

Narhex Life Sciences Limited

ABN 51 094 468 318

Annual Report
for the year ended 30 June 2012

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Corporate Information

This annual report is for Narhex Life Sciences Limited (the “Company”). Unless otherwise stated, all amounts are presented in Australian Dollars.

A description of the Company’s operations and of its principal activities is included in the review of operations and activities in the directors’ report on pages 6 to 13. The directors’ report is not part of the financial statements.

Directors

Mr Peter Nash (Director) *(appointed 7 October 2004 and resigned on 22 June 2012)*

Mr David Mandel (Director) *(appointed 16 October 2009, resigned on 28 January 2010 and reappointed 17 May 2010)*

Mr Peter Christie (Chairman) *(appointed as Chairman on 13 January 2011)*

Mr Simon Lill (Director) *(appointed 13 January 2011)*

Joint Company Secretary

Ms. Nicki Farley *(appointed 13 January 2011 and resigned 30 January 2012)*

Ms. Paige Exley *(appointed 30 January 2012)*

Registered and Principal Office

Level 24, 44 St Georges Tce,
PERTH WA 6000

Auditors

Nexia Melbourne
Level 18, 530 Collins Street,
MELBOURNE VIC 3000

Share Registry & Register

Link Market Services Ltd
Level 2, 178 St Georges Tce
PERTH WA 6000

Solicitors

Price Sierakowski Corporate
Level 24, 44 St Georges Tce
PERTH WA 6000

Bankers

National Australia Bank
100 St Georges Tce
PERTH WA 6000

Stock Exchange Listing

Narhex Life Sciences Limited is listed on
the Australian Securities Exchange.
ASX Code: NLS

Contact Information

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Web Site

www.narhex.com.au

Corporate Governance Statement

The Company is committed to implementing the highest standards of corporate governance.

This Statement reports on the Company's key governance principles and practices. These principles and practices are reviewed regularly and revised as appropriate by the Company to ensure they comply with changes in the law and reflect developments in Corporate Governance.

The Company is pleased to advise that its practices are largely consistent with the revised ASX Recommendations. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council in place during the reporting period, we have identified such policies or committees.

Where the Company's corporate governance practices do not correlate with the practices recommended by the ASX Corporate Governance Council, the Company is working towards compliance however it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

Board of Directors of the Company

Composition of the Board

The Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

As at the date of this report, the Board is comprised of three (3) Directors, all of whom are non-executive Directors.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. The following criteria have been adopted by the Company as a non-prescriptive guide for independence:

An Independent Director is a Non-Executive Director and:

- (a) is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- (b) within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- (c) within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member. Or an employee materially associated with the service provided;
- (d) is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- (e) has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- (f) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- (g) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

Performance Review/Evaluation

It is the policy of the Board to conduct an annual evaluation of its performance and that of its senior executives. The objective of this evaluation will be to provide best practice corporate governance to the Company.

Risk Management Policy

The Company has a Risk Management Policy which sets out the manner in which the Company identifies, assesses, monitors and manages business risk. All high level strategies and new initiative risks are reviewed annually by the Board at its annual strategy and planning meeting.

In relation to risk management, monitoring the status of each risk and any necessary action plans relating to their treatment takes place on a regular basis by controlled self assessment as well as by management's regular review of risk action plans, with respect to the effectiveness and suitability of each risk action plan.

Risk management policy (cont'd)

The overall results of these assessments are presented to the Board at least annually and updated as necessary.

Any action or recommendations by senior management arising out of these review processes are approved by the Board and implemented by management.

Ethical and Responsible Decision-Making

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Board has established a Code of Conduct to guide the Directors, managers, employees and officers of the Company with respect to matters relevant to the Company's legal and ethical obligations and the expectations of stakeholders.

The Code of Conduct requires officers and employees to avoid or ensure proper management of conflicts of interest, to not use confidential information for personal gain and to act in fair, honest and respectful manner. The Board has procedures in place for reporting any matters that give rise to unethical practices or conflicts between the interests of a director or senior executive and those of the Company.

Diversity Policy

The Board has also established a Workplace Diversity Policy which affirms the Company's commitment to promoting a corporate culture that is supportive of diversity and outlines strategies that the Board can undertake to encourage and promote a diverse working environment.

The Company does not select candidates based on gender or ethnicity, rather the recruitment process chooses candidates from a diverse group and by selecting the most appropriate candidate based on merit and suitability for the role.

Currently the company has no employees as the operations are run by an associate entity and the administration of the Company is outsourced to a management company. As the operations grow, the Board has developed the following objectives regarding gender diversity and aims to achieve these objectives over the next few years as director and senior executive positions become vacant and appropriate candidates become available:

	2012		2013-2014	
	No.	%	No.	%
Women on the Board	0	0	1	33
Women in senior management roles	0	0	1	50
Women employees in the company	0	0	1	50

Continuous Disclosure

The Directors are committed to keeping the market fully informed of material developments to ensure compliance with the ASX Listing Rules and the Corporations Act. The Directors have established a written policy and procedure to ensure compliance with the disclosure requirements of the ASX Listing Rules. At each meeting of the directors, consideration is given as to whether notice of material information concerning the Company, including its financial position, performance, ownership and governance has been made to all investors.

Under the policy the Company's employees and contractors must disclose any relevant information which comes to their attention and is believed to potentially be material to the Company Secretary or Executive Director.

Shareholder Communications

The Directors have established a communications strategy to promote effective communication with Shareholders and encourage effective participation at general meetings. As well as ensuring timely and appropriate access to information for all investors via announcements to the ASX, the Company will also ensure that all relevant documents are released on the Company's website.

Communication with Shareholders is achieved through the distribution of the following information:

- The Annual Report is distributed to Shareholders;
- The Half Yearly Report is available on the Company's website
- Regular reports and announcements are released through the ASX
- The Annual General Meeting and other meetings called by the Company to obtain Shareholder approval as appropriate
- Investor information released through the Company's website

Audit Committee

Due to the size and scale of its operations the Company does not have a separate audit committee. It is the Board's view that an Audit Committee would not be a more efficient mechanism than the full Board for focusing the Company on specific issues and it cannot be justified based on a cost benefit analysis. However, the Company has adopted an Audit Committee Charter. The Audit Committee Charter assists the Board in fulfilling its financial reporting, risk management and compliance responsibilities, compliance with legal and regulatory requirements, internal control structure and the internal and external audit functions (the responsibilities of the Risk Management Committee have also been delegated to the Audit Committee). The Board is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

Remuneration Committee

Due to the size and scale of its operations the Company does not have a separate remuneration committee. It is the Board's view that a Remuneration Committee would not be a more efficient mechanism than the full Board for focusing the Company on specific issues. However, the Company has adopted a Remuneration Committee Charter which assists the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies and practices which:

- (a) enable the Company to attract, retain and reward talented Directors and employees; and
- (b) reward Directors and employees fairly and responsibility.

Nomination Committee

Due to the size and scale of its operations the Company does not have a separate nomination committee. It is the Board's view that a Nomination Committee would not be a more efficient mechanism than the full Board for focusing the Company on specific issues. However, the Company has adopted a Nomination Committee Charter which assists to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

Corporate Governance Compliance

During the financial year Narhex Life Sciences Limited has complied with each of the Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below:

Principal No	Recommendation	Compliance	Reason for Non-compliance
2.4	The Board should establish a nomination committee.	The Company currently does not have a separate Remuneration and Nomination Committee. The roles and responsibilities of a Remuneration and Nomination Committee are currently undertaken by the full Board.	Given the size and nature of the Company the Board considers the composition of the Board is appropriate at this stage.
4.2	The audit committee should be structured so that it: - consists only of Non-Executive Directors; - consists of a majority of independent Directors; - is chaired by an independent chair, who is not chair of the Board; - has at least three members.	The Company currently does not have a separate Audit Committee. The roles and responsibilities of an Audit Committee are currently undertaken by the full Board.	Given the size and nature of the Company the Board considers the composition of the Board is appropriate at this stage.
8.1	The Board should establish a remuneration committee.	The Company has not established a separate remuneration committee. The roles and responsibilities of a Remuneration and Nomination Committee are currently undertaken by the full Board.	Given the size and nature of the Company, the Board considers the composition of the Remuneration and Nomination Committee is appropriate at this stage.
8.2	The Remuneration Committee should be structured so that it: - consists of a majority of independent directors; - is chaired by an independent director; and - has at least three members.	The Company has not established a separate remuneration committee. The roles and responsibilities of a Remuneration and Nomination Committee are currently undertaken by the full Board.	Given the size and nature of the Company, the Board considers the composition of the Remuneration and Nomination Committee is appropriate at this stage.

Directors' report

The directors of Narhex Life Sciences Limited submit herewith the annual financial statements of the company (the "Company") for the financial year ended 30 June 2012. In order to comply with the provision of the Corporations Act 2001, the directors report as follows:

These Financial Statements cover the period from 1 July 2011 to 30 June 2012.

During the prior year, the Company was reinstated to trading on the 14 March 2011 after removal of the Administrators through the effectuation of a Deed of Company Arrangement.

On 23 July 2012, the Company received formal notification from the vendor, Coalplay Pty Ltd, that the Queensland government has granted EPC 2769. Consequently, the 6 month option period in which to decide whether to acquire the tenement from Coalplay has commenced, and expires on the 3 January 2013.

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Particulars
Mr Peter Nash (resigned 22 June 2012)	Director Mr Peter Nash has advised Australian businesses in relation to mergers, acquisitions and financing in China and has an extensive network of contacts in China. Mr Nash was largely responsible for Moody International's foray into China through introducing it to CCIS State Inspection Authority. Mr Nash has been instrumental in setting up manufacturing plants in China for C.E.M. International Ltd, a cryogenic vessel manufacturer, and Garwood International, a supplier of garbage compactor trucks.
Mr David Mandel	Director Mr David Mandel has a BSc (Chemistry) in the UK and is also qualified as an Accountant (CIMA). Since returning to Australia he became a senior member of the Finance and Treasury Association (CFTP) and more recently a Member of the Institute of Company Directors (MICD). Mr Mandel worked for over twenty five years for multinational companies in Australia, the UK and the USA. For the last 11 years Mr Mandel has consulted to a number of biotech technology based and manufacturing businesses. Mr Mandel is also currently a non-executive director of Sirius Corporation Limited (from 23 May 2011).
Mr Peter Christie	Chairman Mr Peter Christie graduated from Curtin University with a Bachelor of Business in 1983 and is a qualified Accountant and Tax Agent. He has 28 years of commercial experience and in that time has developed extensive business, hospitality and property interests. Mr Christie is also currently a non-executive director of Carnavale Resources Limited (from 28 April 2006) and Safety Medical Products Limited (from 6 October 2010). Mr Christie has also been a non-executive director of Resource Generation Limited (from 29 November 2006 to 1 October 2007) and Triangle Energy Limited (from 2 July 2008 to 20 November 2009).
Mr Simon Lill	Director Mr Lill is an Associate Director of Trident Capital. He has a BSc (Pharmacol.) and a Masters of Business Administration, both from the University of Western Australia. He has a background of over 26 years of stockbroking, capital raising, management, business development and analysis for a range of small start-up companies, both in the manufacturing and resources industries. Mr Lill is also currently non-executive director for Safety Medical Products Limited and Natural Fuels Limited.

The above named directors held office during and since the end of the financial year, unless otherwise stated.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Simon Lill	Safety Medical Products Limited Natural Fuel Limited	6 October 2010 – current 18 May 2011 – current
Peter Christie	Safety Medical Products Limited Carnavale Resources Limited Triangle Energy Limited	6 October 2010 – current 28 April 2006 – current 2 July 2008 – 20 November 2009
David Mandel	Sirius Corporation Limited	23 May 2011 – current

Company secretary

Name	Particulars
Ms Nicki Farley (resigned 30 January 2012)	Ms Farley has over 10 years experience working within the legal and corporate advisory area providing advice in relation to capital raisings, corporate and securities laws, mergers and acquisitions and general commercial transactions. Nicki has also held a number of company secretarial roles for ASX listed companies. Nicki holds a Bachelor of Laws and Arts from the University of Western Australia.
Ms Paige Exley (appointed 30 January 2012)	Ms Exley holds a Bachelor of Commerce in Accounting and Business Law from Curtin University and has over 10 years experience in accounting. Ms Exley has also held a number of company secretarial roles for ASX listed companies and unlisted entities, and is a certificated member of Chartered Secretaries Australia.

Principal activities

The principal activity of the Company during the year was the research and commercial development of drugs for the treatment of HIV/AIDS through its associated entity, Narhex Life Sciences International Pty Ltd. The Company is also involved in mineral exploration.

Operating results

The loss after tax of the Company for the year ended 30 June 2012 was \$832,000 (2011: loss of \$527,165).

Review of Operations

During the year Narhex Life Sciences Limited (“NLS”) retained and managed its 50% interest in Narhex Life Sciences International Limited (“NLSI”).

NLSI’s primary focus has been the development and commercialization of its anti-HIV protease inhibitor DG-17. DG-17 is the water-soluble pro-drug of the active anti-HIV drug DG-35. This development is occurring through NLSI’s 75% interest in Xi’an Hex Life Sciences Co. Limited (“Xi’an Hex”) in China.

Xi’an Hex has signed an agreement with the Institute of Medicinal Biotechnology (“IMB”), part of the Chinese Academy of Medical Sciences, to assist in the ongoing development and approval processes of the DG-17 and DG-35 drugs.

The Institute has recently reported that they have completed the preliminary synthesis and analytical research work associated with the manufacture of DG-17 and DG-35. Consequently they are now commencing Stage II of the research work of their contract, being more detailed synthesis and process work to establish the optimal method of production of the drugs.

Review of operations (cont'd)

The Institute advises of success in synthesizing high purity DG-35 at a lab scale, but have not yet achieved suitable purity of DG-17. Having achieved a high purity DG-17, they will commence in vitro efficacy trials on the drug. Once a higher purity DG-17 has been synthesized, pilot plant work will commence to produce a higher quantity of high purity DG-17 in anticipation of pre-clinical trial activity.

NLSI is also working in China to simplify the management and reporting structure for all of the Xi'an Hex shareholder interests.

Furthermore, during the year the Company chose not to proceed with exercising an option to acquire two coal tenements in Queensland, notably EPC 2303 and 2304.

On 24 November 2011, the Company entered into three addition option agreements with several vendors over four additional tenements in Queensland considered prospective for coal. The tenements are as follows:

1. EPCA 2769
2. EPCA 2771
3. EPCA 2600 and 2601

EPCA 2769 has an option period of six months from the time the EPCA is granted to the vendor. The total consideration for the purchase of the Tenement will be payable by the Company to the vendor (Coalplay Pty Ltd) as follows:

- the Exercise Price of \$250,000 at Settlement, followed by the potential issue of:
- 50,000,000 Shares at a deemed issue price of \$0.025 per Share upon the Company identifying an inferred JORC resource level of 50,000,000 tonnes of commercial specification coking coal, or 200,000,000 tonnes of commercial specification thermal coal;
- 50,000,000 Shares at a deemed issue price of \$0.025 per Share upon the Company identifying an indicated JORC resource level of 100,000,000 tonnes of commercial specification coking coal or 200,000,000 tonnes of commercial specification thermal coal; and
- 50,000,000 Shares at a deemed issue price of \$0.025 per Share upon the Company identifying an indicated JORC resource level of 200,000,000 tonnes of commercial specification coking coal or 300,000,000 tonnes of commercial specification thermal coal.

The Company has been notified by vendor, Coalplay Pty Limited, on 3 July 2012 of the granting of EPCA 2769 in Queensland. This provides the company with 6 months in which to consider whether or not to exercise the option, which is; by 3 January 2013. The Company is currently considering a suitable program to allow it to consider whether or not to proceed to exercise that option.

EPCA 2769 has a minimum expenditure requirement as below. Should the option be exercised, the Company would be required to continue to satisfy these requirements.

Expenditure	
Year	Amount \$
1	104,000
2	105,000
3	120,000
4	130,000
5	150,000

Review of operations (cont'd)

EPCA 2771 has an option period of six months from the time the EPCA is granted to the vendor. The total consideration for the purchase of the Tenement will be payable by the Company to the vendor (Coalplay Pty Ltd) as follows:

- the issue of 16,666,668 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an inferred JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade;
- the issue of 16,666,666 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an indicated JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade; and
- the issue of 16,666,666 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an inferred JORC resource level of 200,000,000 tonnes of commercial specification thermal coal or coal of a better grade.

EPCA 2600 and 2601 has an option period of six months from the time the EPCA is granted to the vendor. The total consideration for the purchase of the Tenement will be payable by the Company to the Vendor (BBY Coal Pty Ltd) as follows:

- the issue of 8,333,334 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an inferred JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade;
- the issue of 8,333,333 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an indicated JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade; and
- the issue of 8,333,333 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an indicated JORC resource level of 200,000,000 tonnes of commercial specification thermal coal or coal of a better grade.

The tenements EPCA's 2771, 2600 and 2601 are progressing through the grant process in Queensland.

Future developments

During the year Narhex Life Sciences Limited ("NLS") retained and managed its 50% interest in Narhex Life Sciences International Limited ("NLSI").

NLSI's primary focus has been the development and commercialization of its anti-HIV protease inhibitor DG-17. DG-17 is the water-soluble pro-drug of the active anti-HIV drug DG-35. This development is occurring through NLSI's 75% interest in Xi'an Hex Life Sciences Co. Limited ("Xi'an Hex") in China.

Narhex also entered into a series of option agreements over certain tenements prospective for coal in Queensland, and is currently evaluating those tenements.

Environmental regulation

The company's operations are not subject to significant environmental regulations under the law of the Commonwealth or of a State, or Territory.

Dividends

No dividend has been proposed or paid.

Subsequent Events

On 23 July 2012, the Company received formal notification from the vendor, Coalplay Pty Ltd, that the Queensland government has granted EPC 2769. Consequently, the 6 month option period in which to decide whether to acquire the tenement from Coalplay has commenced, and expires on the 3 January 2013.

Indemnification of officers and auditors

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Directors	Board of directors	
	Held	Attended
Mr Peter Nash	6	6
Mr David Mandel	6	6
Mr Peter Christie	6	6
Mr Simon Lill	6	6

The audit, compliance and corporate governance committee did not hold any meetings during the financial year.

Directors' shareholdings

The following table sets out each director's relevant interest in shares and options in shares of the company as at the date of this report.

Directors	Fully paid ordinary shares Number	Unlisted Options Number
Mr David Mandel	150,000	2,500,000
Mr Peter Nash ⁽¹⁾	50,000	2,500,000
Mr Simon Lill	4,000,000	-
Mr Peter Christie	-	2,500,000

⁽¹⁾ Peter Nash resigned on 22 June 2012

Remuneration report (audited)

This report outlines the nature and amount of remuneration for directors and executives of the Company.

The performance of the Company depends upon the quality of its directors and executives to prosper. It is imperative that the company attract, motivate and retain appropriately experienced and qualified directors and executives. To this end, the company's remuneration framework is embodied with the principles of providing competitive rewards to attract high caliber executives and link executives' rewards to shareholder value.

In accordance with best practice corporate governance, the structure of non-executive directors and executive management remuneration is separate and distinct.

Currently all Directors are Non-Executive.

Non- executive Director Remuneration

The board policy is to remunerate non-executive directors at a level which provides the company with the ability to attract and retain directors with the experience and qualification appropriate to the development strategy of the company's Intellectual Property.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. This was set at \$200,000 pa by shareholders on 18 November 2005. Directors' fees are reviewed annually.

Non-executive directors' fees are not linked to the performance of the company. However to align directors interests with shareholder interests, the directors are encouraged to hold shares in the company.

Executive Directors' Remuneration

The board policy is to remunerate executive directors at a level that provides the company with the ability to attract and retain executives with the experience and qualification appropriate to the development strategy of the company's Intellectual Property.

Relationship between the remuneration policy and company performance

Aside from the matters described above, no Director held or holds any contract for performance-based remuneration with the Company.

Directors and executive details

The following persons acted as directors of the company during or since the end of the financial year:

Mr Peter Nash (Director) (*appointed 7 October 2004 and resigned on 22 June 2012*)

Mr David Mandel (Director) (*appointed 16 October 2009, resigned on 28 January 2010 and reappointed 17 May 2010*)

Mr Peter Christie (Chairman) (*appointed as Chairman on 13 January 2011*)

Mr Simon Lill (Director) (*appointed 13 January 2011*)

Director and executive remuneration

The directors received the following amounts as compensation for their services as directors and executives of the company during the year;

2012	Short-term employee benefits			Post employment benefits	Share-based payment	Total \$	% Consisting of share-based payments \$
	Salary & fees \$	Bonus \$	Other \$	Superannuation \$	Options & rights \$		
Directors							
Mr Peter Nash	22,407	-	-	2,642	46,190	71,239	64.84
Mr David Mandel	32,000	-	-	-	46,190	78,190	59.07
Mr Peter Christie	37,500	-	-	-	46,190	83,690	55.19
Mr Simon Lill	32,000	-	-	-	-	32,000	-
Total	123,907	-	-	2,642	138,570	265,119	-

2011	Short-term employee benefits			Post employment benefits	Share-based payment	Total \$	% Consisting of share-based payments \$
	Salary & fees \$	Bonus \$	Other \$	Superannuation \$	Options & rights \$		
Directors							
Mr Peter Nash	8,333	-	-	-	4,543	12,876	35.28
Mr David Mandel	8,333	-	-	700	4,543	13,576	33.34
Mr Peter Christie	10,417	-	-	-	4,544	14,961	30.37
Mr Simon Lill	8,333	-	-	-	-	8,333	-
Total	35,416	-	-	700	13,630	49,746	-

Unlisted share options granted to directors

During the prior year, unlisted options were granted to directors and an external consultant in consideration for their role as directors and for consulting services rendered, none of which are yet to vest. The Company currently has 10,000,000 options on issue, exercisable at 2 cents per share which vest on 14 July 2012 and expire on 14 July 2014 (2011: 10,000,000).

Voting and comments made at the Company's 2011 Annual General Meeting

The Company received more than 98% of votes, of those shareholders who exercised their right to vote, in favour of the remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

End of audited remuneration Report

Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit services

During the year \$nil was paid to the auditor for the provision of non-audit services (2011: nil).

Auditor's independence declaration

The auditor's independence declaration is included on 14 of the annual report.

Signed in accordance with a resolution of the directors

A handwritten signature in black ink, appearing to read 'P. Christie', with a stylized flourish at the end.

Mr Peter Christie
Chairman

Perth
28th day of September 2012

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF NARHEX LIFE SCIENCES LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



NEXIA MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

28 September 2012

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Statement of comprehensive income for the financial year ended 30 June 2012

	Note	2012 \$	2011 \$
Forgiveness of creditors' claims		-	54,152
Other revenue		60,939	28,352
Administration expenses		(598,179)	(481,656)
Exploration costs written off		(110,000)	-
Share based payments		(184,760)	-
Finance costs		-	(3,013)
Share of net loss of associated entity		-	(125,000)
Profit/(loss) before income tax		(832,000)	(527,165)
Income tax benefit	4	-	-
Loss for the year		(832,000)	(527,165)
Other comprehensive income for the year		-	-
Total comprehensive income for the year		(832,000)	(527,165)
Earnings per share (basic and diluted) (cents)	9	(0.2)	(0.2)

Statement of financial position as at 30 June 2012

	Note	2012 \$	2011 \$
CURRENT ASSETS			
Cash and cash equivalents	10	951,615	1,640,178
Trade and other receivables		105,123	50,196
Total Current Assets		1,056,738	1,690,374
NON-CURRENT ASSETS			
Exploration expenditure	5	117,095	60,000
Investment in associated entity	6	-	-
Total Non-Curent Assets		117,095	60,000
Total Assets		1,173,833	1,750,374
CURRENT LIABILITIES			
Trade and other payables		86,912	16,213
Total Current Liabilities		86,912	16,213
Total Liabilities		86,912	16,213
Net Assets		1,086,921	1,734,161
EQUITY			
Issued capital	7	2,623,029	2,623,029
Reserves	8	202,933	18,173
Accumulated losses		(1,739,041)	(907,041)
Total Equity		1,086,921	1,734,161

The accompanying notes form an integral part of this Statement of financial position.

Statement of changes in equity for the financial year ended 30 June 2012

	Fully paid ordinary shares \$	Equity-settled benefits reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2011	13,259,713	-	(13,639,589)	(379,876)
Loss for the year	-	-	(527,165)	(527,165)
Total recognised income and expense	-	-	(527,165)	(527,165)
Share-based payments	-	18,173	-	18,173
Consolidation of share capital	(13,259,713)	-	13,259,713	-
Issue of shares	2,980,000	-	-	2,980,000
Costs directly attributable to issue of share capital	(356,971)	-	-	(356,971)
Balance at 30 June 2011	2,623,029	18,173	(907,041)	1,734,161
Balance at 1 July 2011	2,623,029	18,173	(907,041)	1,734,161
Loss for the year	-	-	(832,000)	(832,000)
Total recognised income and expense	-	-	(832,000)	(832,000)
Share-based payments	-	184,760	-	184,760
Consolidation of share capital	-	-	-	-
Issue of shares	-	-	-	-
Costs directly attributable to issue of share capital	-	-	-	-
Balance at 30 June 2012	2,623,029	202,933	(1,739,041)	1,086,921

The accompanying notes form an integral part of this Statement of changes in equity.

Statement of cash flows for the financial year ended 30 June 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Cash payments to suppliers and employees		(579,771)	(803,906)
Interest paid		(528)	(3013)
Net cash flows used in operating activities	10	(580,299)	(806,919)
Cash flows from investing activities			
Payment for exploration expense		(167,095)	(60,000)
Interest received		58,831	-
Net cash flows used in investing activities		(108,264)	(60,000)
Cash flows from financing activities			
Costs of capital raising		-	(356,971)
Proceeds from Issue of share capital		-	2,980,000
Repayment of Loan to Tittel Pty Ltd		-	(125,925)
Net cash flows provided by financing activities		-	2,497,104
Net decrease in cash and cash equivalents		(688,563)	1,630,185
Cash and cash equivalents at the beginning of the financial year		1,640,178	9,993
Cash and cash equivalents at the end of the financial year	10	951,615	1,640,178

The accompanying notes form an integral part of this Statement of cash flows.

Notes to the financial statements

NOTE 1 CORPORATE INFORMATION

Narhex Life Sciences Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

NOTE 2 ADOPTION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS AND CHANGES TO THE CORPORATIONS ACT 2001

The company adopted the following new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory or became available for early adoption in the current year. None of the Standards adopted had a material impact upon these financial statements.

AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

This Standard is not expected to significantly impact the Company.

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard is not expected to significantly impact the Company.

AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8. This Standard is not expected to significantly impact the Company.

NOTE 2 ADOPTION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS AND CHANGES TO THE CORPORATIONS ACT 2001 (cont'd)

AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012). The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This Standard is not expected to significantly impact the Company.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements include the financial statements of the Narhex Life Sciences Limited (the “Company”).

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (“AIFRS”). Compliance with AIFRS ensures that these financial statements comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Except for the cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The functional currency of the Company is measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Australian dollars which is the Company’s functional and presentation currency.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

b) Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are then classified and measured as set out below.

Classification and Subsequent Measurement

All financial instruments of the Company are subsequently measured at amortised cost, using the effective interest rate method.

Amortised Cost

Amortised cost is calculated as a) the amount at which the financial asset or liability is measured at initial recognition; b) less principal repayments; c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and d) less any reduction for impairment.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Effective Interest Rate Method

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Derecognition

Financial instruments are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

c) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements.

d) Impairment of other tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

e) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable to or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequence that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred Tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authorities and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

f) Research and development costs

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

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

g) Share-based payments

Equity-settled share-based payments are measured at fair value of the equity instrument at the grant date. Fair value is measured by the use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

h) Investment in associated entity

The company's interest in its associated entity is brought to account using the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Company's share of assets in the associated entity. Profits and losses resulting from transactions between the Company and the associated entity are eliminated to the extent of the Company's interest in the associated entity.

i) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. The costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable resources and further work is intended to be performed.

Accumulated costs in relation to an abandoned area will be written off in full against the profit and loss in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of the economically recoverable resources.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

j) Critical accounting judgements and key sources of estimation uncertainty

The directors make a number of estimates and assumptions in preparing general purpose financial statements. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant.

The following key judgement was made in preparing these financial statements:

Capitalisation of exploration costs

The Company tests annually whether the exploration and evaluation expenditure incurred in identifiable areas of interest is expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of reserves and further work is expected to be performed. All expenditure that does not meet these criteria is expensed in accordance with Note 3(i).

NOTE 4 INCOME TAXES

	2012	2011
	\$	\$
(a) Income tax recognised in profit or loss		
Tax expense/(income) comprises:		
Current tax expense/(income)	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
Total tax expense/(income)	-	-
(b) The prima face income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:		
Loss from operations	(832,000)	(527,165)
Income tax benefit calculated at 30%	(249,600)	(158,150)
Tax effect of:		
- Other timing differences	18,669	4,864
- Non deductible items	1,543	18,781
- Non deductible share based payments	55,428	-
- Share of loss of associate	-	37,500
- Capitalised acquisition expenses	(17,129)	(18,000)
- Tax effect of current year revenue losses for which no deferred tax asset has been recognised	191,089	115,005
Income Tax Expense	-	-
(c) Unrecognised deferred tax balances		
The following deferred tax assets (at 30%) have not been brought to account:		
Unrecognised deferred tax asset – tax losses	2,035,852	1,844,763
Unrecognised deferred tax asset – other temporary differences	23,533	4,864
Unrecognised deferred tax liability – capitalised acquisition expenses claimed for tax purposes	(35,129)	(18,000)
Net deferred tax assets	2,024,256	1,831,627

The net deferred tax assets not brought to account will only be of a benefit to the Company if future assessable income is derived of a nature and amount sufficient to enable the benefits to be realised, the conditions for deductibility imposed by the tax legislation continue to be complied with and the Company is able to meet the continuity of ownership and/or continuity of business tests.

NOTE 5 EXPLORATION EXPENDITURE

On 24 November 2011, the Company announced they had entered into three additional option agreements over four additional tenements in Central Queensland considered prospective for coal. The option period for EPCA 2769 and EPCA 2771 is six months from the time the EPCA is granted. Subsequent to financial year end, EPCA 2769 has been granted to the Vendor. EPCA 2600 and EPCA 2601 has an option period of six months from the time the EPCA is granted, which is anticipated in the first half of 2013. On 29 July 2011 the Company announced that it had entered into Deed of Variation in relation to EPCA 2303 and 2304, both of which has been dropped during the year as after great in depth analysis, management believed the tenements to hold no value. The option agreements are subject to certain approvals including but not limited to, ministerial, ASX and shareholder approvals to complete the acquisition. ASX approvals will include re-compliance with Chapters 1 and 2 of the ASX Listing Rules due to a change in the nature and scale of the Company's activities.

	2012 \$		2011 \$

NOTE 6 INVESTMENT IN ASSOCIATED ENTITY

50% shareholding interest in Narhex
Life Sciences International Pty Ltd

	-	-
	-	-

Narhex Life Sciences International is involved in ongoing research and commercial development of drugs for the treatment of HIV / AIDS. As at 30 June, Narhex held a 50% (2011: 50%) non-controlling voting interest. The results and financial position of the associated entity are as follows:

The investment in associated entity is accounted using the equity accounting method.

Current assets	53,031	81,086
Non-current assets	431,589	140,774
Total assets	484,620	221,860
Current and total liabilities	372,248	450,671
Net assets/(deficiency)	112,372	(228,811)
Revenues	2,981	168,440
Expenses	(20,559)	(441,858)
Loss before income tax	(17,578)	(273,418)
Income tax expense	-	-
Loss after income tax	(17,578)	(273,418)

Under the Shareholder's Agreement setting out the ownership interest in Narhex Life Sciences International Pty Ltd, the Company will be required to contribute capital of up to \$500,000 once the other shareholder has contributed capital of \$500,000. Should this event arise, the Company can elect to:

- Make its contribution and retain its interest;
- Not make its capital contribution and have its interest diluted as the other shareholder will have the capacity to increase its interest in Narhex Life Sciences International Pty Ltd through acquisition of the Company's shares and further investment in Narhex Life Sciences International Pty Ltd; or
- Part thereof.

	2012 \$		2011 \$
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NOTE 7 ISSUED CAPITAL

Fully paid ordinary shares and authorised capital

Balance at beginning of financial year	2,623,029	13,259,713
<i>Movement during the 2010/2011:</i>		
Consolidation of capital 1 for 10 basis approved by shareholders at the Annual General Meeting on 5 November 2010	-	(13,259,713)
Issue of fully paid ordinary shares at 0.3 cents per share approved at the 5 November 2010 general meeting	-	480,000
Issue of shares under Prospectus in January 2011	-	2,500,000
Costs directly attributable to the issue of share capital	-	(356,971)
	<u>2,623,029</u>	<u>2,623,029</u>

Number of shares

No

No

Fully paid ordinary shares and authorised capital

Balance at beginning of financial year	430,117,350	201,172,902
<i>Movement during the 2010/2011:</i>		
Consolidation of capital 1 for 10 basis approved by shareholders at the Annual General Meeting on 5 November 2010	-	(181,055,552)
Issue of fully paid ordinary shares at 0.3 cents per share approved at the 5 November 2010 general meeting	-	160,000,000
Issue of shares under Prospectus in January 2011	-	250,000,000
	<u>430,117,350</u>	<u>430,117,350</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 8 SHARE-BASED PAYMENT RESERVE

The share-based payment reserve represents unissued capital in respect of the company's issued unlisted options. For further details concerning the company's unlisted options refer to note 12 share-based payments.

	2012 \$		2011 \$
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NOTE 9 LOSS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Net loss attributable to ordinary equity holders (used in calculating diluted EPS) – continuing operations.	(832,000)	(527,165)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share adjusted for share consolidation	430,117,350	235,596,481

NOTE 10 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:

	2012 \$		2011 \$
Cash at bank	951,615		1,640,178
	951,615		1,640,178

(b) Reconciliation of loss for the period to net cash flows from operating activities

Net Loss	(832,000)	(527,165)
Adjustments for		
Forgiveness of creditors' claims	-	(54,152)
Interest income	(58,831)	-
Share-based payments	184,760	18,176
Share of net loss of associated entity	-	125,000
Amounts not otherwise classified – Exploration expenditure	110,000	-
Amounts not otherwise classified – Prior period adjustment	8,333	-
Changes in assets and liabilities		
(Increase)/decrease in assets:		
Current receivables	(54,927)	(50,196)
(Decrease)/increase in liabilities:		
Trade and other payables	62,366	(318,579)
Net cash flows from operating activities	(580,299)	(806,919)

NOTE 11 FINANCIAL INSTRUMENTS

The Company's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

	Note	2012 \$	2011 \$
Financial Assets			
Cash and cash equivalents	10	951,615	1,640,178
Trade and other receivables		<u>105,123</u>	<u>50,196</u>
Total financial assets		<u>1,056,738</u>	<u>1,690,374</u>
Financial Liabilities			
Trade and other payables		<u>86,912</u>	<u>16,213</u>
Total financial liabilities		<u>86,912</u>	<u>16,213</u>

(a) Financial risk management policies

The Company's principal financial instruments comprise cash and short-term deposits, trade and other payables and financial liabilities as disclosed in the financial statements. The main purpose of these financial instruments is to manage the working capital needs of the Company's operations. It is the Company's policy that no trading in financial instruments shall be undertaken. The main risk arising from the Company's financial instruments is liquidity risk. The board reviews and agrees policies for managing this risk is summarized below.

(i) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in Note 3 to the financial statements.

(ii) Credit risk management

The Company is not currently exposed to credit risk.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Credit risk related to balances with banks and other financial institutions is managed by the Board in accordance with approved board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

	Note	2012 \$	2011 \$
Cash and cash equivalents			
-AA rated		<u>951,615</u>	<u>1,640,178</u>
	10	<u>951,615</u>	<u>1,640,178</u>
Trade and other receivables			
-AA rated		<u>105,123</u>	<u>50,196</u>
		<u>105,123</u>	<u>50,196</u>

NOTE 11 FINANCIAL INSTRUMENTS (cont'd)

(iii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

	Note	2012 \$	2011 \$
Financial liabilities due for payment			
Trade and other payables		86,912	16,213
Total expected outflows		86,912	16,213
Financial assets – cash flow realisable			
Cash and cash equivalents	10	951,615	1,640,178
Trade receivables		105,123	50,196
Total anticipated inflows		1,056,738	1,690,374
Net inflow on financial instruments		969,826	1,674,161

(iii) Interest rate risk

The financial instruments which primarily expose the Company to interest rate risk are cash and cash equivalents.

The Company's exposure to interest rate risk and the effective interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Effective interest rate	Floating interest rate \$	1 year or less \$	1 to 5 years \$	Non- interest bearing \$	Total \$
30 June 2012							
<i>Financial assets</i>							
Cash assets	10	3.50%	951,615	-	-	-	951,615
Trade and other receivables			-	-	-	105,123	105,123
Total financial assets			951,615	-	-	105,123	1,056,738
<i>Financial liabilities</i>							
Trade and other payables			-	-	-	86,912	86,912
Total financial liabilities			-	-	-	86,912	86,912
30 June 2011							
<i>Financial assets</i>							
Cash assets	10	4.75%	1,640,178	-	-	-	1,640,178
Trade and other receivables			-	-	-	50,196	50,196
Total financial assets			1,640,178	-	-	50,196	1,690,374
<i>Financial liabilities</i>							
Trade and other payables			-	-	-	16,213	16,213
Total financial liabilities			-	-	-	16,213	16,213

NOTE 11 FINANCIAL INSTRUMENTS (cont'd)

(iv) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analyses.

The directors consider that the carrying amounts of financial assets and financial liabilities which are all recorded at amortised cost less accumulated impairment charges in these financial statements, approximate their fair values.

	Note	2012 Carrying Amount \$	2012 Fair Value \$	2011 Carrying Amount \$	2011 Fair Value \$
Financial assets					
Cash and cash equivalents	10	951,615	951,615	1,640,178	1,640,178
Trade and other receivables		105,123	105,123	50,196	50,196
Total financial assets		1,056,738	1,056,738	1,690,374	1,690,374
<i>Financial liabilities</i>					
Trade and other payables		86,912	86,912	16,213	16,213
Total financial liabilities		86,912	86,912	16,213	16,213

NOTE 12 SHARE-BASED PAYMENTS

The company has the following unlisted options, all of which were issued on 14 July 2011.

Name	Reason for the issue of the options	Number	Exercise price	Expiry date
Peter Christie	Directors' fees	2,500,000	2 cents	14 July 2014
David Mandel	Directors' fees	2,500,000	2 cents	14 July 2014
Peter Nash	Directors' fees	2,500,000	2 cents	14 July 2014
Subtotal		7,500,000		
John Majewski*	Technical and corporate consultancy services in relation to the Company's technology and recapitalisation	2,500,000	2 cents	14 July 2014
Total		10,000,000		

*John Majewski, the original founder of the company is a significant shareholder of Narhex Life Sciences Limited.

The fair value of each parcel of options issued on 14 July 2011 is \$52,500 of which the following portion, in-accordance with the option's vesting conditions was expensed to the profit and loss for the year ending 30 June 2012:

- \$138,570 for Directors' fees
- \$46,190 in Administration costs

In determining the fair value according to the Black-Scholes Option Pricing Model for each parcel of options issued on 14 July 2011 the following assumptions and inputs (in addition to those noted above) were relevant:

- The options cannot be exercised for an escrow period of 12 months after the date of issue and must trade at a minimum price of 5 cents per share for a minimum of 10 consecutive trading days after the expiry of the escrow period;
- If the options are all exercised the share capital of the company would dilute by approximately 1.71%;
- The sharemarket price for Narhex Life Sciences Limited for the 3 month period prior to the granting of the options was the following:
 - Highest value on 19 May 2011 - 3.5 cents
 - Lowest value on 18 March 2011 – 1.6 cents
 - Share price on grant date – 3 cents
- Volatility was estimated at 100% for the company future price movement; and
- A risk-free rate of 4.92% for the government 3-year bond rate at 25 May 2011

NOTE 13 KEY MANAGEMENT PERSONNEL COMPENSATION

Details of Key Management Personnel

The directors and other members of key management personnel of the Company during the year were:

Mr Peter Nash (Director) *(appointed 7 October 2004 and resigned on 22 June 2012)*

Mr David Mandel (Director) *(appointed 16 October 2009, resigned 28 January 2010 and reappointed 17 May 2010)*

Mr Peter Christie (Chairman) *(appointed as Chairman on 13 January 2011)*

Mr Simon Lill (Director) *(appointed 13 January 2011)*

Key management personnel compensation

The aggregate compensation made to key management personnel of the company and the Company is set out below:

	2012 \$	2011 \$
Short term employee benefits	123,907	35,416
Post-employment benefits	2,642	700
Termination benefits	-	-
Share-based payments	138,570	13,630
	265,119	49,746

NOTE 14 RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 13 to the financial statements.

ii. Key management personnel equity holdings

Fully paid ordinary shares of Narhex Life Sciences Limited

	Balance at 1 July or on date of appointment No.	Shares disposed in off-market sale	Consolid- ation of share capital	Share- based payment	Shares acquired through off-market placement	Balance at 30 June or on date of resignation No.
2012						
Mr David Mandel	150,000	-	-	-	-	150,000
Mr Peter Nash	50,000	-	-	-	-	50,000
Mr Simon Lill	4,000,000	-	-	-	-	4,000,000
Total	4,200,000	-	-	-	-	4,200,000
2011						
Mr David Mandel	1,500,000	-	(1,350,000)	-	-	150,000
Mr Ian Reynolds ⁽¹⁾	740,000	-	(666,000)	-	-	74,000
Mr Peter Nash	4,000,000	(3,500,000)	(450,000)	-	-	50,000
Mr Anthony Say ⁽¹⁾	-	-	-	-	-	-
Mr Simon Lill	4,000,000	-	-	-	-	4,000,000
Total	10,240,000	(3,500,000)	(2,466,000)	-	-	4,274,000

⁽¹⁾ Directors resigned on 13 January 2011

For details concerning unlisted options held by key management personnel, refer to note 12, share-based payments.

NOTE 15 REMUNERATION OF AUDITORS

	2012		2011
	\$		\$
Auditor of the Company – Nexia Melbourne			
Audit or review of the financial statements	<u>40,700</u>		<u>40,000</u>
	<u>40,700</u>		<u>40,000</u>

NOTE 16 CONTINGENT LIABILITIES

There are no contingent liabilities as at the date of this report.

NOTE 17 SUBSEQUENT EVENTS

On 23 July 2012, the Company received formal notification from the vendor, Coalplay Pty Ltd, that the Queensland government has granted EPC 2769. Consequently, the 6 month option period in which to decide whether to acquire the tenement from Coalplay has commence, and expires on the 3 January 2013.

NOTE 18 SEGMENT NOTE

The Company is operating under two business segments, these being, pharmaceuticals, biotechnology & life sciences as well as mineral exploration.

NOTE 18 SEGMENT NOTE (cont'd)

	Other Segment		Exploration and Evaluation		Company	
Business segments	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
External revenues	2,108	54,152	-	-	2,108	54,152
Inter-segment revenues	-	-	-	-	-	-
Interest revenues	58,831	28,352	-	-	58,831	28,352
Total segment revenue	60,939	82,504	-	-	60,939	82,504
Segment result	(654,767)	(609,669)	(238,172)	-	(892,939)	(609,669)
Unallocated expenses	-	-	-	-	-	-
Results from operating activities	(654,767)	(609,669)	(238,172)	-	(892,939)	(609,669)
Profit/(Loss) for the year	(593,828)	(527,165)	(238,172)	-	(832,000)	(527,165)
Profit/(Loss) for the year					(832,000)	(527,165)

	Other Segment		Exploration and Evaluation		Company	
Business segments	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
Segment assets	955,602	1,644,165	117,095	60,000	1,702,697	1,704,165
Unallocated assets	101,136	46,208	-	-	101,136	46,208
Total assets	1,056,738	1,690,373	117,095	60,000	1,173,833	1,705,373
Segment liabilities	84,872	16,213	-	-	84,872	16,213
Unallocated liabilities	-	-	-	-	-	-
Total liabilities	84,872	16,213	-	-	84,872	16,213
Capital expenditure	-	-	117,095	60,000	117,095	60,000
Depreciation	-	-	-	-	-	-

Directors' declaration

The directors of the company declare that:

1. in the directors' opinion, the financial statements and accompanying notes set out on pages 15 to 34 are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date;
2. note 3 confirms that the financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
3. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
4. the remuneration disclosures included in pages 11 to 12 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2012, comply with section 300A of the *Corporations Act 2001*; and

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Peter Christie
Director

Perth
28th day of September

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NARHEX LIFE SCIENCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Narhex Life Sciences Limited (the company), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Narhex Life Sciences Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

Nexia Melbourne

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Basis for Qualified Opinion

The company holds a 50% interest in Narhex Life Sciences International Pty Ltd, which in turn holds a 75% interest in Xi'an Hex Life Sciences Limited (Incorporated in China). The interest in Narhex Life Sciences International Pty Ltd is accounted for as an associate for the reasons described in Note 6.

The financial reports of Narhex Life Sciences International Pty Ltd and Xi'an Hex Life Sciences Pty Ltd were not audited for 30 June 2011 and 30 June 2012, and we were not able to obtain audit evidence in relation to the financial reports of these entities by other means, and the impact (if any) on the financial position of the Narhex Life Sciences Limited as at 30 June 2012, if any, and on the following account balances, and:

- Share of net loss of associated entity; and
- Investment in associated entity.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial report of Narhex Life Sciences Limited is in accordance with the *Corporations Act 2001*, including:

- a. the financial report of Narhex Life Sciences Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 11 of the directors' report for the year ended 30 June 2012. 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 Narhex Life Sciences Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



NEXIA MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

28 September 2012

ASX ADDITIONAL INFORMATION

Pursuant to the Listing Requirements of the Australian Securities Exchange, the shareholder information set out below was applicable as at 21 September 2012.

A. Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of shareholders
1 – 1,000	265
1,001 – 5,000	391
5,001 – 10,000	125
10,001- 100,000	143
More than 100,000	222
Total	1,146

There were 900 shareholders holding less than a marketable parcel of ordinary shares.

B. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

Shareholder Name	Issued Ordinary Shares	
	Number	% of shares
Mr Jason Peterson & Mrs Lisa Peterson <J&L Peterson S/F A/C>	47,709,313	11.09%
Narhex Life Sciences Development Limited	40,000,000	9.30%
Mr Mark Bahen & Mrs Margaret Bahen <Superannuation A/C>	30,000,000	6.97%

C. Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are listed below:

Shareholder Name	Listed Ordinary Shares	
	Number	% of Shares
Mr Jason Peterson & Mrs Lisa Peterson <J&L Peterson S/F A/C>	47,709,313	11.09%
Narhex Life Sciences Development Limited	40,000,000	9.30%
Mr Mark Bahen & Mrs Margaret Bahen <Superannuation A/C>	30,000,000	6.97%
IML Holdings Pty Ltd	16,195,939	3.77%
Foster West Securities Pty Ltd <Spartacus A/C>	10,000,000	2.32%
Mr John Della Bosca <JA&JG Della Bosca Family A/C>	10,000,000	2.32%
Brijohn Nominees Pty Ltd <Nelsonio A/C>	8,400,000	1.95%
Milwal Pty Ltd <Chester A/C>	8,000,000	1.86%
Milwal Pty Ltd <The Price Super Fund>	8,000,000	1.86%
Blu Bone Pty Ltd <The Share Trading A/C>	5,500,000	1.28%
Mr Wladyslaw Hendryk Stanislaw Cybula <Cybula Subscription Unit A/C>	5,000,000	1.16%
Trident Capital Pty Ltd	5,000,000	1.16%
Kobia Holdings Pty Ltd <The Kobia A/C>	4,500,000	1.05%
Mr Simon Jenkins & Mrs Zoe Jenkins <Jenkins Retirement Fund A/C>	4,000,000	0.93%
Simon Lill	4,000,000	0.93%
Vagabond Resources Pty Ltd	4,000,000	0.93%

C. Twenty Largest Shareholders (cont'd)

Mrs Grace De Vita	4,000,000	0.93%
Lenoir Capital Pty Ltd	4,000,000	0.93%
Mr Garry McQuillan & Ms Julie Bethune <McQuillan Super Fund A/C>	3,750,000	0.87%
Richwish Investments Pty Ltd <The A P Torre Family A/C>	3,750,000	0.87%
Top 20 Total	225,805,252	52.50%

D. Listed Options

As at the date of this report there were nil listed options on issue in the Company.

E. Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

F. Restricted Securities

There are currently no restricted securities.