Alchemia Announces Half-year Results for Period Ended 31 December 2013

Brisbane, Australia 17th February 2014: Alchemia Limited, (ASX: ACL) a drug discovery and development company, is pleased to announce its half year results for the six months ended 31 December 2013.

Highlights for the first half of the financial year include:

- Total revenue of $5.0 million for the six months ended 31 December 2013
- $4.7 million in fondaparinux profit share payments for the period
- Cash receipts of $8.8 million in R&D tax incentives received in period due to R&D spend incurred in the previous financial year
- Cash balance of $16.4 million as at 31 December 2013.

Generic fondaparinux

For the half year ended 31 December 2013, the Company reports that under the collaboration, development and marketing agreement with Alchemia's commercial partner, Dr Reddy's Laboratories, profits of $4.7 million were payable to Alchemia Limited. This amount is in lieu of sales made by Dr Reddy's Laboratories of Alchemia's fondaparinux in the US and takes into account the payment of $1.1 million to Dr Reddy's Laboratories by Alchemia Limited for agreed activities to improve yields and cost of goods.

Alchemia Oncology

Over the six-month period, Alchemia continued to treat patients in the Company's pivotal Phase III clinical trial of HA-Irinotecan in metastatic colorectal cancer (mCRC). The primary objective of the Phase III study is to demonstrate that HA-Irinotecan is superior to Irinotecan in its effect on Progression Free Survival (PFS). The primary endpoint of this trial will be reached when 350 patients have experienced disease progression or death.

The trial has recruited patients with 2nd or 3rd line metastatic colorectal cancer (mCRC) where patients are randomised to receive either FOLFIRI (a combination of the cancer drugs 5-FU, leucovorin and irinotecan) or FOLF(HA)-Iri in which irinotecan is replaced with Alchemia's proprietary formulation, HA-Irinotecan.

A brief study outline is as follows:

- 415 second-line metastatic colorectal cancer patients, randomised and double-blinded: neither the patient nor clinician knows which treatment is being administered;

- Half of patients will receive Alchemia's HA-Irinotecan in combination with 5-fluorouracil and leucovorin (test arm) and half will receive unmodified irinotecan with 5-fluorouracil and leucovorin (control arm);
- 76 sites in Australia, the UK, Russia, Ukraine, Bulgaria, Poland and Serbia;
- Primary endpoint of progression-free survival where the statistical assumptions are based on FOLF(HA)-Iri providing a minimum of a six week improvement in PFS compared with the control arm;
- Primary endpoint assessed after disease progression or death in 350 patients

In addition, Alchemia has initiated an investigator-led Phase II clinical trial of HA-Irinotecan in combination with carboplatin in small cell lung cancer. Currently 27 patients have been enrolled in the study and in October of 2013, interim results were presented at the 15th World Conference of Lung Cancer in Sydney, showing that HA-Irinotecan in combination with carboplatin is safe to administer and that there are early encouraging signs of clinical activity.

Another significant advancement in the clinical development of HA-Irinotecan was achieved in May of 2013 when Alchemia and Merck Serono agreed to collaborate by supporting the initiation of a new investigator-led clinical trial of HA-Irinotecan in combination with Merck Serono's leading therapeutic antibody, Erbitux® (cetuximab), for patients with metastatic colorectal cancer (mCRC). Up to 50 patients who are candidates for second-line treatment of mCRC, will to be enrolled at six to ten sites around Australia with the trial scheduled to run for approximately 24 months. This trial is currently in the organisational stage and recruitment is expected to begin in the first half of calendar year 2014.

Alchemia's oncology programs, including HA-irinotecan, are all based on its proprietary HyACT® technology for targeting cancer therapies to tumours. The HyACT drug delivery platform presents the Company with multiple product opportunities as we believe that HyACT may be able to improve the delivery of a range of chemotherapeutic agents to cancer cells and boost drug efficacy without increasing side effects. The technology has applications ranging from small molecule cytotoxics to much larger biologics, such as monoclonal antibodies. Due to the versatility of this platform, Alchemia is seeking to further deploy this technology to improve the treatment and survival of patients with cancer.

Drug Discovery

Alchemia's VAST technology utilises pyranose as a scaffold to generate novel molecules that are more diverse and complex in shape than the typical compounds used in drug discovery. Using these chemistries the Company has developed an array of compounds it refers to as, "Diversity Scanning Array" (DSA), which represents approximately 14,000 pyranose-based compounds that systematically arrange typical binding groups in a broad range of possible three-dimensional orientations. This array has the ability to identify the shape and functional requirements of molecules that modulate a target.

On the basis of this technology, Alchemia established a multi-target drug discovery collaboration with AstraZeneca AB in April of 2013, where Astra Zeneca will apply the technology across a variety of therapeutic areas including oncology, respiratory, cardiovascular, metabolism, infection and neuroscience. This collaboration will exploit the unique shape diversity provided by DSA and versatility offered by VAST to approach difficult therapeutic targets in innovative ways. Following the signing of the agreement, a copy of the DSA has been transferred to AstraZeneca AB and high throughput screening campaigns are ongoing on several targets.

Alchemia has also put in place strong collaborations with the Institute for Molecular Biosciences (University of Queensland) to discover novel inhibitors of selected ion channels and with the Monash Institute for Pharmaceutical Science to discover novel allosteric modulators of the Family B G-protein coupled receptors. These collaborations aim to discover new treatments for pain, chronic obstructive pulmonary disease and type II diabetes. The collaborations are supported by government grants, which help fund specialised biology teams in the respective institutes, fully focussed on the collaborative drug discovery efforts. These types of collaborations maximise the use of the VAST platform in a highly cost efficient manner.

Financials

The Group reported a net loss of $5.5 million for the six months ended 31 December 2013, an improvement from its $5.9 million loss for the six months ended 31 December 2012.

Total income for the period was $5.0 million, a decrease of $4.4 million from the previous period (2013: $9.4 million), during which the Group received $4.5 million R&D tax incentive income.

Operating expenses of $10.7 million were lower than the corresponding period of $15.5 million). The reduction in Administrative and Corporate Costs of $1.9 million was mainly related to the costs associated with the deferment of the demerger and listing of Audeo Oncology, Inc., which was expensed in December of 2012. The reduction in costs associated

with conducting the HA-Irinotecan Phase III trial in patients with mCRC of $3.5 million relates to a significant spend in the six months to 31 December 2012 due to the registrational trial.

Over the course of the reporting period, Alchemia has seen a significant net increase in cash balances, (including cash, cash equivalents and term deposits) from $6.1 million as at 31 December 2012 to $16.4 million as at 31 December 2013. Cash balance in the period was boosted by cash receipts of $5.9 million royalty payments from Dr Reddy's and $8.8 million from R&D tax incentives versus operating expenditure of just $11.2 million.

The group acquired capital items totalling $0.2 million during the period, up from $0.1 million in the prior year period.

About Alchemia Limited – www.alchemia.com.au

Alchemia is a drug discovery and development company marketing FDA approved fondaparinux, an injectible antithrombotic in the US, as well as other major markets via partner Dr. Reddy's Laboratories. The Company is also developing a late stage oncology product pipeline with multiple ongoing trials through its proprietary HyACT drug delivery platform, which targets anti-cancer drugs to solid tumours. Lead asset HA-Irinotecan is in a pivotal Phase III clinical trial for the treatment of metastatic colorectal cancer. HA-Irinotecan is also in two Phase II investigator-led trials, one of which is in collaboration with Merck Serono combining HA-Irinotecan with Erbitux® (cetuximab). Alchemia is also exploring additional small molecule drug discovery targets via an internal discovery platform VAST, based on the Company's deep chemistry expertise. The VAST technology is being developed in collaboration with leading academic institutions and is partnered with AstraZeneca AB.

Erbitux® is a trademark of Merck KGaA.

Contact

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ALCHEMIA LIMITED
(ABN 43 071 666 334)

APPENDIX 4D
31 DECEMBER 2013 HALF YEARLY ASX REPORT

Results for Announcement to the Market		% Change from Dec 2012	Six months to 31 December 2013 $000
Revenues from ordinary activities	down	46.66%	5,035
Loss before interest, income tax, depreciation and amortisation (EBITDA)	down	6.02%	(4,931)
Loss before interest and income tax expense (EBIT)	down	6.92%	(5,672)
Loss from ordinary activities after tax attributable to members	down	7.14%	(5,474)
Basic loss per share (cents per share)	down	19.05%	(1.7)
Diluted loss per share (cents per share)	down	19.05%	(1.7)
Net tangible asset backing per ordinary share ($)	up	282%	4.2 cents

Dividends	Amount per security	Franked amount per security
Final dividend	-	-
Interim dividend	-	-

Commentary
For the half year ended 31 December 2013, Alchemia Limited incurred a net loss after income tax attributable to members of $5.5 million in comparison to $5.9 million during the same period to 31 December 2012.

Refer to interim results announcement for more details.

Review Information

The financial statements have been reviewed and a copy of the review report is attached to the financial statements.

Company Secretary
17th February 2014

This half yearly report is to be read in conjunction with the most recent annual financial report

Alchemia Limited

ABN 43 071 666 334
Half-Year Financial Report
31 December 2013

Corporate Information

ABN 43 071 666 334

Website: www.alchemia.com.au

Directors
Mr N Drona
Dr T Ramsdale
Dr S Kelley
Mr T Hughes

Company Secretary
Stephen Denaro

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Eight Mile Plains, Qld 4113, Australia

Principal place of business
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Eight Mile Plains Qld, 4113, Australia

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Facsimile: (02) 9287 0303
Email: registrars@linkmarketservices.com.au
Internet: www.linkmarketservices.com.au

Stock Exchange Listing
Alchemia Limited is listed on the Australian Securities Exchange with the code: ACL

Solicitors
Corrs Chambers Westgarth
Brisbane
Australia

Bankers
Westpac Bank
Garden City
Australia

Auditor
Ernst & Young
Australia

Alchemia Limited
Directors' Report

Your directors submit their report for Alchemia Limited ("the Company") and its consolidated entities ("the Group"), for the half year ended 31 December 2013.

Directors
The names of the Group's directors in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.
Mr N Drona
Dr T Ramsdale
Dr S Kelley
Mr T Hughes (Appointed to the Board on 15 July 2013)

Principal activities
The Group established in 1995, is a biotechnology company developing new human therapeutics based on its proprietary drug discovery and synthesis technologies.

Review and results of operations

Financial Position

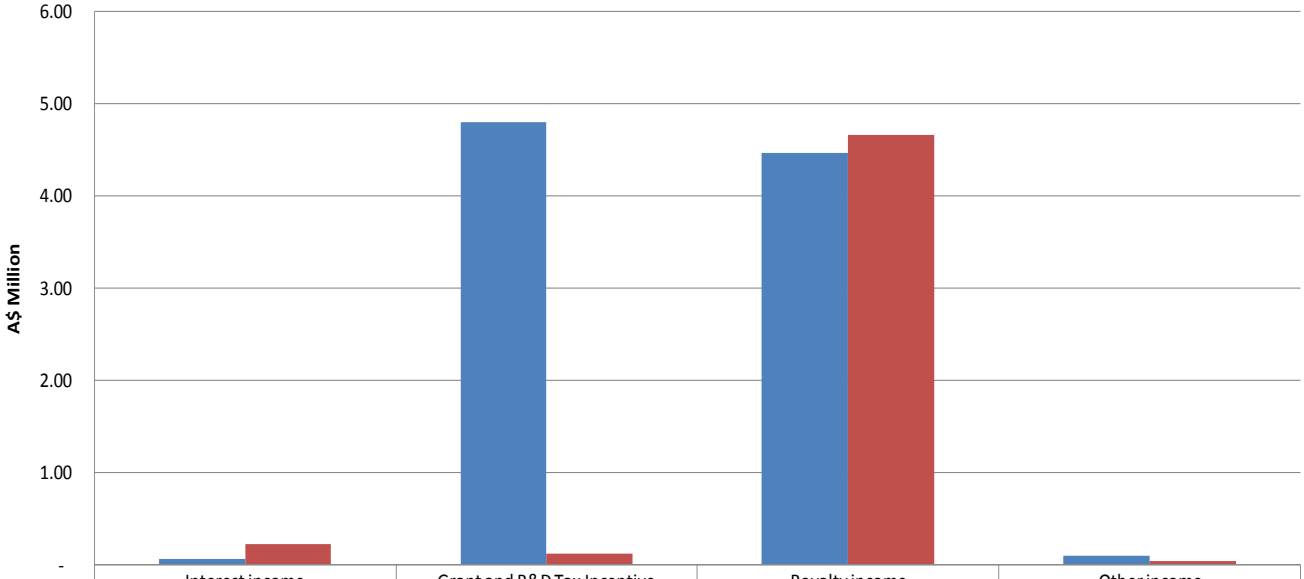
Alchemia recorded royalty income arising from sales of fondaparinux of $4.7 million for the period and had net assets of $27.7 million as at 31 December 2013.

Alchemia ended the first half of the 2014 financial year with a consolidated cash balance of $16.4 million and recorded a positive operating cash flow of $3.7 million in the period due to the receipt of $8.8 million in R&D tax incentives, which arose out of R&D spending made in the financial year ending 30 June 2013.

Operating Results for the Year

The Group reported a net loss of $5.5 million for the six months to 31 December 2013, an improvement from its $5.9 million loss for the six months to 31 December 2012.

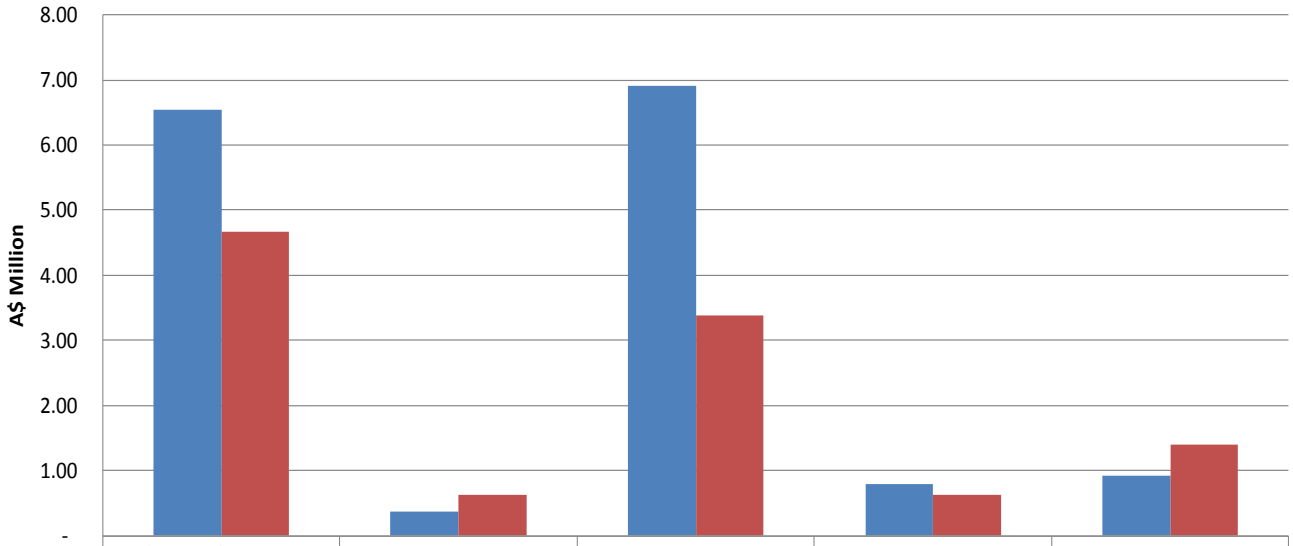
Figure: income for the first half of the financial year ending 30 June 2014, compared with corresponding period the previous year.



	Interest income	Grant and R&D Tax Incentive	Royalty income	Other income
HY2013	0.06	4.80	4.47	0.10
HY2014	0.22	0.12	4.66	0.04

Total income for the period was $5.0 million, a decrease of $4.4 million from the previous period (2013: $9.4 million), during which the Group received $4.4 million R&D tax incentives income.

Figure: Operational expenses for the first half of financial year ending 30 June 2014 compared with corresponding period the previous year.



	Admin and corporate costs	IP costs	Phase III Costs	VAST Costs	Other Projects
HY2013	6.54	0.37	6.91	0.79	0.91
HY2014	4.66	0.63	3.38	0.63	1.40

Operating expenditure of $10.7 million was lower than the corresponding period (2013: $15.5 million). The reduction in Administrative and Corporate Costs of $1.9 million is mainly related to the costs associated with the deferment of the demerger and listing of Audeo Oncology, Inc. which was expensed in December 2012. The reduction in costs associated with conducting the HA-Irinotecan Phase III trial in patients with mCRC of $3.5 million relates to a significant spend in the six months to 31 December 2012 due to the registrational trial. The 'Other Projects' amounts include HA-Irinotecan Phase II SCLC and CHIME mCRC trials plus other HyACT technology expenses.

The consolidated cash position of the Group over the reporting period has seen a significant net increase in cash balances, (including cash, cash equivalents and term deposits) from $6.2 million as at 31 December 2012 to $16.4 million as at 31 December 2013. Net operating cashflow to 31 December 2013 was a $3.7 million cash inflow, an increase of $11.4 million from the corresponding period (2013: $7.7 million cash outflow). The net cash inflow was a result of the receipt of $5.9 million royalty income from Dr Reddy's during the period (2013: $1.6 million) and $8.8 million from R&D tax incentives (2013: $4.4 million) over operating expenditure of $11.2 million (2013: $11.1 million).

The group acquired capital items totalling $0.2 million during the period (2013: $0.1 million).

Generic fondaparinux

For the half year ended 31 December 2013, the Company reports that under the collaboration, development and marketing agreement with Alchemia's commercial partner, Dr Reddy's Laboratories, profits of $4.7 million were payable to Alchemia Limited. This amount is in lieu of sales made by Dr Reddy's Laboratories of Alchemia's fondaparinux in the US and takes into account the payment of $1.1 million to Dr Reddy's Laboratories by Alchemia Limited for agreed activities to improve yields and cost of goods.

HyACT Technology

Over the six month period, Alchemia has continued to treat patients in the Company's pivotal Phase III clinical trial of HA-Irinotecan in metastatic colorectal cancer (mCRC). The primary objective of the Phase III study is to demonstrate that HA-Irinotecan is superior to irinotecan in its effect on Progression Free Survival (PFS). The primary endpoint of this trial will be reached when 350 patients have experienced disease progression or death.

The trial has recruited patients with 2nd or 3rd line metastatic colorectal cancer (mCRC) where patients will be randomised to receive either FOLFIRI (a combination of the cancer drugs 5-FU, leucovorin and irinotecan) or FOLF(HA)-Iri in which irinotecan is replaced with Alchemia's proprietary formulation, HA-Irinotecan. In brief, the study is being conducted as follows:

- 415 second-line metastatic colorectal cancer patients;
- randomised and double-blinded: neither the patient nor clinician knows which treatment is being administered;
- half of the patients will receive Alchemia's HA-Irinotecan in combination with 5-fluorouracil and leucovorin (test arm) and half will receive unmodified irinotecan with 5-fluorouracil and leucovorin (control arm);
- 76 sites in Australia, the UK, Russia, Ukraine, Bulgaria, Poland and Serbia;
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Drug Discovery

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collaborative drug discovery efforts. These types of collaborations maximise the use of the VAST platform in a highly cost efficient manner.

Matters subsequent to the half yearly financial period

The Directors are not aware of any significant change in the state of affairs of the Company after the balance date that is not covered in this report.

Rounding of amounts

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Auditor's Independence

Attached is a copy of the Auditor's Independence declaration provided under Section 307c of the *Corporations Act 2001* in relation to the review of the half year ended 31 December 2013. The Auditor's Declaration forms part of this Directors' Report.

On behalf of the Board

Tim Hughes
Director
Brisbane
17th February 2014

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Auditor's Independence Declaration to the Directors of Alchemia Limited

In relation to our review of the financial report of Alchemia Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Winna Brown
Partner
17 February 2014

Condensed Statement of Financial Position for the half-year ended 31 December 2013

	Notes	Consolidated 31 December 2013 $000	Consolidated 30 June 2013 $000
Assets			
Current Assets			
Cash and cash equivalents		6,670	5,064
Term deposits		9,744	7,912
Trade and other receivables	6	2,391	12,380
Other current assets		633	679
Total current assets		**19,438**	**26,035**
Non-current assets			
Property, plant and equipment	7	376	426
Intangible assets and goodwill		14,067	14,730
Other non-current assets		-	235
Deferred tax assets		23	60
Total non-current assets		**14,466**	**15,451**
Total Assets		**33,904**	**41,486**
Liabilities			
Current liabilities			
Trade and other payables		2,494	4,987
Provisions		334	434
Deferred revenue		432	495
Total current liabilities		**3,260**	**5,916**
Non-current liabilities			
Provisions		463	448
Deferred tax liability		2,507	2,743
Total non-current liabilities		**2,970**	**3,191**
Total Liabilities		**6,230**	**9,107**
Net Assets		**27,674**	**32,379**
Equity			
Equity attributable to equity holders of the parent			
Contributed equity	8	151,302	151,149
Reserves		4,771	4,155
Accumulated losses		(128,399)	(122,925)
Total equity		**27,674**	**32,379**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Statement of Comprehensive Income ended 31 December 2013

	Notes	Consolidated Dec 2013 $000	Consolidated Dec 2012 $000
Continuing operations			
Interest revenue		222	57
Grants revenue and R&D tax incentives		118	4,812
Royalty income		4,657	4,469
Other income		38	100
Total income		5,035	9,438
Depreciation and amortisation	3a	(741)	(847)
Payroll and staff expenses		(2,615)	(2,082)
Business development		(140)	(103)
Research and development costs		(5,151)	(7,900)
Administration and corporate expenses	3b	(1,264)	(4,595)
Rent and occupancy expense		(266)	(272)
Share based payment expense		(616)	(30)
Change in fair value of rights		-	466
Other expense		86	(169)
Loss from continuing operations before income tax		**(5,672)**	**(6,094)**
Income tax benefit		198	199
Net loss from continuing operations		**(5,474)**	**(5,895)**
Comprehensive income			
Total comprehensive income for the period		**(5,474)**	**(5,895)**
Earnings per share (cents per share)			
Basic earnings per share	4	(1.7)	(2.1)
Diluted earnings per share	4	(1.7)	(2.1)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed Statement of Cash Flows for the half-year ended 31 December 2013

	Notes	Consolidated Dec 2013 $000	Consolidated Dec 2012 $000
Cash flows from operating activities			
Payments to suppliers, employees and others		(11,160)	(11,071)
Receipts from grants and R&D incentives		8,798	1,632
Interest received		147	56
Royalty and other income received		5,900	1,669
Net cash flows used in operating activities		**3,685**	**(7,714)**
Cash flows from investing activities			
Payments for property, plant, equipment and other assets		(247)	(65)
Redemption of short term deposits		-	1,567
Net cash flows from investing activities		**(247)**	**1,502**
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Capital raising costs		-	-
Net cash flows from financing activities		**-**	**-**
Net increase in cash and cash equivalents		**3,438**	**(6,212)**
Cash and cash equivalents at beginning of the half year		12,976	12,347
Cash and cash equivalents at the end of the half year	5	**16,414**	**6,135**

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Condensed Statement of Changes in Equity for the half-year ended 31 December 2013

Consolidated	Issued Capital $000	Accumulated Losses $000	Reserves $000	Total equity $000
At 1 July 2012	**138,522**	**(118,155)**	**3,898**	**24,265**
Loss for the period	-	(5,895)	-	(5,895)
Comprehensive income for the period	-	-	-	-
Total comprehensive income for the half year	-	(5,895)	-	(5,895)
Issuance of shares – Executive and Employee Incentive Plan Shares	109	-	-	109
Capital placement	-	-	-	-
Cost of capital placement	-	-	-	-
Cost of share-based payment	-	-	31	31
Total as at 31 December 2012	**138,631**	**(124,050)**	**3,929**	**18,510**
At 1 July 2013	**151,149**	**(122,925)**	**4,155**	**32,379**
Loss for the period	-	(5,474)	-	(5,474)
Comprehensive income for the period	-	-	-	-
Total comprehensive income for the half year	-	(5,474)	-	(5,474)
Issuance of shares – Executive and Employee Incentive Plan Shares	153	-	-	153
Capital placement	-	-	-	-
Cost of capital placement	-	-	-	-
Cost of share-based payment	-	-	616	616
Total as at 31 December 2013	**151,302**	**(128,399)**	**4,771**	**27,674**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Note 1. Corporate Information, Basis of Preparation and Accounting Policies

Corporate Information
The financial report of Alchemia Limited ("the Company") and its consolidated entities ("the Group"), for the half year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 17th February 2014.

Alchemia Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

Basis of Preparation
This general purpose condensed financial report for the half year ended 31 December 2013 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2013 and considered together with any public announcements made by Alchemia Limited during the half year ended 31 December 2013 in accordance with the continuous disclosure obligations of the *ASX listing rules*.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Changes in accounting policy
The Group applied, for the first time, certain standards and amendments. These include AASB 10 Consolidated Financial Statements, AASB 127 Separate Financial Statements, AASB 11 Joint Arrangements and several other amendments that apply for the first time in 2013.

The impact of each new standard and amendment are described below:

- ► AASB 10 Consolidated Financial Statements, AASB 127 Separate Financial Statements
- ► AASB 11 Joint Arrangements, AASB 128 Investments in Associates and Joint Ventures
- ► AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039
- ► AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments [AASB 1, 5, 7, 8, 10, 11, 12, 13, 101, 102, 108, 112, 118, 119, 127, 128, 132, 133, 134, 137, 1023, 1038, 1039, 1049 & 2011-7 and Interpretation 12]
- ► AASB 2012-11 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments [AASB 1, AASB 2, AASB 8, AASB 10, AASB 107, AASB 128, AASB 133, AASB 134 & AASB

The adoption of these standards and amendments do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group, neither did the adoption of these amendments have any material impact on condensed consolidated financial statements of the Group during the period.

Notes to the Financial Statements

Note 1. Corporate Information, Basis of Preparation and Accounting Policies (cont'd)

Going Concern

This report adopts the going concern basis of accounting, which contemplates the realisation of assets and the discharge of liabilities and commitments in the ordinary course of business.

The Group incurred an operating loss after income tax of $5.5 million for the half year ended 31 December 2013 compared with a $5.9 million loss in the corresponding period last year. As at 31 December 2013, the Group had $16.4 million in cash, cash equivalents and term deposits (31 December 2012: $6.2 million).

The Directors believe that the Group continues to be a going concern and that it will be able to pay its debts as and when they fall due for a period of 12 months from the date of this report as a result of the following:

(i) As at 31 December 2013 the Group had net assets of $27.7 million and the assets of the Group exceeded liabilities by a ratio of 5:1. At the date of this report, the market capitalisation of the Company is over $175 million.

(ii) The Group had cash at its disposal of $16.4 million at 31 December 2013 and had no borrowings from banks or other financial institutions as at that date.

(iii) The Group has the ability to vary certain research expenditure depending on the availability of working capital.

(iv) The Group continues to receive royalty payments and has received $5.9 million cash in lieu of sales of fondaparinux in the US for the period ended 30 September 2013. The Group expects to receive $2.2 million for the December 2013 quarter in the early half of CY2014 and expects to receive a quarterly royalty in the foreseeable future.

(v) During the period the Group received a total of $8.8 million in R&D tax incentive payments arising from Alchemia Oncology's local and overseas R&D expenditure of $8.2 million and Alchemia Limited's local R&D spend of $0.6 million. For the 2014 financial year, in addition to the local R&D expenditure, the Group will continue to claim the overseas R&D expenditure of its Phase III trial.

(vi) Alchemia is a listed company, and has been successful in raising capital on the ASX in the past. The Company expects to be able to raise additional capital from the public markets as required.

On this basis the directors believe that the going concern basis of presentation is appropriate. In the event that the Group is unable to raise further capital, or source funds through other means, it may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Group not have the ability to continue as a going concern.

Notes to the Financial Statements

Note 2. Segment Information

The business activities of Alchemia Limited at the reporting date comprised the commercialisation and improvements of its generic fondaparinux product. The business activity of Audeo Oncology, Inc. comprised the development and commercialisation of the HyACT platform, the oncology business and costs of the VAST drug discovery platform.

Business Segment	**Fondaparinux**		**HyACT/VAST**		**Eliminations**		**Consolidated Total**	
Half Yearly 31 December	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	$'000	$000	**$'000**	$000	**$000**	$000	**$000**	$000
Revenues								
Grants and R&D Incentive	**-**	1,171	**117**	3,641	**-**	-	**117**	4,812
Royalty income	**4,657**	4,469	**-**	-	**-**	-	**4,657**	4,469
Other revenues	**215**	43	**46**	114	**-**	-	**261**	157
Total segment revenues	**4,872**	5,683	**163**	3,755	**-**	-	**5,035**	9,438
Depreciation and amortisation	**-**	(62)	**(741)**	(785)	**-**	-	**(741)**	(847)
Payroll and staff expenses	**(1,468)**	(915)	**(1,763)**	(1,167)	**-**	-	**(3,231)**	(2,082)
Research and development costs	**(389)**	(426)	**(4,762)**	(7,474)	**-**	-	**(5,151)**	(7,900)
Administrative, corporate and other expenses	**(882)**	(2,224)	**(648)**	(2,776)	**-**	-	**(1,530)**	(5,000)
Provision for intercompany loans	**(1,042)**	(1)	**-**	-	**1,042**	1	**-**	-
Other income (expense)	**120**	(60)	**(174)**	357	**-**	-	**(54)**	297
Segment profit/(loss) before tax	**1,211**	1,995	**(7,925)**	(8,090)	**1,042**	1	**(5,672)**	(6,094)
Borrowing costs							**-**	-
Consolidated entity loss from continuing activities							**(5,672)**	(6,094)
Income tax benefit							**198**	199
Consolidated entity loss							**(5,474)**	(5,895)

Notes to the Financial Statements
Note 2. Segment Information (continued)

Business Segment	Fondaparinux		HyACT/VAST		Eliminations		Consolidated Total	
Half Yearly 31 December	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	$'000	$000	**$'000**	$000	**$000**	$000	**$000**	$000
Other segment information								
Depreciation and amortisation	**-**	(62)	**(741)**	(785)	**-**	**-**	**(741)**	(847)
Other non-cash expenses	**(258)**	(24)	**(358)**	(6)	**-**	**-**	**(616)**	(30)
Cash flow information								
Net cash flow from (used in) operating activities	**3,467**	(1,628)	**218**	(6,086)	**-**	-	**3,685**	(7,714)
Net cash flow from (used in) investing activities	**(6)**	787	**(241)**	(56)		771	**(247)**	1,502
Net cash flow from financing activities	**-**	-	**-**	771		(771)	**-**	-
Capital expenditure	**(6)**	(9)	**(241)**	(56)	**-**	**-**	**(247)**	(65)

Business Segment	Fondaparinux		HyACT/VAST		Eliminations		Consolidated Total	
Half Yearly 31 December	**Dec 2013**	June 2013	**Dec 2013**	June 2013	**Dec 2013**	June 2013	**Dec 2013**	June 2013
	$'000	$000	**$'000**	$000	**$000**	$000	**$000**	$000
Other segment information								
Segment assets	**73,778**	71,786	**15,957**	16,477	**(55,831)**	(46,777)	**33,904**	41,486
Segment liabilities	**862**	1,070	**5,368**	12,077	**-**	(4,040)	**6,230**	9,107

Notes to the Financial Statements

Note 3. Expenses

	Consolidated	
	31 December 2013	**31 December 2012**
	$000	**$000**
(a) Depreciation and amortisation:		
Depreciation and amortisation of property, plant and equipment	78	185
Amortisation of patents	663	662
	741	**847**
(b) Administration and corporate expenses:		
Administration and corporate expenses	1,264	708
NASDAQ listing expenses and demerger costs	-	3,887
	1,264	**4,595**

Note 4. Earnings per share (EPS)

Calculation of basic and diluted EPS is in accordance with AASB 133 *Earnings per share*

	Consolidated	
	31 December 2013	**31 December 2012**
Earnings in cents per ordinary share		
Basic EPS	(1.7)	(2.1)
Diluted EPS	(1.7)	(2.1)
Net loss used in calculating basic and diluted earnings per share ($000)	(5,474)	(5,895)
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	324,204,116	280,711,274

The options are non-dilutive as the company is in losses

Note 5. Cash and cash equivalents

	Consolidated	
	31 December 2013	**31 December 2012**
	$000	**$000**
For the purpose of the Statement of Cash Flow, cash and cash equivalents comprise the following at 31 December:		
Cash at bank and on hand	1,810	5,001
Deposits at call	14,604	1,134
	16,414	**6,135**

Notes to the Financial Statements

Note 6. Trade and other receivables

	Consolidated	
	31 December 2013	30 June 2013
	$000	$000
Security deposit	10	10
R&D tax incentive receivables	-	8,774
Royalty receivables	2,200	3,329
Other receivables	181	267
	2,391	**12,380**

Note 7. Property, Plant and Equipment

	Consolidated	
	31 December 2013	30 June 2013
Leasehold improvements	$000	$000
At cost	1,607	1,607
Accumulated depreciation	(1,607)	(1,607)
Net carrying amount	**-**	**-**
Plant and equipment		
At cost	8,596	8,568
Accumulated depreciation	(8,220)	(8,142)
Net carrying amount	**376**	**426**
Total property, plant and equipment		
At cost	10,203	10,175
Accumulated depreciation and amortisation	(9,827)	(9,749)
Total written down value	**376**	**426**

	Consolidated	
	31 December 2013	30 June 2013
	$000	$000
Reconciliations		
Leasehold Improvements		
Carrying amount at the beginning of the period	-	2
Additions	-	-
Depreciation expense	-	(2)
Carrying amount at the end of the period	**-**	**-**
Plant and equipment		
Carrying amount at the beginning of the period	426	391
Additions	247	94
Capital in progress	(219)	219
Depreciation expense	(78)	(278)
Carrying amount at the end of the period	**376**	**426**

Notes to the Financial Statements

Note 8. Issued Capital	**31 December 2013**	
Ordinary shares	**Shares No.**	**$000**
Issued and fully paid		
At 1 July 2013	324,043,819	151,149
Shares issued to employees under the Employee Share Bonus Scheme	366,384	153
At 31 December 2013	**324,410,203**	**151,302**

Note 9. Expenditure Commitments

(a) Capital expenditure commitments
There was no capital expenditure commitments as at 31 December 2013 and 2012.

	Consolidated	
	31 December 2013 $000	**30 June 2013 $000**
(b) Lease expenditure commitments		
Operating leases (non-cancellable):		
Minimum lease payments		
– not later than one year	453	447
– later than one year and not later than five years	733	963
Aggregate lease expenditure contracted for at reporting date	**1,186**	**1,410**

The operating leases are in respect of the lease of the company's premises in Brisbane and one item of equipment.

Notes to the Financial Statements

Note 9. Expenditure Commitments (cont'd)	Consolidated	
	31 December 2013 $000	30 June 2013 $000
(c) R&D Project commitments		
– not later than one year	829	-
– later than one year and not later than five years	826	-
Total commitments	**1,655**	**-**

The Group has entered into agreements with certain organisations for ongoing research and clinical trials. Under these agreements the Group is committed to providing funds over future periods as set out above.

(d) Novozymes Biopharma DK royalty agreement

The Group entered into a royalty agreement with Novozymes in July 2009 whereby the Group is committed to pay Novozymes a 1.0% royalty on the net sales from any HA-Irinotecan product and a 0.5% royalty on net sales of any other product containing HA developed under the HyACT patents in return for Novozymes having funded a portion of the Phase II clinical trials of HA-Irinotecan. If Novozymes is capable of supplying HA to the Group's specifications and the Group does not use them as its supplier for HA, the Group is committed to pay a 2.0% royalty on the net sales from any HA-Irinotecan product and a 1.0% royalty on net sales of any other product containing HA. Subject to certain termination events, including breach of the agreement by the other party, certain insolvency events relating to the other party or if it becomes unlawful for the other party to perform under the agreement, this agreement will remain in effect until the expiry of the last of Group's relevant HyACT patents. As of 31 December, 2013, the latest date on which any of the Group's relevant HyACT patents expire is 25 March 2025.

(e) PSI CRO AG clinical research services agreement

The Group entered into a Clinical Research Services Agreement with PSI CRO AG, or PSI, an international clinical trial management company. Pursuant to this agreement, PSI is managing and coordinating the HA-Irinotecan Phase III clinical trial. The amount payable to PSI is milestone driven with a total estimated cost of approximately US$9.5 million of when milestones are achieved, of which an amount of US$7.6 million has been expensed as at 31 December, 2013. In addition, the Group is obliged to reimburse PSI for out-of-pocket expenses and third party vendor costs. This contract is cancellable at any time at the Group's sole discretion.

(f) BioClinica, Inc general services agreement

The Group entered into a general services agreement with BioClinica Inc, an international medical image management provider for clinical trials, to provide medical imaging services for the Phase III clinical trial. The overall project cost is estimated at approximately US$1.7 million of which an amount of US1.5 million has been expensed as at 31 December 2013. This contract is cancellable at any time at the Group's sole discretion.

(g) Professional service agreements

The Group entered into two professional service agreements with a US investment bank to assist the company with its business development activities. The agreements require payment of an initial retainer fee and a success fee on consummation of a qualifying transaction. The success fee consists of single digit percentage fees on all non contingent consideration on closing of a transaction and all contingent consideration when they are earned.

(h) Monash University ARC linkage projects research agreement

The Group entered into a 2012 ARC Linkage Projects Research Agreement with Monash University who has been awarded funding by the ARC to conduct the Project titled "Subtype selectivity and functional bias of VPAC receptor positive allosteric modulators (PAMs) for understanding models of pulmonary disease". The agreement sets out how the Project will be conducted, student involvement, the ownership of Intellectual Property and related issues. The Parties will share in all gross revenues realised from licensing of Partnered Products based on their contribution to the Partnered Product. Subject to certain termination events, including breach of the agreement by the other party, certain insolvency events relating to the other party or if it becomes unlawful for the other party to perform under the agreement, this agreement will remain in effect until the project completion date being February 2016.

Notes to the Financial Statements

Note 9. Expenditure Commitments (cont'd)

(i) Merck Serono, collaboration agreement

The Group and Merck Serono (Merck) have established a commercial collaboration between them. This collaboration begins with an investigator-led Phase II clinical trial of Alchemia's HA-Irinotecan in combination with Merck Serono's leading therapeutic antibody, Erbitux (cetuximab), for patients with metastatic colorectal cancer (mCRC). Up to 50 patients, who are candidates for second-line treatment of mCRC, are to be enrolled at six to ten sites around Australia, with the trial scheduled to run for approximately 24 months. The Phase II study led by Associate Professor Peter Gibbs of the Walter and Eliza Hall Institute, is intended to generate data supporting the clinical use of HA-Irinotecan with Erbitux in the treatment of mCRC. Specifically, this study will primarily evaluate the safety of Alchemia's lead HyACT drug, HA-Irinotecan, as part of the FOLFIRI treatment regimen, in combination with Merck Serono's Erbitux.

(j) IMBcom collaboration research agreement

The Group entered into a collaborative research agreement with IMBcom Asset Management Company (IAMCo) in December 2013. IAMCo has access to expertise and intellectual property relating to voltage gated ion channels, molecular pharmacology, and screening of compounds for activity at certain voltage gated ion channel receptors. The parties desire to collaborate for the purpose of conducting research based upon certain voltage gated ion channel biological targets and Alchemia library compounds for the purpose of identifying potential candidates for further development by the parties. The Group is committed to paying royalties to IAMCo within 60 days after the end of each quarter during which any Commercialisation Income is received. The term of this agreement until 31 December 2016 unless terminated earlier in accordance with the agreement.

(k) University of Queensland collaborative research agreement

The Group entered into an ARC Linkage Projects Research Agreement with University of Queensland who has been awarded funding by the ARC to conduct the Project titled "A VAST potential for ion channel drug discovery". The Group is committed to providing in-kind contributions for three years ending 31 December 2016. Subject to certain termination events, including breach of the agreement by the other party, certain insolvency events relating to the other party or if it becomes unlawful for the other party to perform under the agreement, this agreement will remain in effect until the project completion date being 31 December 2016.

Note 10. Contingent assets and liabilities

There are no contingent assets or liabilities as at 31 December 2013.

Note 11. Options Issued

The Group issued options under the Employee Share Option Plan during the reporting period as follows:

- 1,617,000 on 30 August 2013 and 2,551,500 approved by shareholders on 8 November 2013.

The Group also issued 600,000 options to former CEO approved by shareholders on 8 November 2013.

Note 12. Events after the Balance Sheet Date

The Board of Directors resolved to issue 400,000 options over shares in ACL to an executive of the Group on 10 February 2014.

The Directors are not aware of other significant change in the state of affairs of the Group after the reporting date that is not covered in this report.

Alchemia Limited
Directors' Declaration

In accordance with a resolution of the directors of Alchemia Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position as at 31 December 2013 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Tim Hughes
Director

Brisbane
17th February 2014

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To the members of Alchemia Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alchemia Limited, which comprises the balance sheet as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alchemia Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

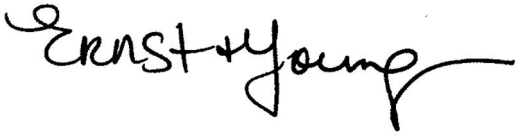
Building a better working world

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alchemia Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young

Winna Brown
Partner
Brisbane
17 February 2014