



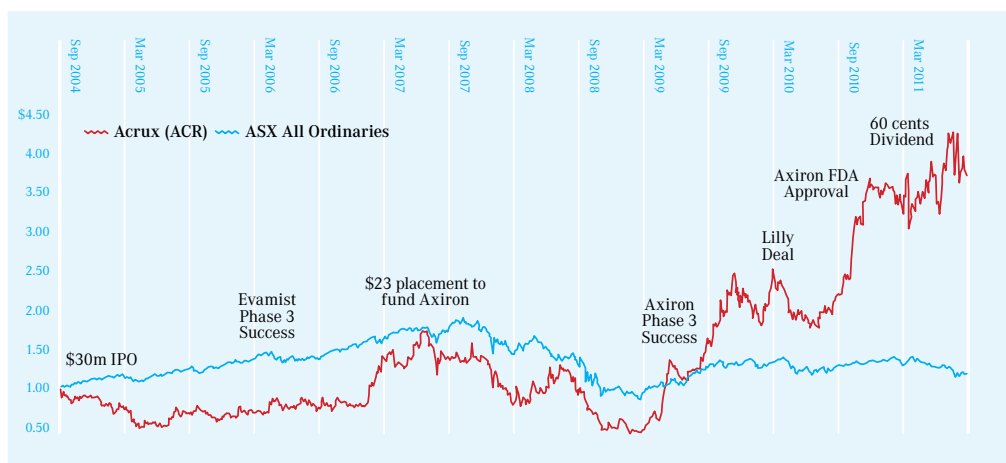
Acrux
Annual Report 2011

Financial Metrics

	2010/11	2009/10
Total Shareholder Return (tax free)	+120%	+60%
Capital growth per share	\$1.58	\$0.68
Special dividend per share	\$0.60	-
Earnings Per Share	35 cents	29 cents
Profit After Tax	\$57 million	\$47 Million
Revenue	\$93 million	\$56 million

Share price since listing

Acrux Share Price \$



Business milestones

- Axiron® approved by Food and Drug Administration for marketing in United States (November 2010), triggering payment of US\$87 million to Acrux from Eli Lilly
- Axiron launched by Lilly in United States (April 2011)
- United States testosterone therapy market in 2010 grew by 29% to more than US\$1.2 billion
- Estradiol spray for women approved by Medical Products Agency for marketing in Sweden (May 2011)
- First dividend paid to shareholders (April 2011)
- Promoted to S&P / ASX 200 index (September 2011)
- Won two 2010 Governor of Victoria Export Awards (September 2010)

Business Outlook for 2011/12

- Update on pending patents to extend protection of Axiron to 2026
- Growth of Axiron market share in United States
- Progress of Lilly's marketing applications for Axiron outside United States
- Marketing approval for Recuvyra® in Europe
- Outcome of Food and Drug Administration review of Recuvyra marketing application for United States
- Appoint distributor for Estradiol spray in Europe

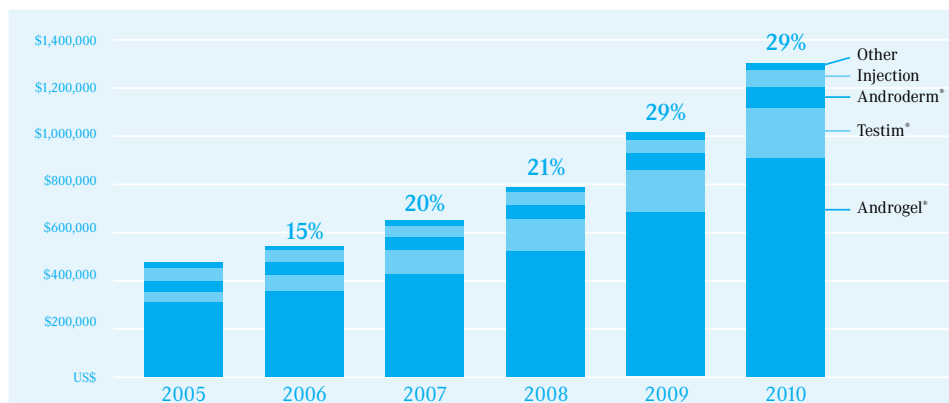
Financial Outlook

Axiron revenue forecast: - 2011/12: US\$7-8 million
- 2012/13: approximately US\$40 million

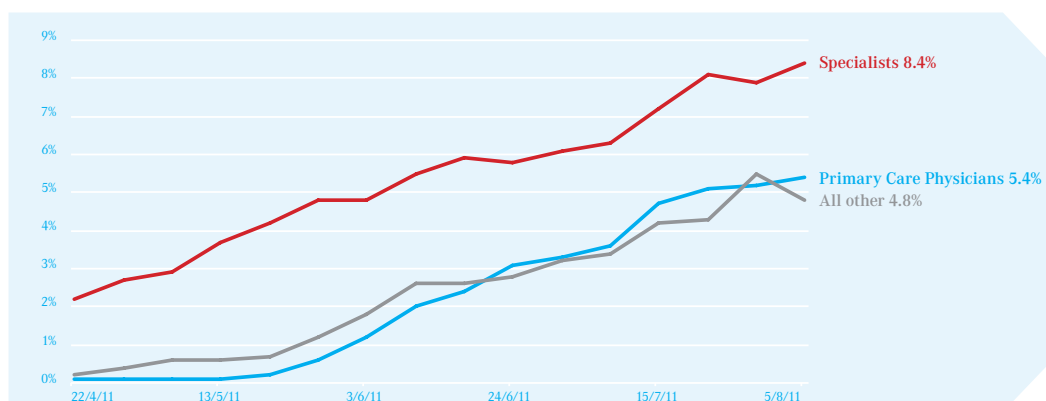
Current expenditure approximately \$0.5 million per month

Next dividend anticipated August 2012

US Testosterone Therapy Market



Axiron Market Share



Dear Shareholder,

Acrux's recent inclusion into the ASX 200 and the evolution of our investor base to include superannuation funds and some significant offshore holdings has occurred simultaneously with the Company experiencing a difficult period, with a decrease in the share price attributable to shorting of the Company's shares. While this is a frustrating development the Board remains confident about the fundamentals of the underlying business and believes the impact will likely be temporary.

The Company has made very significant progress following the launch of Axiron in the United States as well as Lilly's subsequent regulatory filings in a number of ex-US markets. The dynamics of the US launch and the impact on royalties to Acrux are complex. The Operating Review addresses these dynamics in detail, including the prescription rates that currently represent the best indicators available to the Company for the near-to-medium term outlook. The Axiron market share figures should provide shareholders with a level of confidence regarding the future profitability of Acrux.

The payment of the \$100 million special dividend in April reflected our view in being able to provide shareholders with a regular dividend stream in the future. We anticipate the next dividend in August 2012 to be funded from royalty revenues and once a larger market share is established, subsequent dividends are expected to be paid out of both milestone payments and royalties.

The Company has reduced its operational expenditure in line with the anticipated level of additional development and commercial activity. In doing so, we have maintained the staffing levels necessary to optimise our strong relationship with Lilly in support of Axiron and other Acrux products such as Recuvyra.

We are currently evaluating one potential new initiative which could leverage the Axiron opportunity and we will be in a position to advise shareholders of our progress early in 2012.

We furthermore look forward to advising shareholders regarding progress with our key 2026 patent application within the next few months.

It is worth noting that the achievement of FDA approval for Axiron represents only the second therapeutic product wholly developed by an Australian owned and funded company, to be approved. Given how many aspirants there have been in the sector in Australia we are quietly proud of this achievement. This also puts in context the importance of the imminent European approval and the launch of Recuvyra, our first veterinary health product.

We are continuing to explore all opportunities for incremental growth. Although the Company has received a number of development proposals from outside parties to date, none of these have been compelling and the Board will continue to distribute income streams from milestone and royalty revenue unless a high value, low risk project is identified.



Ross Dobinson
Chairman

In November 2010, Acrux achieved its most important milestone to date when the US Food and Drug Administration (FDA) approved Acrux's marketing application for Axiron®. Acrux joined a select group of Australian companies to wholly develop and achieve FDA approval of a therapeutic product. Axiron was approved by the FDA ten months after Acrux submitted the marketing application and it was the second product using Acrux's platform delivery technology to be approved in the United States.

The immediate impact of the approval was a milestone payment of US \$87 million to Acrux from Eli Lilly under the agreement that granted Lilly worldwide rights to commercialise Axiron. That revenue was the main contributor to Acrux's profit after tax of \$57 million for 2010/11.

The approval also paved the way for Lilly to launch Axiron in the United States as a replacement therapy for men with a deficiency or absence of testosterone. This market was worth more than US\$1.2 billion in 2010 and grew by 29% from 2009. Early market share data indicates a strong launch performance for Axiron. Acrux receives royalties from Lilly on worldwide sales of Axiron and is eligible for up to US\$195 million in sales milestone payments.

In April 2011 Acrux was able to pay a special unfranked first dividend to shareholders of 60 cents per share (\$100 million in total). Subject to the ongoing performance of Axiron, it is intended that Acrux will declare regular dividends in future, commencing in August 2012. Dividends and capital gains are both exempt from tax because Acrux is a Pooled Development Fund. Further details of these tax concessions for shareholders are on page 68 of this Annual Report.

The significant increase in the market value and liquidity of Acrux's shares during the year resulted in promotion into the S&P/ASX 200 index on 16 September 2011.

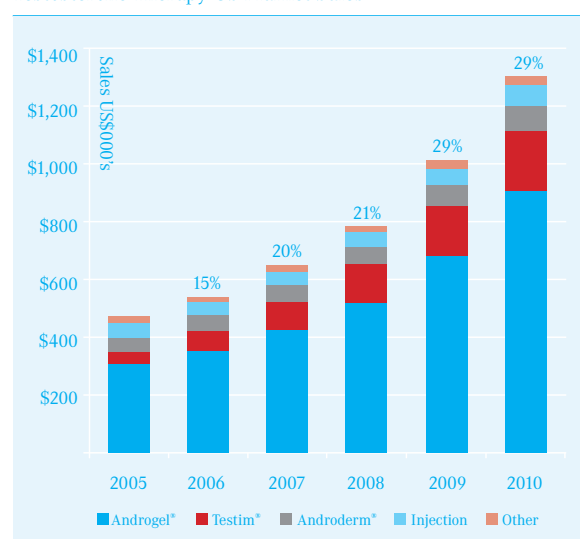
Testosterone therapy market

Global testosterone therapy sales were approximately US\$1.5 billion in 2010. The market has more than doubled since Acrux formulated the business case to raise capital and execute the Phase 3 development of Axiron. The majority of the market is in the United States which is dominated by topical testosterone therapies, in particular AndroGel®, the current US market leader.

While the US market currently makes up approximately 85% of the global testosterone market, there is opportunity for growth in markets outside the United States, including South America and Asia. Less than 10 years ago, US testosterone sales were approximately US\$200 million, which is equivalent to the testosterone therapy sales for all the markets outside the US in 2010.

Sales in the US market were more than \$1.2 billion in 2010, with a 5 year compound annual growth rate of 19%. Topical gel therapies have driven that growth, with AndroGel and Testim® sales reaching approximately US\$900 million and US\$200 million respectively. Axiron is well positioned against these competitors in a market that is rapidly growing.

Testosterone Therapy US Market Sales



Over the past 8 years, Lilly has established a reputation as a leader and innovator in men's health, first with its erectile dysfunction treatment Cialis and now with Axiron.

Lilly's commitment to men's health

Over the past 8 years, Lilly has established a reputation as a leader and innovator in men's health, first with its erectile dysfunction treatment Cialis and now with Axiron.

Cialis was launched second, or in some countries third, after Viagra which held a dominant market position in the erectile dysfunction market. However, Cialis now rivals Viagra in share of market globally, notably driven by sales outside the United States, which surpassed US\$1 billion in 2010.

Lilly's achievements with Cialis globally and the synergy between the prescribing groups for Cialis and Axiron were an important factor in Acrux's decision to licence worldwide commercial rights for Axiron to Lilly.



The US healthcare system

The managed healthcare delivery system in the US is complex involving multiple organisations and channels. A large number of individual managed care organisations (MCO's) receive premiums from members and meet the cost of members' healthcare, including the cost of approved prescription medicines.

Typically the MCO will require its members to make a co-payment towards the cost of medicines that are prescribed by doctors. The amount of co-pay required from the patient may vary depending on whether the medicine is on a list ("formulary") of recommended medicines. The formulary may have more than one co-pay tier, with different levels of co-pay depending on which tier is applicable to the medicine.

When a new medicine is launched, the pharmaceutical company is required to negotiate a contract with each MCO in order to gain access to its formulary. Lilly is progressing contracts with MCO's for Axiron, but MCO's may wait approximately 9 to 12 months after a product launch before they review and add new products.

Whilst formulary access is building, pharmaceutical companies often provide co-pay cards to patients. Co-pay cards provide a temporary discount paid by the pharmaceutical company that reduces the co-pay required for a patient's medicine. Since launch, Lilly has operated such a scheme, the aim of which is to make the out of pocket expense associated with Axiron similar to other testosterone therapies that already have formulary access. Although this investment by Lilly will reduce royalties in the first year Acrux expects that it will enhance subsequent years, with both royalties and milestone payments increasing with market share.

Understanding prescription data

Like many other markets, the United States uses National Prescription Data from IMS to track performance and market share. IMS is a provider of information services for the healthcare industry, covering markets in more than 100 countries around the world. There are different types of prescription data, two of which are most relevant to Axiron.

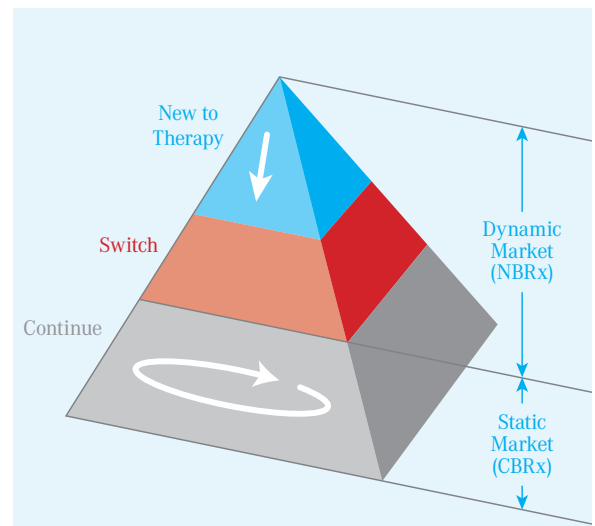
New to Brand Prescriptions (“NBRx” or “NTBRx”) measures prescriptions written for patients commenced on a product for the first time, including new therapy starts and switches from other products. In the early stages of a product’s life, NBRx is the most important measure, since it isolates instances when a physician and patient make a treatment decision and a choice between product alternatives. NBRx is therefore acknowledged to be a leading early indicator of likely sales performance.

Total Prescriptions (“TRx”) is the sum of NBRx and Continuation on Brand prescriptions (“CBRx”). CBRx measures patients’ continuation on a product, from both new and refilled prescriptions. In the longer term, TRx is key since this provides measurement of the total market share for a product.

After launch, a new product’s share of TRx will lag behind its share of NBRx, since the majority of prescriptions for a chronic therapy like testosterone therapy are continuing treatment prescriptions once the physician and patient have made the choice of product. Over time the share of TRx should grow and approximate the share of NBRx as the continuing treatment prescriptions accumulate.

In the early stages of a product’s life, NBRx is the most important measure, since it isolates instances when a physician and patient make a treatment decision and a choice between product alternatives.

Understanding Prescription Data



Axiron launch and early performance

Lilly launched Axiron to specialists (Urologists and Endocrinologists) in the United States in April 2011 and subsequently to primary care physicians in June 2011. Primary care physicians are the larger segment of the market, but the specialist segment is important in its own right, and the specialists act as opinion leaders for the primary care physicians.

The three launch priorities for the Lilly sales team were:

1. Clearly articulating to health care providers the patient who will most likely benefit from Axiron
2. Removing barriers to trial Axiron for men diagnosed with hypogonadism
3. Delivering a positive patient experience for men prescribed Axiron.

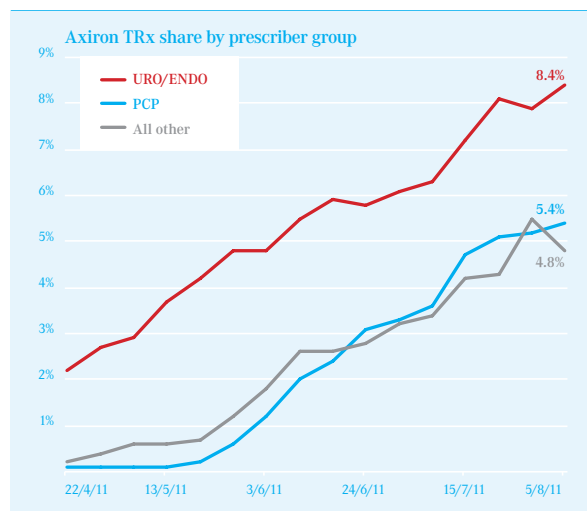
On 23 August 2011, Eli Lilly's Chief Marketing officer Rob Brown delivered a presentation to the Acrux investment community, commenting that Lilly was very pleased with the initial launch, uptake and health care provider discussions.

After 5 months, Axiron's NBRx share for specialists had grown to 28.6% and after just 3 months, its NBRx share for primary care physicians was 21.1%. Axiron's New to Brand Prescriptions comprised 61% new therapy starts and 39% switches from other products. 60% of the switches were from Androgel and the remainder from Testim and injectable testosterone therapies.

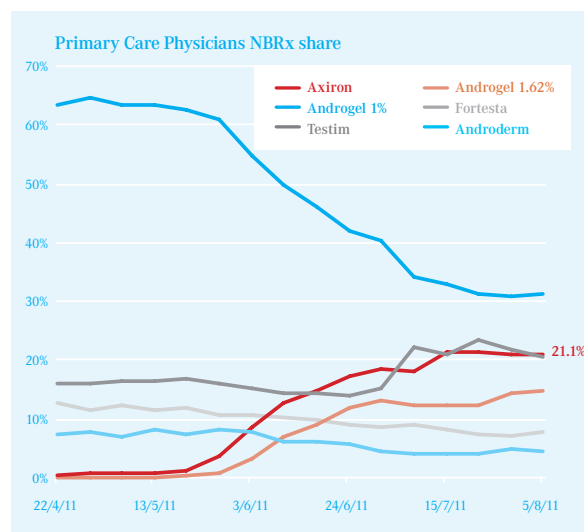
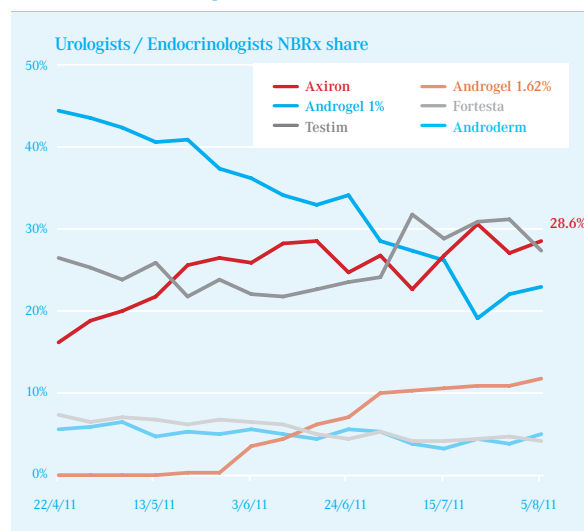
Axiron's share of TRx had grown to 7.5% as at 16 September 2011.

Axiron is protected by issued patents that run to 2017. In addition new patents are under review by patent offices around the world, which if issued will provide additional protection until 2026.

US Male Hormone Replacement Therapy Market Total Prescriptions



US Male Hormone Replacement Therapy Market New-To-Brand Prescriptions



Axiron outside the United States

Lilly distributes products in 143 countries, including high growth markets in Asia and South America, which Acrux believes could be attractive future markets for Axiron. Lilly is responsible for funding and obtaining regulatory approvals to market Axiron in territories outside the United States. Applications have already been submitted in select European Countries, Canada and Australia, with regulatory actions expected in 2012. Applications in other countries are expected in the near term.

If the marketing applications for Recuvyra® are approved, Acrux expects Lilly to advance the development and registration of a number of further products.

Animal health

As well as commercialising Axiron, Lilly has an exclusive worldwide licence to develop and commercialise animal health products utilising Acrux's technology to deliver medicines through the skin of animals. Acrux earns milestone payments on the approval of marketing applications, as well as royalties on worldwide sales.

In May 2011, the Committee for Medicinal Products for Veterinary Use (CVMP) of the European Medicines Agency (EMA) adopted a positive opinion recommending the granting of a Marketing Authorisation for Recuvyra®, the first of these products. Recuvyra®, which contains the active ingredient Fentanyl, is for the control of pain associated with orthopaedic and soft tissue surgery in dogs. Upon Marketing Authorisation, Acrux will receive from Lilly a milestone payment of \$0.5 million, followed by royalties on sales of the product.

Earlier in 2011, during its review of Lilly's marketing application for Recuvyra® in the United States, the FDA's Center for Veterinary Medicine (CVM) determined that one technical section of the application was incomplete. Lilly subsequently agreed with CVM the requirements for the completion of this section and the FDA's review of the application has continued. If the application is approved, Acrux will receive from Lilly a milestone payment of \$1 million, followed by royalties on sales.

If the marketing applications for Recuvyra® are approved, Acrux expects Lilly to advance the development and registration of a number of further products.

Women's health

Acrux is actively exploring all strategic alternatives for its portfolio of women's health products, including the estradiol spray, the testosterone therapy for women and the contraceptive sprays, with the clear objective of realising and returning maximum value to our shareholders.

The first product developed by Acrux was the estradiol spray for women to treat menopause symptoms. In May 2011 the Medical Products Agency (MPA) in Sweden granted Acrux a marketing authorisation for this product, which enables marketing approvals to be obtained in other European countries under a Mutual Recognition Procedure. This was Acrux's first European drug approval and discussions are underway with potential distribution partners for the European market. In addition, Acrux's distribution partners in Switzerland, South Korea and South Africa currently have marketing applications under review by regulatory authorities in those countries.

The estradiol spray was approved by the FDA in 2007 and launched into the US market in 2008. Branded Evamist®, the spray is distributed in the United States by Acrux's licensee KV Pharmaceutical (KV). In 2009, KV underwent a significant restructuring of its business, including a reduction in the size of its sales force, following a number of product recalls and the suspension of its manufacturing activities by the FDA. Evamist sales in the United States have remained below expectations, with prescription numbers steady at approximately 16-18,000 per month. Royalties from Evamist sales do not yet provide Acrux with significant revenues. Acrux continues to monitor KV's financial position closely.

Financial Summary

	30 June 2011 \$m	30 June 2010 \$m
Revenue from product agreements	89.6	54.9
Interest and other income	3.9	1.2
Total revenue	93.5	56.1
Total expenditure	(12.5)	(12.8)
Profit before capitalised development costs	81.0	43.3
Capitalised Axiron	1.4	5.6
Capitalised Ellavie	0.1	0.3
Profit before tax	82.5	49.2
Income tax expense	(25.4)	(2.6)
Profit after tax	57.1	46.6
Earnings per share	35 cents	29 cents
Net cash inflow before financing	64.4	42.8
New share capital	8.0	1.3
Dividend paid	(99.0)	-
Net cash	33.2	58.6

Revenue

Total revenue was \$93.5 million (2010: \$56.1 million), including revenue from product agreements of \$89.6 million (2010: \$54.9 million) due to the Axiron approval milestone revenue of US\$87 million. The prior year included US\$50 million from Eli Lilly on signing of the Axiron licence agreement in March 2010. Interest income increased to \$3.7 million (2010: \$1.0 million) due to higher cash balances following receipt of the Axiron revenue.

Expenses

Total expenditure before the capitalisation of development costs fell to \$12.5 million (2010: \$12.8 million), including external development expenditure of \$1.7 million, down from \$3.8 million in the prior financial year.

Employee benefits expense, before the capitalisation of development costs, fell to \$3.6 million (2010: \$4.0 million), with further reductions in staff numbers as the level of Axiron development activity reduced. Royalties due to Monash University increased to \$3.0 million (2010: \$1.9 million) and foreign exchange losses were \$1.8 million (2010 \$0.2 million), due to the appreciation of the Australian dollar versus the US dollar prior to settlement of the Axiron milestone revenue. Currency risk strategies are being reviewed as revenues become more predictable.

Income tax expense was \$25.4 million (2010: \$2.6 million). The prior year tax expense was reduced by the first time recognition of the benefit of tax losses, offset by the first time recognition of deferred tax liabilities.

Cash flow

Cash inflow before financing was \$64.4 million (2010: \$42.8 million), due to the higher Axiron revenue, reduced Axiron development expenditure and the sale of manufacturing assets, partly offset by taxes paid of \$15.3 million (2010: Nil). The exercise of employee share options contributed \$8.0 million (2010: \$1.3 million) to cash inflow. Only 25,000 share options remain outstanding. Payment of the special dividend reduced cash reserves to \$33.2 million.

Outlook for 2011/12 and 2012/13

Acrux receives royalties from Lilly on worldwide net sales of Axiron and may also receive total net sales milestone payments of US\$195 million. Acrux's financials in 2011/12 and 2012/13 will be largely determined by this revenue.

Axiron royalties are percentages of worldwide net sales. Net sales in a calendar year are recorded in tiers, with each higher tier attracting a higher royalty percentage up to a maximum percentage. Therefore the average royalty percentage will be at the initial percentage in the first year, increasing within the percentage range as net sales increase over time.

2011/12 net sales will incorporate a discount for the patient co-payment card currently being offered as an incentive for patients to try Axiron. For the first twelve months patients may claim a refund from Lilly towards the co-payment they are required to pay for each month of treatment. Whilst this investment will reduce royalties in the first year Acrux expects that it will enhance subsequent years, with both royalties and milestone payments increasing with market share.

The first of the six potential net sales milestone payments is expected to be received during the 2012/13 financial year. Acrux is currently forecasting revenue from Axiron of between US\$7 and US\$8 million in 2011/12 and approximately US\$40 million in 2012/13. Acrux's operating expenditure is currently running at approximately \$0.5 million per month, with a proportion engaged in ongoing work related to Axiron, which is reimbursed by Lilly.



Ross Dobinson, BBus
Non-Executive Chairman

Ross is a member of the Human Capital Committee and a 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 has also been a director of Starpharma Holdings Limited (ASX: SPL), since May 1997 and is a director of a number of unlisted companies, including TPI Enterprises Ltd and Hexima Limited.



Ken Windle, B Pharm MPS
Non-Executive Deputy Chairman

Ken is 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 (now GSK), including Group Executive Committee, Head of Global Commercialisation, CEO of Glaxo Australia (1986-95) and Regional President, Asia Pacific (1995-2001). Ken is currently Chairman and CEO of Advent Pharmaceuticals Pty Ltd, a director of Aus Bio Limited, a member of the Innovation Australia Board, Governor of the Woolcock Institute and Monash University's Faculty of Pharmacy and a director of New Zealand Pharmaceuticals Ltd. Previously, Ken was a consultant to the Prime Minister's Science Council on Industry Development, Pharmaceuticals Industry Strategy Group, a director of the Singapore Economic Development Board (EDB). He served two terms as Chairman of the APMA (Medicines Australia) and has twice been a winner of the Governor of Victoria Export Prize.



Dr Richard Treagus, BScMed, MBChB, MPharmMed, MBA
Chief Executive Officer and Managing Director

Richard joined Acrux as CEO in May 2006 and was appointed to the Board in 2007. He is a medical doctor, with 20 years experience in the international pharmaceutical industry, including Roche and Wyeth. He was a senior executive at Aspen Pharmacare (JSE: APN, South Africa) before moving to Australia in 2002. As General Manager at Sigma (ASX: SIP), Richard created a number of growth opportunities for the business and concluded a range of acquisitions and licensing deals. In his role as Acrux CEO, Richard leads all commercialisation and partnering activities. In 2010 he was awarded the Ernst and Young Entrepreneur-of-the-Year (Southern Region) in the Listed Company Category.



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Jon Pilcher, BSc (Hons), ACA

Chief Financial Officer and Company Secretary

Jon 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.



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 the injectable business. Hugh holds a Bachelor of Science (in Chemistry) from the University of Melbourne and an MBA from Melbourne Business School.



Clive Blower, BSc (Hons), PhD

Director of Product Development & Technical Affairs

Clive joined Acrux in October 2007, successfully leading the Chemistry, Manufacturing and Controls (CMC) program for the approval, manufacture and launch of Axiron. Prior to that, Clive was at Hospira (previously Faulding, then Mayne Pharma) where he held a number of senior management positions, the most recent of which was Development Manager, Injectable Development. Clive has almost 20 years drug product development experience from concept to launch, including: sourcing actives and excipients; developing and validating analytical methods, drug delivery systems, and manufacturing processes; stability testing; offshore technical transfer; Quality Control; Quality Assurance; and regulatory affairs. While at Hospira 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

During the period from 1 July 2010 to 31 August 2011, the board had three non-executive directors and one executive director. The number of non-executive directors reduced to two with the retirement of Barrie Finnin on 31 August 2011. The board intends to appoint another suitably qualified and experienced non-executive director. The names of the directors, the year of their appointment or retirement, their status as non-executive, executive or independent director and whether they retire by rotation at the 2011 annual general meeting are set out in the table below. The details of their background, skills and experience are set out on page 10 of this report.

Name	Appointed/Retired	Non-Executive	Executive	Independent	Retiring at 2011 AGM
Ross Dobinson	Appointed 1998	Yes	No	Yes	No
Ken Windle	Appointed 2001	Yes	No	Yes	Yes
Barrie Finnin	Retired 31 August 2011	Yes	No	Yes	N/A
Richard Treagus	Appointed 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 2.1.

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 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 were:

- from 1 July 2010 to 31 August 2011 - Ken Windle (Chair), Barrie Finnin and Ross Dobinson; and
- from 1 September 2011 - Ken Windle (Chair) and Ross Dobinson.

The committee met once during the year ended 30 June 2011, with all members attending. Members of the committee are chosen having regard to their skills and experience in relation to the matters for which the committee is responsible. Members of the committee have unrestricted access to company records, management and advisers and the external auditors.

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

- (a) establish a formal and transparent procedure for the selection and appointment of new directors to the board;
- (b) identify suitable candidates to fill board vacancies as and when they arise and nominating candidates for the approval of the board;
- (c) consider processes for the orientation and education of new directors and developing ongoing policies to facilitate continuing education and development of directors;

- (d) assess periodically the skills required for each director to discharge competently the director's duties;
- (e) regularly review the structure, size and composition of the board and the effectiveness of the board as a whole;
- (f) establish and conduct an appropriate evaluation of the board's process and of existing directors, including an evaluation of whether each director is contributing the time required of him or her for board duties;
- (g) recommend to the board a policy and framework for senior employees' remuneration;
- (h) 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.

The Company's Code of Conduct, which has been in place since 2005, contains a principle of equal opportunity to be applied in all human resource decisions and in the workplace environment. To date, the committee has determined that the board should not supplement the Code of Conduct principle by adopting an additional formal diversity policy with measurable objectives for achieving gender diversity, as recommended by ASX Principle 3.2. The workforce at Acrux is small and the majority of positions require specialist scientific qualifications and experience. Since 2009, there has been a significant gradual reduction in employee numbers following the completion of the development of Axiron. The committee believes that these factors make a formal diversity policy and objectives impractical at this time. As at the date of this report, the workforce numbered 21 people, 62% of whom were female. The committee and the board will review the potential need for a formal diversity policy in future as the business changes.

1.7 Audit and Risk Committee

The members of the audit and risk committee of the board were:

- from 1 July 2010 to 31 August 2011 - Ken Windle (Chair), Ross Dobinson and Barrie Finnin; and
- from 1 September 2011 - Ken Windle (Chair) and Ross Dobinson.

The audit and risk committee met twice during the year ended 30 June 2011, 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:
- (i) the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with the relevant accounting standards;
- (ii) the statement in (i) above is founded on a sound system of risk management and control which implements the policies adopted by the board; and
- (iii) the Company's risk management and internal compliance and control 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 22 August 2011.

In accordance with the recommendations of ASX Principle 4.2, the committee's charter provides that the committee have at least three members, executive directors may not be members of the committee, a majority of the committee must be independent directors and the chair must not be the chair of the Company. These requirements were met at all times from 1 July 2010 to 31 August 2011. However, following the retirement of Barrie Finnin on 31 August 2011, the audit and risk committee was reduced to two independent non-executive directors. ASX Listing Rule 12.7 requires that the Company complies with ASX Principle 4.2, including the requirement for at least three members. Accordingly, the board intends to appoint another suitably experienced and qualified non-executive director, who will serve on the audit and risk committee.

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 23 to 28.

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 2011.

A formal review of the performance of the board and its committees was not undertaken during the year ended 30 June 2011.

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;
- (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 materials 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 optimise 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. In addition, the directors and senior executives are prohibited from trading in the Company's shares during the period from the end of the financial year to the release of financial results to the market.

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;
- (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 2011 and the independent audit report thereon. This financial report has been prepared in accordance with Australian Accounting 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 \$57.1 million (2010: \$46.6 million). Diluted earnings per share was 34.5 cents (2010: 28.7 cents).

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.

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 consolidated profit after tax of \$57.1 million (2010: \$46.6 million), driven by milestone revenue of US\$87 million under its global licence agreement with Eli Lilly for the commercialisation of Axiron®, partly offset by higher income tax expense of \$25.4 million (2010: \$2.6 million). The revenue was earned following the granting of a marketing authorisation for Axiron by the US Food and Drug Administration in November 2010. Eli Lilly launched Axiron in the United States in April 2011. Acrux declared a special dividend to shareholders of 60 cents per share, totaling approximately \$100 million, in March 2011.

Revenue

Total revenue for the financial year was \$93.5 million (2010: \$56.1 million). Revenue from product agreements totaled \$89.6 million (2010: \$55.0 million). The prior year included revenue of US\$50 million from Eli Lilly on signing of the Axiron licence agreement in March 2010. Interest income increased to \$3.7 million (2010: \$1.0 million) due to higher cash balances following receipt of the Axiron revenue.

Operating Expenditure

Reported operating expenditure was \$11.0 million (2010: \$6.9 million), due principally to higher royalty expense and foreign exchange losses.

Total expenditure before the capitalisation of development costs relating to Axiron and Ellavie™ fell to \$12.4 million from \$12.8 million in the prior financial year. The total expenditure before capitalisation included external research and development expenditure of \$1.7 million, down from \$3.8 million in the prior financial year.

Employee benefits expense, before the capitalisation of development costs, fell to \$3.6 million (2010: \$4.0 million), with further reductions in staff numbers during the year as the level of Axiron development activity reduced. The workforce numbered 20 at 30 June 2011.

Royalty expenses increased to \$3.0 million (2010: \$1.9 million), representing royalties due to Monash University following the receipt of the revenue under the Axiron licence agreement.

Foreign exchange losses were \$1.8 million (2010: \$0.2 million), due to the appreciation of the Australian dollar versus the US dollar prior to settlement of the milestone revenue.

Income tax expense was \$25.4 million (2010: \$2.6 million). The prior year tax expense was reduced by the first time recognition of the benefit of tax losses, offset by the first time recognition of a deferred tax liability for temporary differences between taxable profit and accounting profit. The majority of the tax losses have been utilised in the 2010/11 financial year.

Cash flow

Operating cash inflow was \$65.1 million (2010: \$48.4 million), due to higher receipts partly offset by taxes paid of \$15.3 million (2010: Nil). Investing activities produced a cash outflow of \$0.7 million, compared with a cash outflow of \$5.6 million in the prior year, as Axiron capitalised development expenses fell by \$3.3 million and receipts from the sale of Axiron manufacturing assets were \$1.6 million higher. The exercise of employee share options contributed \$8.0 million (2010: \$1.3 million) to cash inflow. Cash reserves fell from \$58.6 million to \$33.2 million following payment of the special dividend to shareholders.

Contributed Equity

The exercise of employee share options added \$8.0 million to contributed equity (2010: \$1.3 million). The number of employee share options on issue at the end of the reporting period was reduced to 25,000 (2010: 6.0 million).

Key Events During the Year

- October 2010 – Acrux awarded two Governor of Victoria Export Awards, including Victorian Award for Innovation Excellence.
- November 2010 – marketing authorisation for Axiron granted by the US Food and Drug Administration (FDA), resulting in milestone payment of US\$87 million from Eli Lilly.
- March 2011 – Special dividend of 60 cents per share (\$100 million) declared.
- April 2011 – Axiron launched in US testosterone therapy market by Eli Lilly.
- May 2011 – first animal health product Recuvyra® recommended for marketing approval by European Medicines Agency.
- May 2011 – marketing authorisation for estradiol spray Ellavie granted in Sweden.

Significant Changes in the State of Affairs

The granting of a marketing authorisation for Axiron in the United States and the associated receipt of US\$87 million from Eli Lilly significantly strengthened Acrux's financial position. Surplus cash of \$100 million was paid to shareholders as a special dividend of 60 cents per share.

All outstanding share options apart from 25,000 options were exercised during the year, providing cash of \$8.0 million and increasing the number of shares from 160.6 million to 166.5 million.

After Balance Date Events

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

Likely Developments

The Company will continue to pursue its operating strategy to create shareholder value. For the foreseeable future, the consolidated entity's financial results will be materially influenced by the sales performance of Axiron in the United States. Under a license agreement with Eli Lilly, the consolidated entity receives royalties on worldwide sales of Axiron by Eli Lilly and is eligible to receive potential sales milestone payments of up to US\$195 million.

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

The Company declared a dividend for the first time in March 2011. The special dividend of 60 cents per share was paid in April 2011. No other dividends have been paid, declared or recommended during the financial year.

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:	2011 \$	2010 \$
Other assurance services	1,000	8,250

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
4 March 2008	25,000	\$1.84	March 2013

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 \$
31 August 2010	2,692,495	0.900
3 November 2010	20,000	0.790
12 November 2010	10,000	1.840
23 November 2010	10,000	1.570
24 November 2010	20,000	1.570
25 November 2010	445,000	1.840
25 November 2010	10,000	1.840
29 November 2010	25,000	1.840
30 November 2010	50,000	1.840
1 December 2010	260,000	1.840
3 December 2010	1,300,000	1.840
6 December 2010	40,000	1.840
7 December 2010	140,000	1.840
9 December 2010	45,000	1.840
10 December 2010	210,000	1.840
13 December 2010	125,000	1.840
17 December 2010	10,000	1.840
4 January 2011	10,000	0.790
14 January 2011	138,000	1.840
28 January 2011	12,000	1.840
1 February 2011	15,000	1.840
28 February 2011	16,000	0.510
2 March 2011	38,000	0.510
4 March 2011	46,000	0.510
11 March 2011	113,000	0.510
22 March 2011	29,000	1.840
22 March 2011	40,000	0.510
23 March 2011	13,000	0.510
23 March 2011	2,000	0.790
28 March 2011	21,000	1.840
29 March 2011	15,000	1.840
29 March 2011	2,000	0.510
3 May 2011	18,000	0.770
Total	5,940,495	

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:

Committee Meetings

Directors	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	7	7	2	2	1	1
H K Windle	7	7	2	2	1	1
B C Finnin	7	5	2	2	1	1
R Treagus	7	7	-	-	-	-

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 2011 are detailed below.

	Total No. of Shares	Total No. of Options
<i>Directors</i>		
R Dobinson	1,492,593	-
H K Windle	678,000	-
B C Finnin	3,228,148	-
R Treagus	2,077,495	-
<i>Executives</i>		
J Pilcher	116,980	-
H Alsop	-	-
C Blower	80,000	-
A Watkinson ¹	-	-
N Webster ²	7,000	-
T Soulis ³	-	-
Total	7,680,216	-

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 23 to the financial statements.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a director of Acrux Limited or company secretary at any time during and since the end of the financial year are provided on pages 10 and 11 except for Professor Barrie Finnin, who retired 31 August 2011, whose details are provided below:

Barrie Finnin, B Pharm PhD PhC

Barrie was appointed as a Non-Executive Director in 1999 and retired 31 August 2011. He was a member of the Human Capital Committee and member of the Audit and Risk Committee during the financial year and to the date of his retirement. He 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).

¹ Chief Scientific Officer until 20 May 2011.

² Director of Business Development until 20 May 2011.

³ Director of Clinical Development until 20 May 2011.

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 may form 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.

Remuneration and Termination Entitlements 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.

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

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 in July 2006, at an exercise price of 90 cents. The closing share price on the grant date was 49.5 cents. These options were all exercised during the financial year.

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), or three months (H. Alsop and C. Blower).

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
H Alsop	Director of Business Development
C Blower	Director of Product Development and Technical Affairs
A Watkinson ¹	Chief Scientific Officer
N Webster ²	Director of Business Development
T Soulis ³	Director of Clinical Development

¹ Chief Scientific Officer until 20 May 2011.

² Director of Business Development until 20 May 2011.

³ Director of Clinical Development until 20 May 2011.

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>Executives</i>							
J Pilcher	113,000	-	26/02/09	0.18	0.510	26/02/11	26/02/14
N Webster ¹	38,000	-	26/02/09	0.18	0.510	26/02/11	26/02/14
Total	151,000	-					

¹ Director of Business Development until 20 May 2011.

(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 \$
<i>Executives</i>			
R Treagus	2,692,495	0.900	-
R Treagus	1,300,000	1.840	-
J Pilcher	300,000	1.840	-
J Pilcher	113,000	0.510	-
H Alsop	250,000	1.840	-
C Blower	250,000	1.840	-
A Watkinson ¹	250,000	1.840	-
N Webster ²	250,000	1.840	-
N Webster ²	38,000	0.510	-
T Soulis ³	125,000	1.840	-

¹ Chief Scientific Officer until 20 May 2011.

² Director of Business Development until 20 May 2011.

³ Director of Clinical Development until 20 May 2011.

Remuneration Report

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 employ- ment	Term- ination Benefits	Equity	Total	Equity as % of Total	Bonus as % of Total
	Salary \$	Bonus* \$	Super \$	\$	Options \$	\$	%	%
2011								
J Pilcher	207,851	32,425	15,199	-	6,659	262,134	3%	12%
H Alsop	183,496	28,625	15,199	-	-	227,320	0%	13%
C Blower	161,246	25,154	14,512	-	-	200,912	0%	13%
A Watkinson ¹	160,259	-	17,666	-	-	177,925	0%	0%
N Webster ²	95,997	-	8,494	44,733	2,239	151,463	1%	0%
T Soulis ³	153,104	-	12,478	49,529	-	215,110	0%	0%
	961,953	86,204	83,548	94,262	8,898	1,234,864	1%	7%
2010								
J Pilcher	201,609	33,870	14,461	-	19,318	269,258	7%	13%
H Alsop	177,986	29,902	14,461	-	7,694	230,043	3%	13%
C Blower	156,406	26,276	14,461	-	12,612	209,755	6%	13%
A Watkinson ¹	182,263	31,628	20,461	-	7,694	242,046	3%	13%
N Webster ²	42,794	8,518	6,420	-	11,085	68,817	16%	12%
T Soulis ³	140,331	35,446	14,448	-	7,694	197,919	4%	18%
R Cull ⁴	85,801	-	6,976	-	46,037	138,814	33%	0%
	987,190	165,641	91,688	-	112,134	1,356,653	8%	12%

* Includes the bonus earned in the financial year. In prior years' Remuneration Reports the bonus paid in the financial year was included. Disclosure of the bonus earned in the financial year irrespective of the payment date, is a more meaningful measure of remuneration. Bonus relates to achievement of objectives for the financial year. The amount of bonus earned was 65% of the maximum amount payable for the 2010/11 financial year and 70% for the 2009/10 financial year.

¹ Chief Scientific Officer until 20 May 2011.

² Director of Business Development (part-time) until 20 May 2011.

³ Director of Clinical Development until 20 May 2011.

⁴ Director of Regulatory Affairs and Quality until 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. 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 employ- ment	Term- ination Benefits	Equity	Total	Equity as % of Total	Bonus as % of Total
	Salary \$	Bonus* \$	Super \$	\$	Options \$	\$	%	%
2011								
R Dobinson	117,996	-	-	-	-	117,996	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	358,916	150,272	25,000	-	-	534,188	0%	28%
	552,312	150,272	80,400	-	-	782,984	0%	19%
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	231,187	26,203	-	26,203	642,700	4%	36%
	545,871	231,187	81,603	-	26,203	884,864	3%	26%

* Includes the bonus earned in the financial year. In prior years' Remuneration Reports the bonus paid in the financial year was included. Disclosure of the bonus earned in the financial year irrespective of the payment date, is a more meaningful measure of remuneration. Bonus relates to achievement of objectives for the financial year. The amount of bonus earned was 65% of the maximum amount payable for the 2010/11 financial year and 100% for the 2009/10 financial year.

Remuneration Report

Number of options held by key management personnel

No options were held by key management personnel at the date of the Director's Report.

Value of options held by key management personnel

No options were held by key management personnel at the date of the Director's Report.

Number of shares held by key management personnel

Directors and Executives	Balance 1/07/2010	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2011
<i>Directors</i>					
R Dobinson	3,355,866	-	-	(1,863,273)	1,492,593
H K Windle	678,000	-	-	-	678,000
B C Finnin	3,232,148	-	-	(4,000)	3,228,148
R Treagus	110,000	-	3,992,495	(2,025,000)	2,077,495
<i>Executives</i>					
J Pilcher	63,100	-	413,000	(359,120)	116,980
H Alsop	50,000	-	250,000	(300,000)	-
C Blower	-	-	250,000	(170,000)	80,000
A Watkinson ¹	-	-	250,000	(250,000)	-
N Webster ²	6,000	-	288,000	(287,000)	7,000
T Soulis ³	-	-	125,000	(125,000)	-
Total	7,495,114	-	5,568,495	(5,383,393)	7,680,216

¹ Chief Scientific Officer until 20 May 2011.

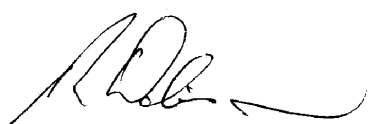
² Director of Business Development until 20 May 2011.

³ Director of Clinical Development until 20 May 2011.

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 22nd day of August 2011



H K Windle
Director
Melbourne

Dated this 22nd day of August 2011



AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Acrux Limited

In relation to the independent audit for the year ended 30 June 2011, 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 22nd day of August 2011

PITCHER PARTNERS

Melbourne

Financial Statements
for the financial year ended 30 June 2011

Consolidated Statement of Comprehensive Income

	Notes	2011 \$'000	2010 \$'000
Revenue	4	93,471	56,101
Employee benefits expense	5	(2,997)	(2,647)
External research and development expenses	5	(1,025)	(1,019)
Non-executive directors' fees		(249)	(242)
Professional fees		(601)	(873)
Royalty expense		(3,008)	(1,913)
Foreign exchange losses		(1,750)	(226)
Loss on sale of fixed assets		(156)	-
Other expenses		(1,173)	(10)
		(10,959)	(6,930)
Profit before income tax		82,512	49,171
Income tax expense	6	(25,364)	(2,617)
Profit for the year		57,148	46,554
Total comprehensive income for the year		57,148	46,554
Total comprehensive income attributable to:			
Members of the parent	16	57,148	46,554
Non - controlling interest	17	-	-
		57,148	46,554
Basic earnings per share (cents per share)	8	34.73	29.08
Diluted earnings per share (cents per share)	8	34.51	28.70

The accompanying notes form part of these financial statements.

Financial Statements
for the financial year ended 30 June 2011

Consolidated Statement of Financial Position

	Notes	2011 \$'000	2010 \$'000
Current assets			
Cash and cash equivalents	9	33,159	58,609
Receivables	10	943	564
Total current assets		34,102	59,173
Non-current assets			
Plant and equipment	11	126	1,024
Intangible assets	12	24,767	23,408
Total non-current assets		24,893	24,432
Total assets		58,995	83,605
Current liabilities			
Current tax payable	6	5,669	-
Payables	13	1,777	1,670
Short term provisions	14	290	305
Total current liabilities		7,736	1,975
Non-current liabilities			
Deferred tax liabilities	6	5,495	1,094
Long term provisions	14	52	67
Total non-current liabilities		5,547	1,161
Total liabilities		13,283	3,136
Net assets		45,712	80,469
Equity			
Contributed equity	15	95,825	85,786
Reserves	16(a)	4	2,061
Accumulated losses	16(b)	(50,117)	(7,378)
Equity attributable to the owners of Acrux Ltd		45,712	80,469
Non controlling interests	17	-	-
Total equity		45,712	80,469

The accompanying notes form part of these financial statements.

Financial Statements
for the financial year ended 30 June 2011

Consolidated Statement of Changes in Equity

	Notes	Contributed Equity \$'000	Reserves \$'000	Retained Earnings \$'000	Total Equity \$'000
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	15(b)	2,575	-	-	2,575
Employee Share Options Expense	16(a)	-	117	-	117
Lapsed Employee Share Options	16	-	(9)	9	-
Dividends Paid	7	-	-	-	-
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
Balance as at 1 July 2010		85,786	2,061	(7,378)	80,469
Profit for the period		-	-	57,148	57,148
Total comprehensive income for the year		-	-	57,148	57,148
Transactions with owners in their capacity as owners:					
Contributions	15(b)	10,039	(2,074)	-	7,965
Employee Share Options Expense	16(a)	-	17	-	17
Lapsed Employee Share Options	16	-	-	-	-
Dividends Paid	7	-	-	(99,887)	(99,887)
Total transactions with owners in their capacity as owners		10,039	(2,057)	(99,887)	(91,905)
Balance as at 30 June 2011		95,825	4	(50,117)	45,712

The accompanying notes form part of these financial statements.

Financial Statements
for the financial year ended 30 June 2011

Consolidated Statement of Cash Flows

	Notes	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Receipts from product agreements		85,947	55,141
Payments to suppliers and employees		(9,649)	(7,779)
Interest received		3,933	685
Grant income received		168	328
Taxes paid		(15,295)	(6)
Net cash flows provided by operating activities	18(a)	65,104	48,369
Cash flows from investing activities			
Proceeds from the sale of plant and equipment		2,583	1,014
Purchase of plant and equipment		(742)	(719)
Payment for capitalised development costs		(2,565)	(5,854)
Net cash flows used in investing activities		(724)	(5,559)
Cash flows from financing activities			
Net proceeds from issues of ordinary shares		7,964	1,313
Dividends paid		(99,047)	-
Net cash flows provided by/(used in) financing activities		(91,083)	1,313
Net increase/(decrease) in cash held		(26,703)	44,123
Foreign exchange differences on cash holdings		1,253	(250)
Add cash at the beginning of the year		58,609	14,736
Cash at end of year	18(b)	33,159	58,609

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

(a) Basis of presentation of the financial report

Compliance with IFRS

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

Historical Cost Convention

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

Critical accounting estimates

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

(b) 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 consolidated from the date on which control is

established and 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 and any accumulated impairment losses.

Depreciation

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

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

The useful lives for each class of assets are:

	2011	2010
Leasehold improvements:	Not Applicable	0.1 to 8 years
Plant and equipment:	2.5 to 14 years	2.5 to 14 years

(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. The useful life is approximately 13 years. Amortisation expense is included in 'Other Expenses' of the Statement of Comprehensive Income.

Research and Development

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

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

Capitalised development costs have a finite life and are amortised on a systematic basis over the period from 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.

The useful life of each asset and the total economic benefits that will be generated by the asset over its useful life are estimated and the asset cost is divided by the total economic benefits resulting in an amount of cost to be amortised per dollar of economic benefit. The estimated useful life and total economic benefit for each asset are reviewed at least annually. The useful life of one asset for which amortisation has commenced is approximately 15 years. Amortisation expense is included in 'Other Expenses' of the Statement of Comprehensive Income.

(h) Impairment

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.

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

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

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

Note 1: Statement of Significant Accounting Policies (Continued)

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

Transactions and balances

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

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

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 parent entity and the consolidated entity have applied the relief available under ASIC Class Order CO 98/0100 and accordingly, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(p) *New accounting standards and interpretations*

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

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 discounted cash flow models to determine that the parent entity's investments in and loans to its subsidiaries, and the capitalised development costs in the consolidated entity, are not being carried at a value that is materially in excess of recoverable value. The models value each product or potential product by estimating future cashflows and discounting the future net cash flows for the probability of successful commercialisation, as well as for the time value of money using discount rates of between 11% and 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

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

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

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

(a) 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 2011, are shown in the table below. Cash is the only financial asset or liability that is exposed to interest rate risk. A change in the average effective interest rate during the reporting period of 1% would have changed the net profit and equity of the consolidated entity by approximately \$0.4 million. The consolidated entity's cash reserves fluctuated significantly during the financial year, following the receipt of US\$87 million under the Axiron licence agreement with Eli Lilly and then the special dividend payment to shareholders of \$100 million. A change in the average effective interest rate of 1% applied to the cash balances at 30 June 2011 of \$33.2 million would change the net profit and equity of the consolidated entity by approximately \$0.2 million.

At 30 June 2011, the consolidated entity had financial instruments with carrying amounts as shown in the following table:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in 1 year or less		Non interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 %	2010 %
(i) Financial assets										
Cash	8,946	19,382	24,212	39,225	1	2	33,159	58,609	5.3	5.4
Receivables	-	-	-	-	943	564	943	564		
Total financial assets	8,946	19,382	24,212	39,225	944	566	34,102	59,173		
(ii) Financial liabilities										
Trade creditors	-	-	-	-	218	321	218	321		
Sundry creditors and accruals	-	-	-	-	1,559	1,349	1,559	1,349		
Total financial liabilities	-	-	-	-	1,777	1,670	1,777	1,670		

The net fair value of the financial assets and financial liabilities at 30 June 2011 was not materially different to the carrying amounts as disclosed in the balance sheet and notes to the financial statements.

(a) Market risk (Continued)

(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 denominated in US dollars. Currency risk management strategies are regularly reviewed.

Bank accounts denominated in US dollars are maintained in order to facilitate receipts and payments. Cash reserves at 30 June 2011 included \$2.3 million denominated in US dollars. A change of 10% in the AUD/USD exchange rates at 30 June 2011 would have changed the net profit and equity of the consolidated entity by approximately \$0.2 million.

During the reporting period, exchange rate risk was managed by eliminating US dollar revenue in excess of US dollar expenditure through spot and short-term forward sales of US dollars.

During the reporting period, the consolidated entity received revenues of \$89.2 million denominated in US dollars. A payment of US\$87 million from Eli Lilly under the Axiron licence agreement comprised the majority of the revenue denominated in US dollars. A change of 10% in the AUD/USD rate achieved on conversion of this payment to Australian dollars would have changed the consolidated net profit and equity by approximately \$6 million.

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

(b) Credit risk

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

Cash reserves form the majority of the consolidated entity's financial assets at 30 June 2011. 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 2011, cash was deposited with three different banks in order to spread risk and ensure interest rate competitiveness.

At 30 June 2011, the consolidated entity did not have a material credit risk exposure to any single customer or group of customers. During 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 2011, Eli Lilly's credit ratings were AA-(S&P) and A2 (Moody's). The credit rating and financial health of Eli Lilly are monitored regularly. The grant of the license under the license agreement is subject to payment by Eli Lilly of the amounts in accordance with the agreement.

c) 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, \$33.2 million (2010: \$58.6 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 4: Revenue

	2011 \$'000	2010 \$'000
Revenues from operating activities		
Revenue from product agreements	89,603	54,904
Grant revenue	168	165
Total revenues from operating activities	89,771	55,069
Other revenues		
Interest	3,700	1,032
Total revenues from non-operating activities	3,700	1,032
Total revenues from continuing operations	93,471	56,101

Note 5: Profit from Continuing Operations

	Notes	2011 \$'000	2010 \$'000
Profit from continuing operations before income tax has been determined after the following specific expenses:			
Employee benefits expense			
Wages and salaries		3,278	3,611
Workers' compensation costs		12	16
Superannuation costs		233	248
Training expenses		23	15
Share-based payments		17	117
Total employee benefits expense		3,563	4,007
Capitalised	12	(566)	(1,360)
Per Statement of Comprehensive Income		2,997	2,647
Depreciation of non-current assets			
Plant and equipment		140	197
Total depreciation of non-current assets		140	197
Amortisation of non-current assets			
Leasehold improvements		-	183
Intellectual property		95	95
Research and development		11	-
Total amortisation of non-current assets		106	278
Total depreciation and amortisation expenses		246	475
Rental expense on operating leases		251	251
External research and development expenses		1,725	3,821
Capitalised	12	(700)	(2,802)
Per Statement of Comprehensive Income		1,025	1,019

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 6: Income Tax

	2011 \$'000	2010 \$'000
(a) Income tax recognised in profit or loss:		
Current tax	24,716	6
Deferred tax	655	2,611
Over provision in prior years	(7)	-
Income tax expense attributable to profit	25,364	2,617
(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	82,512	49,171
Prima facie income tax payable on profit before income tax at 25.0% for parent entity and 30.0% for subsidiaries (2010: 25.0% for parent entity and 30.0% for subsidiaries)	24,749	14,743
Add/(subtract) tax effect:		
Non deductible expenses	22	29
Research and development tax concession	-	(41)
Foreign tax credits written off	259	6
Under provisions for prior years	288	-
Previously unrecognised tax losses	-	(16,082)
Previously unrecognised temporary differences	-	3,962
Tax losses and temporary differences not brought to account	46	-
	615	(12,126)
Income tax expense attributable to profit	25,364	2,617
(c) Income tax recognised directly in equity		
Deferred tax arising on share issue expenses	-	(1,264)
(d) Current tax		
Opening balance	-	-
Under provision in prior years	1,295	-
Provision for current year	24,716	-
Tax losses transferred from deferred tax	(5,053)	-
Tax payments	(15,289)	-
Current tax liability	5,669	-

Notes to the Financial Statements
for the financial year ended 30 June 2011

(e) Deferred tax balances	Opening balance	Over- provision prior years	Transferred to current tax	Recognised in profit or loss	Closing balance
2011	\$'000	\$'000	\$'000	\$'000	\$'000
Temporary differences					
Intangible assets	(6,545)	-	-	(403)	(6,948)
Accruals and provisions	295	-	-	(116)	179
Leasehold improvements	239	-	-	(11)	228
Patent expenses	658	(170)	-	118	606
Exchange differences	77	-	-	(22)	55
Accrued interest	(113)	-	-	70	(43)
Share issue expenses	34	32	-	(33)	33
	(5,355)	(138)	-	(397)	(5,890)
Unused tax losses and credits					
Tax losses	4,008	1,441	(5,054)	-	395
Foreign tax credits	253	-	-	(253)	-
	4,261	1,441	(5,054)	(253)	395
	(1,094)	1,303	(5,054)	(650)	(5,495)
		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)	

Note 6: Income Tax (Continued)

	2011 \$'000	2010 \$'000
(e) Deferred tax assets not brought to account		
Temporary differences	(316)	(285)
Tax losses	6,949	6,492
	6,633	6,207

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: Dividends

	2011 \$'000	2010 \$'000
(a) Dividends paid		
Dividends paid at 60 cents per share (2010: Nil) unfranked	99,887	-
Balance of franking account on a tax paid basis at financial year-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years:	15,289	-

Note 8: Earnings Per Share

	2011 \$'000	2010 \$'000
Profit from continuing operations	57,148	46,554
Profit used in calculating basic and diluted earnings per share	57,148	46,554
	No. of shares	No. of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	164,535,257	160,099,628
Effect of dilutive securities:		
Employee Share Options	1,077,493	2,083,440
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	165,612,750	162,183,068
Basic earnings per share (cents)	34.73	29.08
Diluted earnings per share (cents)	34.51	28.70

Note 9: Cash and Cash Equivalents

	2011 \$'000	2010 \$'000
Cash on hand	1	2
Cash at bank	8,946	19,382
Deposits at call	24,212	39,225
	33,159	58,609

Note 10: Receivables

Current		
Trade receivables	703	2
Other receivables	177	444
Prepayments	63	118
	943	564

(a) Provision for impairment

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

Note 11: Plant and Equipment

	Notes	2011 \$'000	2010 \$'000
Leasehold Improvements			
At cost		1,115	1,115
Accumulated amortisation		(1,115)	(1,115)
Total leasehold improvements	11(a)	-	-
Plant and Equipment			
At cost		469	1,561
Accumulated depreciation		(343)	(537)
Total plant and equipment	11(a)	126	1,024
Total plant and equipment		126	1,024

(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
Additions	-	2
Amortisation expense	-	(183)
	-	-
<i>Plant and equipment</i>		
Carrying amount at beginning	1,024	1,591
Additions	28	715
Disposals	(786)	(1,085)
Depreciation expense	(140)	(197)
	126	1,024

Note 12: Intangible Assets

	Notes	2011 \$'000	2010 \$'000
Intellectual Property			
At cost		1,200	1,200
Accumulated amortisation		(664)	(569)
Net carrying amount	12(a)	536	631
Capitalised Development			
Ellavie			
External research and development expenses		766	729
Employee benefits capitalised		169	116
Other capitalised amounts		136	117
	12(a)	1,071	962
Axiron			
External research and development expenses		17,415	16,752
Employee benefits capitalised		3,353	2,840
Other capitalised amounts		2,403	2,223
Accumulated amortisation		(11)	-
	12(a)	23,160	21,815
Net carrying amount		24,231	22,777
Total intangible assets		24,767	23,408

(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		631	726
Amortisation expense		(95)	(95)
		536	631
<i>Capitalised Development</i>			
Ellavie			
Carrying amount at beginning		962	604
Additions		109	358
		1,071	962
Axiron			
Carrying amount at beginning		21,815	16,248
Additions		1,356	5,567
Amortisation		(11)	-
		23,160	21,815

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

Note 13: Payables

	2011 \$'000	2010 \$'000
Current		
Trade creditors	218	321
Sundry creditors and accruals	1,559	1,349
	1,777	1,670

Note 14: Provisions

Current		
Employee entitlements	290	305
Non-current		
Employee entitlements	52	67
Aggregate employee entitlements liability	342	372

Note 15: Contributed Equity

	2011 \$'000	2010 \$'000
(a) Issued and paid up capital		
Ordinary shares fully paid	95,825	85,786
(b) Movements in shares on issue		
Beginning of the financial year	85,786	83,211
Issued during the year:		
Employee share option plans		
- 18,000 on the 3 May 2011	14	
- 17,000 on the 29 March 2011	29	
- 21,000 on the 28 March 2011	39	
- 15,000 on the 23 March 2011	8	
- 69,000 on the 22 March 2011	74	
- 113,000 on the 11 March 2011	58	
- 46,000 on the 4 March 2011	23	
- 38,000 on the 2 March 2011	19	
- 16,000 on the 28 February 2011	8	
- 15,000 on the 1 February 2011	28	
- 12,000 on the 28 January 2011	22	
- 138,000 on the 14 January 2011	254	
- 10,000 on the 4 January 2011	8	
- 10,000 on the 17 December 2010	18	
- 125,000 on the 13 December 2010	230	
- 210,000 on the 10 December 2010	386	
- 45,000 on the 9 December 2010	83	
- 140,000 on the 7 December 2010	258	
- 40,000 on the 6 December 2010	74	
- 1,300,000 on the 3 December 2010	2,392	
- 260,000 on the 1 December 2010	478	
- 50,000 on the 30 November 2010	92	
- 25,000 on the 29 November 2010	46	
- 455,000 on the 25 November 2010	837	
- 20,000 on the 24 November 2010	31	
- 10,000 on the 23 November 2010	16	
- 10,000 on the 12 November 2010	18	
- 20,000 on the 3 November 2010	16	
- 2,692,495 on the 31 August 2010	2,423	
Contributions from share issues – Subtotal	7,982	-

Note 15: Contributed Equity (Continued)

	2011 \$'000	2010 \$'000
(b) Movements in shares on issue		
Beginning of the financial year	85,786	83,211
Issued during the year:		
Employee share option plans – Subtotal from previous page	7,982	
- 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
Less Capital Raising Expenses	(17)	(7)
Fair value of shares issued on exercise of employee share options	2,074	-
Tax credits on capital raising expenses	-	1,264
Contributions from share issues	10,039	2,575
At reporting date	95,825	85,786

Notes to the Financial Statements
for the financial year ended 30 June 2011

	2011 No	2010 No
Beginning of the financial year	160,556,216	159,400,216
Employee share option plans		
- 3 May 2011	18,000	
- 29 March 2011	17,000	
- 28 March 2011	21,000	
- 23 March 2011	15,000	
- 22 March 2011	69,000	
- 11 March 2011	113,000	
- 4 March 2011	46,000	
- 2 March 2011	38,000	
- 28 February 2011	16,000	
- 1 February 2011	15,000	
- 28 January 2011	12,000	
- 14 January 2011	138,000	
- 4 January 2011	10,000	
- 17 December 2010	10,000	
- 13 December 2010	125,000	
- 10 December 2010	210,000	
- 9 December 2010	45,000	
- 7 December 2010	140,000	
- 6 December 2010	40,000	
- 3 December 2010	1,300,000	
- 1 December 2010	260,000	
- 30 November 2010	50,000	
- 29 November 2010	25,000	
- 25 November 2010	455,000	
- 24 November 2010	20,000	
- 23 November 2010	10,000	
- 12 November 2010	10,000	
- 3 November 2010	20,000	
- 31 August 2010	2,692,495	
Number of new shares issued - Subtotal	5,940,495	-

Note 15: Contributed Equity (Continued)

	2011 No	2010 No
Beginning of the financial year	160,556,216	159,400,216
Subtotal from previous page	5,940,495	
- 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
At reporting date	166,496,711	160,556,216

(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 personal are shown in the Remuneration Report section of the Directors' Report.

During the financial year, no options (2010: Nil) 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 in July 2006, at an exercise price of 90 cents. These options were exercised during the financial year. No further options were granted under the contract during the financial year (2010: Nil).

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2011 was \$3.39.

	2011 No	2010 No
(i) Movement in the number of share options held under Employee Share Option Plan and CEO contract are as follows:		
Opening balance	5,965,495	7,171,495
Granted during the year	-	-
Exercised during the year	(5,940,495)	(1,156,000)
Lapsed during the year	-	(50,000)
Closing balance	25,000	5,965,495
	\$'000	\$'000
(ii) Details of share options exercised during the year:		
Proceeds from shares issued	7,982	1,318
Fair value as at issue date of shares issued during the year	16,553	2,432

Note 15: 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
3 May 2011	3.330	18,000
29 March 2011	3.700	17,000
28 March 2011	3.670	21,000
23 March 2011	3.430	15,000
22 March 2011	3.420	69,000
11 March 2011	3.360	113,000
4 March 2011	3.440	46,000
2 March 2011	3.350	38,000
28 February 2011	3.410	16,000
1 February 2011	3.580	15,000
28 January 2011	3.610	12,000
14 January 2011	3.500	138,000
4 January 2011	3.540	10,000
17 December 2010	3.570	10,000
13 December 2010	3.530	125,000
10 December 2010	3.550	210,000
9 December 2010	3.570	45,000
7 December 2010	3.550	140,000
6 December 2010	3.460	40,000
3 December 2010	3.410	1,300,000
1 December 2010	3.450	260,000
30 November 2010	3.380	50,000
29 November 2010	3.390	25,000
25 November 2010	3.290	455,000
24 November 2010	3.360	20,000
23 November 2010	3.080	10,000
12 November 2010	3.100	10,000
3 November 2010	3.170	20,000
31 August 2010	2.020	2,692,495
		5,940,495

(iii) Details of lapsed options

No options lapsed during the reporting period.

(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 declared a dividend for the first time in March 2011. The dividend was a special dividend of 60 cents per share. The amounts and ratio of future dividends have not been determined.

Note 16: Reserves and Accumulated Losses

	Notes	2011 \$'000	2010 \$'000
Share based payment reserve	16(a)	4	2,061
Accumulated losses	16(b)	(50,117)	(7,378)
(a) Share based payment reserve			
(i) Nature and purpose of reserve			
This reserve is used to record the value of equity benefit provided to employees and directors as part of their remuneration. Refer note 15 for details.			
(ii) Movement in reserve			
Balance at the beginning of year		2,061	1,953
Transfer fair value of employee shares options to share capital		(2,074)	-
Employee share option expense for the period (including adjustment for service conditions not met)		17	117
Vested employee share options previously expensed, that lapsed during the period		-	(9)
Balance at end of year		4	2,061
(b) Accumulated profit/(losses)			
Balance at the beginning of year		(7,378)	(53,941)
Vested employee share options that lapsed during the period		-	9
Net profit attributable to members of Acrux Limited		57,148	46,554
Accumulated profit/(losses) at reporting date		49,770	(7,378)
Dividends paid		(99,887)	-
Accumulated losses at reporting date		(50,117)	(7,378)

Note 17: Non Controlling Interests

	Notes	2011 \$'000	2010 \$'000
Non controlling interests comprises:			
Contributed equity	17(a)	51	51
Accumulated losses	17(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 18: Cash Flow Information

	2011 \$'000	2010 \$'000
(a) Reconciliation of the net profit/(loss) after tax to the net cash flows from operations:		
Net profit/(loss)	57,148	46,554
Non-Cash Items		
Depreciation and amortisation	246	475
Loss on sale of fixed assets	156	-
Deferred tax recognised directly in equity	-	1,264
Unrealised foreign exchange (losses)/gains	(1,253)	250
Share based payments	17	117
Changes in assets and liabilities		
Increase in tax liabilities	10,070	1,347
(Increase)/Decrease in trade and other receivables	(753)	47
Increase/(Decrease) in trade and other creditors	(497)	(1,697)
(Decrease)/Increase in employee entitlements	(30)	12
	7,956	1,815
Net cash flow from operating activities	65,104	48,369
(b) Reconciliation of cash		
Cash balance comprises:		
- Cash on hand	1	2
- Cash at bank	8,946	19,382
- At call deposits with financial institutions	24,212	39,225
Closing cash balance	33,159	58,609
(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 \$91,000 (2010: \$159,000). As at 30 June 2011 the consolidated entity had unused facilities of \$89,287 (2010: \$148,093).		

Note 19: Commitments

	2011 \$'000	2010 \$'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	262	251
– Later than one year and not later than five years	530	792
Aggregate lease expenditure contracted for at reporting date	792	1,043

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.

Note 20: Key Management Personnel Compensation

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

Note 21: 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 22: Loans To Key Management Personnel

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

Note 23: Related Party Disclosures

Wholly owned group transactions

Loans

Loans were made by Acrux Limited to its subsidiaries under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period were \$344,417 (2010: \$16,111,476).

Loans were made by Acrux Commercial Pty Ltd to its subsidiary, Fempharm Pty Ltd, under normal terms and conditions. The aggregate amount receivable from Fempharm Pty Ltd at the end of the reporting period was \$6,753,467 (2010: Nil).

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

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

Note 24: Auditor's Remuneration

	2011 \$'000	2010 \$'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	97	88
- Other assurance services	1	8
	98	96

Notes to the Financial Statements
for the financial year ended 30 June 2011

Note 25: Segment Information

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

Additional information on revenue:

	2011 \$'000	2010 \$'000
Product/Service		
Axiron	89,572	54,650
Other revenue	3,899	1,451
Total revenue	93,471	56,101
Country of Origin		
Australia	3,868	1,072
Other:		
Switzerland	89,449	54,650
Overseas	154	379
	93,471	56,101

Revenue from Axiron was received from a single customer.

Additional information on non current assets:

Australia		
Intangible assets	24,767	23,408
Plant and equipment	126	567
	24,893	23,975
Overseas		
Plant and equipment	-	457
Total non-current assets	24,893	24,432

Note 26: Parent Entity Details

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

	Parent Entity	
	2011 \$'000	2010 \$'000
(a) Summarised statement of financial position		
Assets		
Current assets	3,307	22,562
Non-current assets	19,524	66,558
Total assets	22,831	89,120
Liabilities		
Current liabilities	1,443	352
Non-current liabilities	30	17
Total liabilities	1,473	369
Net assets	21,358	88,751
Equity		
Share capital	95,824	85,786
Retained earnings	(74,470)	904
Share based payments reserve	4	2,061
Total equity	21,358	88,751
(b) Summarised statement of comprehensive income		
Profit/(loss) for the year	24,513	(971)
Other comprehensive income for the year	-	-
Total comprehensive income for the year	24,513	(971)

(c) Parent entity guarantees

Acrux Limited has provided a letter of financial support to 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.

Note 27: Controlled Entities

	Country of Incorporation	Percentage Owned	
		2011	2010
<i>Parent Entity:</i>			
Acrux Limited	Australia		
<i>Subsidiaries of Acrux Limited</i>			
Acrux DDS Pty Ltd	Australia	100%	100%
Fempharm Pty Ltd	Australia	0%	100%
Acrux Pharma Pty Ltd	Australia	100%	100%
Acrux Commercial Pty Ltd	Australia	100%	100%
Cosmeceutic Solutions Pty Ltd	Australia	90%	90%
<i>Subsidiaries of Acrux Commercial Pty Ltd</i>			
Fempharm Pty Ltd	Australia	100%	0%

Note 28: Contingencies

There were no contingencies at 30 June 2011.

At 30 June 2010, in accordance with the banking agreement with the National Australia Bank Limited, Acrux Limited and Acrux DDS Pty Ltd had in place a guarantees and indemnities to the value of \$70,000 and \$327,841 respectively. This was supported by letters of set-off over amounts on deposit to the value of \$70,000 and \$337,841. These guarantees were pledged as security for the liabilities of Acrux Limited and Acrux DDS Pty Ltd.

Note 29: Subsequent Events

There has been no other matter or circumstance, which has arisen since 30 June 2011 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2011, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2011, of the consolidated entity.

Note 30: Company Details

The registered office of the company is:

Acrux Limited
103 – 113 Stanley Street
West Melbourne VIC 3003

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 30 to 62 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- (b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and of its performance for the year ended on that date.

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 2011.

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



R Dobinson
Chairman
Melbourne

Dated this 22nd day of August 2011



H K Windle
Director
Melbourne

Dated this 22nd day of August 2011



INDEPENDENT AUDITOR'S REPORT

To the Members of Acrux Limited and Controlled Entities

We have audited the accompanying financial report of Acrux Limited and controlled entities, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, 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*.

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 about 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 judgement, including the assessment of the risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to entity's preparation of the financial report that gives a true and fair view 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 opinion.

Independence

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

Opinion

In our opinion:

- (a) the financial report of Acrux Ltd is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the 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 23 to 28 of the directors' report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Acrux Limited and controlled entities for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

S D WHITCHURCH

Dated this 22nd day of August 2011

PITCHER PARTNERS

Melbourne

Shareholder Information

As at 21 September 2011

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report:

Shareholders

The Company has 166,496,711 ordinary fully paid shares on issue, held by 5,381 shareholders and 25,000 options outstanding, held by 1 person. The Company does not have any other shares or options or other equity securities on issue. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. No voting rights attach to the options.

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

Distribution Schedule

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

Category	Number of Shareholders	Percentage	Shares
1 to 1,000 shares	1,121	0.41%	685,464
1,001 to 5,000 shares	2,318	4.02%	6,685,546
5,001 to 10,000 shares	851	4.08%	6,796,962
10,001 to 100,000 shares	934	16.20%	26,978,307
100,001 shares and over	157	75.29%	125,350,432
Total	5,381	100.00%	166,496,711

134 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.

Names of Substantial Holders

Name	Number of equity securities held
Orbis Global Equity Fund Limited and associated entities	20,499,214

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.

Shareholder Information

As at 21 September 2011

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	16,031,181	9.63%
2	National Nominees Limited	15,760,547	9.47%
3	HSBC Custody Nominees (Australia) Limited	11,815,136	7.10%
4	J P Morgan Nominees Australia Limited	10,684,025	6.42%
5	J P Morgan Nominees Australia Limited	4,193,479	2.52%
6	GGDT Developments Pty Ltd	3,000,000	1.80%
7	Warbont Nominees Pty Ltd	2,805,758	1.69%
8	Investment Holdings Pty Ltd	2,600,000	1.56%
9	Asia Union Investments Pty Ltd	2,200,000	1.32%
10	Dr Richard Spencer Treagus	2,077,495	1.25%
11	Dilan Corp Pty Ltd	2,045,000	1.23%
12	Durbin Superannuation Pty Ltd	1,960,000	1.18%
13	B & K Finnin Pty Ltd	1,878,933	1.13%
14	Cogent Nominees Pty Limited	1,466,037	0.88%
15	Ross Dobinson	1,422,593	0.85%
16	Dorvell Pty Ltd	1,309,055	0.79%
17	Stuart Andrew Pty Ltd	1,122,993	0.67%
18	Smithley Super Pty Ltd	1,030,000	0.62%
19	B & K Finnin Pty Ltd	1,009,090	0.61%
20	T A G Constructions Pty Ltd	918,074	0.55%
		85,329,396	51.25%

Market Listing

Acrux Limited is quoted on the Australian Securities Exchange (ASX). Share prices can be obtained from most Australian national newspapers and from the ASX website (www.asx.com.au). The shares of the Company are not quoted on any other stock exchange. The following are the share prices for the end of each quarter of the financial year ending 30 June 2010:

Quarter ended 30 September 2010	\$2.39
Quarter ended 31 December 2010	\$3.54
Quarter ended 31 March 2011	\$3.02
Quarter ended 30 June 2011	\$3.39

The closing share price on 21 September 2011 was \$3.31

Shareholder Information

As at 21 September 2011

Pooled Development Fund

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

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

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

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

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

Equally, an investor will not be entitled to any deduction or capital loss on the sale of the Company's shares.

Shares held in a PDF cannot be held as trading stock. Accordingly, share traders cannot treat PDF shares as trading stock.

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

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

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

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

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

Directory

Acrux Limited and subsidiary companies

103-113 Stanley Street

West Melbourne

Victoria 3003, Australia

Telephone + 61 3 8379 0100

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

Link Market Services

Level 1, 333 Collins Street

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Facsimile (02) 9287 0303

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Email registrars@linkmarketservices.com.au

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