	962	604
Axiron™			
External research and development expenses		16,752	14,003
Employee benefits capitalised		2,840	1,596
Other capitalised amounts		2,223	649
	11(a)	21,815	16,248
Net carrying amount		22,777	16,852
Total intangible assets		23,408	17,578

(a) Reconciliations

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

<i>Intellectual Property</i>			
Carrying amount at beginning		726	918
Amortisation expense		(95)	(192)
		631	726
<i>Capitalised Development</i>			
Ellavie™			
Carrying amount at beginning		604	289
Additions		358	315
		962	604
Axiron™			
Carrying amount at beginning		16,248	3,905
Additions		5,567	12,343
		21,815	16,248

Note 12: Payables

	2010 \$'000	2009 \$'000
Current		
Trade creditors	321	1,089
Sundry creditors and accruals	1,349	2,278
	1,670	3,367

Note 13: Provisions

Current		
Employee entitlements	305	314
Non-current		
Employee entitlements	67	46
Aggregate employee entitlements liability	372	360



Note 14: Contributed Equity

	2010 \$'000	2009 \$'000
(a) Issued and paid up capital		
Ordinary shares fully paid	85,786	83,211
(b) Movements in shares on issue		
Beginning of the financial year	83,211	83,135
Issued during the year:		
Employee share option plans		
- 70,000 on the 19 March 2010	55	
- 15,000 on the 18 March 2010	12	
- 10,000 on the 12 March 2010	9	
- 60,000 on the 11 March 2010	53	
- 10,000 on the 5 March 2010	8	
- 10,000 on the 23 February 2010	8	
- 10,000 on the 7 December 2009	8	
- 10,000 on the 3 December 2009	8	
- 10,000 on the 1 December 2009	9	
- 100,000 on the 26 November 2009	79	
- 60,000 on the 25 November 2009	47	
- 195,000 on the 12 November 2009	359	
- 135,000 on the 9 November 2009	180	
- 60,000 on the 5 November 2009	47	
- 10,000 on the 29 October 2009	8	
- 1,000 on the 27 October 2009	1	
- 110,000 on the 23 October 2009	202	
- 40,000 on the 22 October 2009	38	
- 20,000 on the 21 October 2009	16	
- 150,000 on the 15 October 2009	116	
- 25,000 on the 13 October 2009	19	
- 10,000 on the 7 October 2009	8	
- 35,000 on the 17 August 2009	28	
- 21,500 on the 23 September 2008		18
- 8,500 on the 12 September 2008		7
- 30,000 on the 10 September 2008		25
- 15,000 on the 5 September 2008		13
- 1,000 on the 25 August 2008		1
- 15,000 on the 11 August 2008		13
Less Capital Raising Expenses	(7)	(1)
Tax credits on capital raising expenses	1,264	-
Contributions from share issues	2,575	76
At reporting date	85,786	83,211

Note 14: Contributed Equity (Continued)

	2010 No	2009 No
Beginning of the financial year	159,400,216	159,309,216
Employee share option plans		
- 19 March 2010	70,000	
- 18 March 2010	15,000	
- 12 March 2010	10,000	
- 11 March 2010	60,000	
- 5 March 2010	10,000	
- 23 February 2010	10,000	
- 7 December 2009	10,000	
- 3 December 2009	10,000	
- 1 December 2009	10,000	
- 26 November 2009	100,000	
- 25 November 2009	60,000	
- 12 November 2009	195,000	
- 9 November 2009	135,000	
- 5 November 2009	60,000	
- 29 October 2009	10,000	
- 27 October 2009	1,000	
- 23 October 2009	110,000	
- 22 October 2009	40,000	
- 21 October 2009	20,000	
- 15 October 2009	150,000	
- 13 October 2009	25,000	
- 7 October 2009	10,000	
- 17 August 2009	35,000	
- 23 September 2008		21,500
- 12 September 2008		8,500
- 10 September 2008		30,000
- 5 September 2008		15,000
- 25 August 2008		1,000
- 11 August 2008		15,000
At reporting date	160,556,216	159,400,216

Note 14: Contributed Equity (Continued)

(c) Share Options

Options over ordinary shares:

Employee Share Option Plans

The Company continued to offer participation in long term incentive schemes as part of the remuneration packages for the employees of the Company and its controlled entities.

There are two employee share option plans, the Employee Share Option Plan, and an option scheme under the contract of the Chief Executive Officer.

Employee Share Option Plan

The objective of the plan is to assist in the recruitment, reward, retention and motivation of key employees, which the board believes is important for the long term growth of the business. The plan rules may be amended by the board at its discretion, or as required by the ASX Listing Rules. Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. Options may not be exercised until 2 years after the grant date and expire 5 years after the grant date. The exercise price will be determined by the board, but will not be less than the market price of the shares on an exchange on the grant date. All unexercised options become exercisable if a takeover bid is made and the board becomes aware that the offeror has more than 20% of the issued shares. Options may not be granted if the number of shares issued following the exercise of all outstanding options under the plan, plus the shares issued during the previous 5 years under the plan, would exceed 10% of the total issued shares. Details of options held by key management personnel are shown in the Remuneration Report section of the Directors' Report.

During the financial year, no options (2009: 306,000) were granted under the plan.

CEO contract

Under the terms of the CEO's employment contract, 2,692,495 options were granted to the CEO, at an exercise price of 90 cents. The closing share price on the grant date was 49.5 cents. These options are exercisable at any time up to 5 July 2011. The options hold no participation rights, but shares issued on exercise of the options rank equally with existing shares. All unexercised options become exercisable if a takeover bid is made and the board becomes aware that the offeror has more than 20% of the issued shares. No further options were granted under the contract during the financial year (2009: NIL).

Note 14: Contributed Equity (Continued)

(c) Share Options (Continued)

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2010 was \$1.81.

	2010 No	2009 No
(i) Movement in the number of share options held under Employee Share Option Plan and CEO contract are as follows:		
Opening balance	7,171,495	7,422,244
Granted during the year	-	2,998,495
Exercised during the year	(1,156,000)	(91,000)
Lapsed during the year	(50,000)	(3,158,244)
Closing balance	5,965,495	7,171,495
	\$'000	\$'000
(ii) Details of share options exercised during the year:		
Proceeds from shares issued	1,318	77
Fair value as at issue date of shares issued during the year	2,432	98



Note 14: Contributed Equity (Continued)

(c) Share Options (Continued)

Fair value of shares issued during the reporting period at their issue date is estimated to be the market price of shares of the parent entity on the Australian Stock Exchange as at close of trading on the issue dates. The fair value of shares at date of issue was:

Issue Date	Fair Value	Number of Shares Issued
19 March 2010	2.480	70,000
18 March 2010	2.470	15,000
12 March 2010	2.290	10,000
11 March 2010	2.240	60,000
5 March 2010	2.190	10,000
23 February 2010	2.070	10,000
7 December 2009	2.190	10,000
3 December 2009	2.210	10,000
1 December 2009	2.410	10,000
26 November 2009	2.420	100,000
25 November 2009	2.440	60,000
12 November 2009	2.160	195,000
9 November 2009	2.200	135,000
5 November 2009	1.960	60,000
29 October 2009	1.900	10,000
27 October 2009	1.890	1,000
23 October 2009	1.960	110,000
22 October 2009	1.960	40,000
21 October 2009	2.120	20,000
15 October 2009	1.780	150,000
13 October 2009	1.780	25,000
7 October 2009	1.820	10,000
17 August 2009	1.210	35,000
		1,156,000

(iii) Details of lapsed options

Grant Date	Lapsed Number	Exercise Price
30/08/2007	50,000	1.840

Note 14: Contributed Equity (Continued)

(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.

The directors expect to commence payment of dividends to shareholders in 2011, subject to the issuance by the FDA of a marketing authorisation for Axiron. The amounts and ratio of future dividends have not been determined.

Note 15: Reserves and Accumulated Losses

	Notes	2010 \$'000	2009 \$'000
Share based payment reserve	15(a)	2,061	1,953
Accumulated profit/(losses)	15(b)	(7,378)	(53,941)
(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 14 for details.			
(ii) Movement in reserve			
Balance at the beginning of year		1,953	1,570
Employee share option expense for the period (including adjustment for service conditions not met)		117	754
Vested employee share options previously expensed, that lapsed during the period		(9)	(371)
Balance at end of year		2,061	1,953
(b) Accumulated profit/(losses)			
Balance at the beginning of year		(53,941)	(46,596)
Vested employee share options that lapsed during the period		9	371
Net profit/(loss) attributable to members of Acrux Limited		46,554	(7,716)
Accumulated profit/(losses) at reporting date		(7,378)	(53,941)



Note 16: Non Controlling Interests

	Notes	2010 \$'000	2009 \$'000
Non controlling interests comprises:			
Contributed equity	16(a)	51	51
Accumulated losses	16(b)	(51)	(51)
		-	-
(a) Non controlling interests in issued and paid-up capital of controlled entities			
- Cosmeceutic Solutions Pty Ltd - Fully paid ordinary shares		51	51
(b) Accumulated losses			
Opening balance		(51)	(51)
- Share of operating loss attributed to the non controlling interests		-	-
Closing balance		(51)	(51)

Note 17: Cash Flow Information

	2010 \$'000	2009 \$'000
(a) Reconciliation of the net profit/(loss) after tax to the net cash flows from operations:		
Net profit/(loss)	46,554	(7,716)
Non-Cash Items		
Depreciation and amortisation	475	599
Deferred tax recognised directly in equity	1,264	-
Share based payments	117	754
Changes in assets and liabilities		
Increase in deferred tax liabilities	1,347	-
Decrease in trade and other receivables	47	13
(Decrease)/Increase in trade and other creditors	(1,697)	540
Increase in employee entitlements	12	29
	1,565	1,935
Net cash flow from operating activities	48,119	(5,781)
(b) Reconciliation of cash		
Cash balance comprises:		
- Cash on hand	2	3
- Cash at bank	19,382	2,296
- At call deposits with financial institutions	39,225	12,437
Closing cash balance	58,609	14,736
(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 \$159,000 (2009: \$161,000). As at 30 June 2010 the consolidated entity had unused facilities of \$148,093 (2009: \$151,201).		



Note 18: Commitments

	2010 \$'000	2009 \$'000
Lease expenditure commitments		
(i) <i>Operating leases</i>		
Non cancellable operating leases contracted for but not capitalised in the accounts:		
Minimum lease payments		
– Not later than one year	251	230
– Later than one year and not later than five years	792	-
– Aggregate lease expenditure contracted for at reporting date	1,043	230

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 2010, with an option to extend for 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.

Capital and product development expenditure commitments

In December 2009 Acrux Commercial Pty Ltd placed an order to purchase plant and equipment for EURO 335,738, which forms part of the manufacturing equipment for the commercial production of Axiron. This equipment is to be installed at the manufacturing facility of Orion Corporation in Finland. The purchase price is payable in three instalments. The first instalment of EURO 87,583.20 was paid in January 2010 with the remaining balance payable during the 2010/11 financial year.

In April and June 2010, Acrux Commercial Pty Ltd placed orders to purchase components for the testing of manufacturing equipment at Orion's manufacturing facility in Finland. The total cost of the order was EURO 117,952. These components will be received during the 2010/11 financial year.

Note 19: Key Management Personnel Compensation

Details of Key Management Personnel Compensation are contained within the Remuneration Report section of the Director's Report.

Note 20: Key Management Personnel's Equity Holdings

Details of Key Management Personnel's Equity Holdings are contained within the Remuneration Report section of the Director's Report.

Note 21: Loans To Key Management Personnel

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

Note 22: Related Party Disclosures

Wholly owned group transactions

Loans

Loans were made by Acrux Limited to controlled entities under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period were \$16,111,476 (2009: \$16,298,753).

Other transactions with Key Management Personnel and their personally related entities

- (a) Professor Barrie Finnin, a director of Acrux Limited, is a director of Frivolity Pty Ltd. During the year ended June 2009 this company provided research and development and Scientific Advisory Board chairmanship services to Acrux DDS Pty Ltd, a subsidiary of Acrux Limited. Fees charged for these services in that year totaled \$13,216. These fees were charged on a normal commercial basis.
- (b) All other payments made to Key Management Personnel during the financial year related to the reimbursement of expenses incurred on behalf of Acrux Limited and its subsidiaries. These transactions were made at arms length and on a regular commercial basis.

Note 23: Auditor's Remuneration

	2010 \$'000	2009 \$'000
Amounts received or due and receivable by Pitcher Partners for:		
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	63	67
- Other assurance services	33	28
	96	95



Note 24: 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:

	2010 \$'000	2009 \$'000
Product/Service		
Axiron	54,650	-
Other revenue	1,451	2,903
Total revenue	56,101	2,903
Country of Origin		
Australia	1,072	2,253
Other:		
Switzerland	54,650	-
Overseas	379	650
	56,101	2,903

Revenue from Axiron was received from a single customer.

Additional information on non current assets:

Australia		
Intangible assets	23,408	17,578
Plant and equipment	567	648
	23,975	18,226
Overseas		
Deferred tax asset	-	253
Plant and equipment	457	1,124
	457	1,377
Total non-current assets	24,432	19,603

Overseas Plant and Equipment represents the carrying value of manufacturing equipment installed or to be installed at the manufacturing facility of Orion Corporation in Finland.

Note 25: Parent Entity Details

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

	Parent Entity	
	2010 \$'000	2009 \$'000
(a) Summarised statement of financial position		
Assets		
Current assets	22,562	27,917
Non-current assets	66,558	59,436
Total assets	89,120	87,353
Liabilities		
Current liabilities	352	316
Non-current liabilities	17	7
Total liabilities	369	323
Net assets	88,751	87,030
Equity		
Share capital	85,786	83,211
Retained earnings	904	1,866
Share based payments reserve	2,061	1,953
Total equity	88,751	87,030
(b) Summarised statement of comprehensive income		
(Loss)/profit for the year	(971)	60
Other comprehensive income for the year	-	-
Total comprehensive income for the year	(971)	60

(c) Parent entity guarantees

Acrux Limited has provided a letter of financial support to Fempharm Pty Ltd and Cosmeceutic Solutions Pty Ltd agreeing to provide ongoing financial support to ensure those subsidiaries are able to meet their commitments as and when they fall due.

In accordance with the banking agreement with the National Australia Bank Limited, Acrux Limited has in place a guarantee and indemnity to the value of \$70,000 (2009: \$70,000). This is supported by letters of set-off over amounts on deposit to the value of \$70,000 (2009: \$70,000). This guarantee is pledged as security for the liabilities of Acrux Limited.



Note 26: Controlled Entities

	Country of Incorporation	Percentage Owned	
		2010	2009
<i>Parent Entity:</i>			
Acrux Limited	Australia		
<i>Subsidiaries of Acrux Limited</i>			
Acrux DDS Pty Ltd	Australia	100%	100%
Fempharm Pty Ltd	Australia	100%	100%
Acrux Pharma Pty Ltd	Australia	100%	100%
Acrux Commercial Pty Ltd	Australia	100%	100%
Cosmeceutic Solutions Pty Ltd	Australia	90%	90%

Note 27: Contingencies

In accordance with the banking agreement with the National Australia Bank Limited, Acrux Limited has in place a guarantee and indemnity to the value of \$70,000 (2009: \$70,000). This is supported by letters of set-off over amounts on deposit to the value of \$70,000 (2009: \$70,000). This guarantee is pledged as security for the liabilities of Acrux Limited.

In accordance with the banking agreement with National Australia Bank Limited, Acrux DDS Pty Ltd has in place a guarantee and indemnity to the value of \$337,841 (2009: \$301,871). This is supported by letters of set-off over amounts on deposit to the value of \$337,841 (2009: \$301,871). This guarantee is pledged as security for the liabilities of the entity.

Note 28: Subsequent Events

In July and August 2010 Acrux Commercial Pty Ltd placed orders to purchase further manufacturing equipment in preparation for the commercial production of Axiron. The combined total of these orders is EURO 429,972. These items of equipment are to be installed at Orion's manufacturing facility in Finland.

In August 2010, a distribution agreement between Fempharm Pty Ltd and Laboratoire HRA Pharma was terminated. On termination, Fempharm Pty Ltd has an obligation to repay fees of EURO 150,000 to Laboratoire HRA Pharma.

There has been no other matter or circumstance, which has arisen since 30 June 2010 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2010, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2010, of the consolidated entity.

Note 29: Company Details

The registered office of the company is:

Acrux Limited
103-113 Stanley Street
West Melbourne VIC 3003

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 33 to 63 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2010 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

As stated in note 1, the financial statements comply with International Financial Reporting Standards.

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 sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2010.

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



R Dobinson
Chairman
Melbourne

Dated this 23rd day of August 2010



H K Windle
Director
Melbourne

Dated this 23rd day of August 2010



INDEPENDENT AUDITOR'S REPORT

To the Members of Acrux Limited

We have audited the accompanying financial report of Acrux Limited and controlled entities. The financial report comprises the consolidated statement of financial position as at 30 June 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

INDEPENDENT AUDITOR'S REPORT

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

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Acrux Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 24 to 31 of the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the remuneration report of Acrux Limited and controlled entities for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.



S D WHITCHURCH

Dated this 23rd day of August 2010



PITCHER PARTNERS

Melbourne

Shareholders

The Company has 163,248,711 ordinary fully paid shares on issue, held by 4,068 shareholders and 3,273,000 options outstanding, held by 15 people. The Company does not have any other shares or options or other equity securities on issue. Details of the voting rights attached to the fully paid ordinary shares are set out below. No voting rights attach to the options.

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

Distribution Schedule

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

Category	Number of Shareholders	Percentage	Shares
1 to 1,000 shares	630	0.25%	406,871
1,001 to 5,000 shares	1,567	3.02%	4,927,346
5,001 to 10,000 shares	747	3.77%	6,151,962
10,001 to 100,000 shares	964	18.29%	29,867,741
100,001 shares and over	160	74.67%	121,894,791
Total	4,068	100.00%	163,248,711

69 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.

The following is a distribution schedule of the number of holders of options of the Company within the bands of holding specified by the ASX Listing Rules:

Category	Number of option holders	Percentage	Options
1 to 1,000 options	0	0.00%	0
1,001 to 5,000 options	1	0.12%	4,000
5,001 to 10,000 options	0	0.00%	0
10,001 to 100,000 options	7	12.01%	393,000
100,001 options and over	7	87.87%	2,876,000
Total	15	100.00%	3,273,000

Names of Substantial Holders

Name	Number of equity securities held
Orbis Global Equity Fund Limited and associated entities	29,475,931
Walker Group Holdings Pty Limited	14,082,254

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 Acrux Limited has only fully paid ordinary shares and options on issue, under the ASX Listing Rules "equity securities" means those fully paid ordinary shares and options.

Twenty Largest Holders of Fully Paid Ordinary Shares in Acrux Limited

	Shareholder	Number of fully paid ordinary shares	Percentage of total capital
1	Citicorp Nominees Pty Limited	17,047,899	10.44%
2	Walker Group Holdings Pty Limited	13,355,866	8.18%
3	J P Morgan Nominees Australia Limited	9,733,219	5.96%
4	HSBC Custody Nominees (Australia) Limited	9,072,225	5.56%
5	National Nominees Limited	7,561,445	4.63%
6	G G D T Developments Pty Ltd	3,000,000	1.84%
7	Cogent Nominees Pty Limited	2,298,705	1.41%
8	Asia Union Investments Pty Ltd	2,200,000	1.35%
9	T A G Constructions Pty Ltd	2,000,000	1.23%
10	Durbin Superannuation Pty Ltd	1,940,011	1.19%
11	B & K Finnin Pty Ltd	1,876,808	1.15%
12	J P Morgan Nominees Australia Limited	1,706,253	1.05%
13	Investment Holdings Pty Ltd	1,650,000	1.01%
14	Dr Richard Spencer Treagus	1,502,495	0.92%
15	M F Custodians Ltd	1,200,000	0.74%
16	Dilan Corp Pty Ltd	1,100,000	0.67%
17	B & K Finnin Pty Ltd	1,009,090	0.62%
18	Frijlink Pty Ltd	1,009,006	0.62%
19	Applecross Secretarial Services Pty Ltd	920,000	0.56%
20	Dorvell Pty Ltd	917,800	0.56%
		81,100,822	49.67%

Market Listing

Acrux Limited is quoted on the Australian Stock Exchange (ASX). Share prices can be obtained from most Australian national newspapers and from the ASX website. 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 2010:

Quarter ended 30 September 2009	\$1.71
Quarter ended 31 December 2009	\$2.18
Quarter ended 31 March 2010	\$2.34
Quarter ended 30 June 2010	\$1.81

The closing share price on 30 September 2010 was \$2.39



Voting Rights, Dividends and Share Transfers

Every holder of shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of shares who is present in person or by proxy, attorney or representative has one vote for every fully paid share held by him or her, and a proportionate vote for every partly paid share, registered in such shareholder's name on the Company's share register.

A poll may be demanded by the chairperson of the meeting, by any 5 shareholders present in person or by proxy, attorney or representative, or by any one or more shareholders who are together entitled to not less than 5% of the total voting rights of, or paid up value of, the shares of all those shareholders having the right to vote at that meeting.

A shareholder may transfer shares by a market transfer in accordance with any computerised or electronic system established or recognised by the ASX or the Corporations Act for the purpose of facilitating transfers in shares or by an instrument in writing in a form approved by the ASX or in any other usual form or in any form approved by the board.

The board may refuse to register any transfer of shares, other than a proper SCH transfer, where permitted by the Listing Rules of the ASX. The Company must not refuse or fail to register or give effect to or delay or in any way interfere with a proper SCH transfer of shares or other securities.

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.

The Company 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.



Directory

Acrux Limited and subsidiary companies

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West Melbourne
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Facsimile + 61 3 8379 0101

Web www.acrux.com.au

Australian Stock Exchange code "ACR"

Information about the Company, including media releases, disclosures to the Australian Stock Exchange, quarterly shareholder updates and corporate governance policies, can be found on the Company's website. If you require further information about Acrux, please contact the Chief Financial Officer & Company Secretary, Jon Pilcher, on +61 3 8379 0100, or jon.pilcher@acrux.com.au.

Share Registry

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Sydney South NSW 1235

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International +61 2 8280 7111

Facsimile (02) 9287 0303

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Email registrars@linkmarketservices.com.au

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