# CELLMID LIMITED
# ACN 111 304 119
# AND CONTROLLED ENTITIES

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**
**PRELIMINARY FINAL REPORT**
**FOR THE YEAR ENDED 30 JUNE 2010**

| | | | | $A |
|---|---|---|---|---|
| Revenues from ordinary activities for the year | up | 1492.0% | to | 333,570 |
| Revenues from discontinued operations | N/A | N/A | to | - |
| Revenues from ordinary operations | up | 1492.0% | to | 333,570 |
| | | | | |
| Loss from ordinary activities after tax attributable to members | down | -59.8% | to | (1,339,948) |
| Loss from discontinued operations after tax attributable to members | N/A | N/A | | - |
| Loss from ordinary activities after tax attributable to members | down | -59.8% | to | (1,339,948) |
| | | | | |
| Loss from extraordinary items after tax attributable to members | | | | NIL |
| | | | | |
| Net Loss after tax for the year attributable to members | down | -59.8% | to | (1,339,948) |

| **Dividends (distributions)** | Amt per Security | Franked amount per Security |
|---|---|---|
| Interim dividend | NIL | NIL |
| Previous corresponding period | NIL | NIL |
| Record date for determining entitlements to the dividend | | N/A |

| **EPS** | 2010 Cents Per Share | 2009 Cents Per Share |
|---|---|---|
| Basic and diluted earnings per shares | (0.5) | (2.8) |
| Weighted average number of shares used in the denominator to calculate the earnings per share | 277,273,648 | 120,397,192 |

| **Net tangible assets per security** | 2010 Cents Per Share | 2009 Cents Per Share |
|---|---|---|
| Net tangible assets per security | 0.8 | 0.4 |

**Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:**

**Explanation of Revenue and Loss**
Cellmid earned total revenue of $334k in 2010 up 1,492% from $21k in 2009. In 2010 the loss for the year was $1.34m compared with a 2009 loss of $3.33m.

During the year the company has made significant progress in its business and development programs.

# Cellmid Limited
# (Formerly Medical Therapies Limited)
# Annual Financial Report

ABN 69 111 304 119

for the year ended 30 June 2010

# CELLMID LIMITED
# Annual Financial Report – 30 June 2010

## Contents

# Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Cellmid Limited and the entity it controlled during the year ended 30 June 2010.

**Directors**

The following persons were directors of Cellmid Limited during the whole of the financial year and up to the date of this report:
Dr David King
Ms Maria Halasz
Mr Koichiro Koike
Mr Robin Beaumont (appointed 12 October 2009)

**Principal activities**

Cellmid Limited is an Australian biotechnology company developing a range of therapeutic and diagnostic products around midkine, a novel target. The Company's disease indications include inflammatory and autoimmune conditions and cancer.

In addition to its in-house development program Celllmid Limited is actively pursuing licensing and collaboration arrangements in relation to its substantial intellectual property assets.

**Dividends paid or recommended**

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

## Review of operations

The Group incurred an after tax loss attributed to members of $1,339,948 for the twelve months between 1 July 2009 and 30 June 2010 (2009: Loss of $3,334,546). The decrease in loss has been due to reduced depreciation and amortisation expenditure of $13,721 (2009: $1,566,893) and increased revenue of $325,999 (2009: $15,413).

While the group still incurred a loss during the 2010 financial year it has made significant progress in its business and product development programs.

**Diagnostic licensing activities**

The Group signed two diagnostic licenses during the twelve months to 30 June 2010. The first license was signed on 29 October 2009 with Celera Corporation for the exclusive use of midkine as a marker for the diagnosis, prognosis and treatment monitoring of lung cancer. The license terms include upfront and milestone payments and a royalty on sales of any product developed by Celera.

The second license was signed on 19 May 2010 with Pacific Edge Biotechnology Limited for the non-exclusive use of midkine as a marker for the diagnosis, prognosis and treatment monitoring of bladder cancer. The license terms include upfront and milestone payments and royalties on sale of products developed by Pacific Edge.

**Antibody distribution agreement**

The Group signed an agreement with Yamasa Corporation on 12 November 2009 for the non-exclusive distribution of the Group's proprietary antibodies for the research market. The distribution agreement included a royalty payment to Cellmid as manufacturing rights to Yamasa Corporation have also been granted.

**Diagnostic product development**

In addition to its out-licensing activities the Group has made significant advances in its in-house diagnostic product development programs.

**MK ELISA**

The Group has completed validation of its proprietary midkine (MK) ELISA system in healthy individuals' and patients' blood samples. The ELISA is the first independently validated system for the accurate and reproducible measurement of blood midkine levels. Following ongoing stability testing and performance analysis the manufacturing of the MK ELISA will be transferred from the developer to a contract GMP facility.

**CAN104 Project**

The Group has commenced its veterinary cancer diagnostic program with the CAN104 project to assess the value of midkine for the early diagnosis of the most common cancer types in dogs including mammary carcinoma, hemangiosarcoma, osteosarcoma and specified skin tumours, mast cell tumours, melanomas and squamous cell carcinomas.

Recruitment of blood donors is progressing according to plans and the collection process for the first 100 blood samples is expected to be completed within 6 months.

**CS5000 and CK3000 projects**

As the first stage of the CK3000 project the Group has commenced testing of 3,000 healthy individuals' serum samples in order to establish base levels of midkine in different sub-populations.

The CK3000 program has been amended to include not only healthy individuals' blood samples but also cancer patients' sera from selected indications.

The CS5000 project is currently in planning and conditional on the completion of the healthy sera testing component of CK3000.

**Therapeutic product development**

The Group has advanced its therapeutic antibody and protein programs with the commencement of several preclinical trials for the validation of its various treatment strategies as follows:

**CMS101 and CRA102**

These projects are for the pre-clinical validation of the Group's proprietary midkine antibodies for the treatment of multiple sclerosis and rheumatoid arthritis. During the 2010 financial year pre-clinical antibody trials in an EAE and collagen induced arthritis models of mice have commenced. The Group's strategy is to select one indication only with the best data and strongest IP protection to advance its antibody program into the clinic.

**CAMI103**

This project is for the pre-clinical validation of midkine for the treatment of acute myocardial infarction. During the 2010 financial year pre-clinical evaluation of midkine in dose ranging, pharmacokinetic and efficacy studies have progressed. It is expected that subject to successful completion of these trials efficacy studies in rats will commence during the 2011 financial year.

**Other antibody and midkine protein programs**

The Group has conducted a full review of its therapeutic data in the context of its intellectual property portfolio to assess additional product development opportunities. A final list of commercial product development opportunities have been shortlisted including a number of conditions such as adhesion related diseases (e.g. endometriosis) and different forms of alopecia.

**Antibody production**

During the 12 months to 30 June 2010, the Group produced additional quantities of its CDY91, CDY92 for pre-clinical testing. Additional quantities of IP9 and IP10 antibodies have also been produced for the first commercial production run of the Group's MK ELISA.

**Midkine protein production**

The extensive tendering program has been implemented in relation to the cGMP production of the midkine protein. Final selection of the contract manufacturer will be subject to the predetermined criteria.

**Intellectual property portfolio**

Several of the Group's patents have been granted or validated during the reporting period as follows:

- The patent application titled ***"Pharmaceutical composition for the prevention and treatment of atherosclerosis and restenosis"*** was granted in the 2010 financial year in the USA and in Europe. This patent family has now been granted in all territories where applications had originally been lodged. Full protection has been achieved in Australia, Canada, China, France, Germany, Japan, South Korea and Switzerland, in the UK and in the USA.

- The patent application titled ***"Early cancer tumour marker"*** was allowed in Canada during the 2010 financial year. This patent has achieved full protection in Australia Belgium, Canada, China, France, Germany, Italy, South Korea and Switzerland, in the UK and in the USA. The application is currently under examination in Japan, which is the last jurisdiction where application had originally been lodged.

Cellmid's current patent portfolio comprises of 46 granted patents, 9 patents under examination and 9 applications filed awaiting examination.

**Collaboration with Kumamoto University**

During the 2010 financial year the Group signed a Material Transfer Agreement and a Research Collaboration Agreement with Kumamoto University. The relationship involves supplying Kumamoto University with the Groups' proprietary antibodies for testing in a series of pre-clinical and in vitro studies.

Kumamoto University is one of the oldest and most prestigious medical schools in Japan with a successful track record in midkine research. The collaboration is expected to yield further insights into midkine's role in cancer and inflammatory diseases as well as its mechanism of action in different tissues.

**Significant changes in the state of affairs**

During the 2010 financial year the Group raised a total of $3.38M in new capital through the placement of 25.0M shares at 2.2 cents per share ($550,000) and 113.2M shares at 2.5 cents per share ($2.83M). The funds have been used to increase the Groups' spending on its product development programs and to fund general operations.

**Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years
- the results of those operations in future financial years or
- the Group's state of affairs in future financial years.

**Likely developments and expected results of operations**

Comments on expected results of certain operations of the Group are included in this annual report under the review of operations.

Further information on likely developments in the Group and the expected results have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

**Environmental regulations**

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

**Information on directors**

**Dr David King**
Chairman (appointed 18 January 2008)

**Experience and expertise**

Dr David King brings a depth of corporate governance, capital markets and listed company board experience to Cellmid. He has previously held positions as Chairman, Executive Director, Chief Executive Officer and Managing Director in a number of private and listed companies.

Dr King has experience in high growth companies and a track record in starting business ventures and developing them into attractive investment and/or take-over targets.

Dr King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Geoscientists and the Australian Institute of Mining & Metallurgy (Chartered Professional, Management) and holds degrees in physics and geophysics and a PhD in Seismology from the Australian National University.

**Other current directorships**

Eastern Star Gas Limited; Ausmon Resources Limited, Robust Resources Limited

**Special responsibilities**

Chair of the Board.
Member of the Audit Committee.

**Former directorships in the last 3 years**

Gas2Grid Limited

Sapex Limited

**Interest in shares and options**

Shares: 10,010,000 indirectly held

**Maria Halasz**
Managing Director and Chief Executive Officer (appointed 16 April 2007)

**Experience and expertise**

Maria Halasz has been involved with biotechnology companies for 17 years; initially working in executive positions in biotechnology firms, then managing investment funds and later holding senior positions in corporate finance specialising in life sciences.

Prior to joining Cellmid Ms Halasz had been an adviser to an independent sector based research firm in life sciences and managed Direct Capital Group Pty Ltd, a biotechnology fund. She has also been a venture partner at the Emerging Technology Fund of venture capital firm Allen and Buckeridge.

Since taking over as Chief Executive and Managing Director of Cellmid Ms Halasz has led the restructure of the business, the acquisition of the midkine intellectual property portfolio, the recapitalisation of the company and the product development of the midkine intellectual property portfolio.

Ms Halasz is a Member of the Australian Institute of Company Directors and holds a science degree in microbiology and an MBA.

**Other current directorships**

Nil

**Former directorships in the last 3 years**

Nil

**Special responsibilities**

Managing Director
Chief Executive Officer

**Interest in shares and options**

Shares: 1,099,250 indirectly held

Options: 5,000,000 (Expiry: 15 June 2013, exercisable at $0.05735 each) – Directly held
7,000,000 (Expiry: 17 November 2014, exercisable at $0.045 each) – Directly held

**Mr Koichiro Koike**
Non-executive Director - (appointed 26 August 2008)

**Experience and expertise**

Mr Koichiro Koike is based in Tokyo and is a specialist in cross border life sciences transactions between Australian and Japanese companies. Following his early career as a corporate finance and M&A specialist in Tokyo for a European investment bank Mr. Koike lived in Melbourne for 15 years.

While in Australia, Mr Koike has served on a number of public and private life science company boards and has developed a strong track record in facilitating business and corporate development events between firms of all sizes in the sector.

As an adviser he has been involved in out-licensing technology, capital raisings and initial public offerings. Whilst having a thorough understanding of the day to day requirements of high growth companies Mr Koike also has extensive contacts in some of the most prominent diagnostic and pharmaceutical companies in Japan. These companies are key candidates for the Company's out-licensing activities, particularly for its diagnostic portfolio.

Mr Koike has been closely involved with the midkine technology for three years and was an adviser to Cell Signals Inc., the vendors of the technology, during the acquisition process.

**Other current directorship**

Nil

**Former directorships in the last 3 years**

Nil

**Special responsibilities**
Member of the Audit Committee.

**Interest in shares and options**

Shares: Nil

Options: 2,000,000 (Expiry: 15 June 2013, exercisable at $0.0375 each) – Directly held

**Mr Robin Beaumont**
Non-executive Director - (appointed 12 October 2009)

**Experience and expertise**

Mr Robin Beaumont is a senior strategic adviser and experienced public company director. He was Chairman of Arana Therapeutics Limited, a listed biotechnology company, until the company's recent takeover by Cephalon Inc., and was a director of antibody engineering company Evogenix Limited until its merger with Peptech Limited to form Arana Therapeutics in 2007. His life science industry experience also includes previous roles as Chairman of Select Vaccines Limited, Chairman of the Cooperative Research Centre for Diagnostics and non-executive director of GroPep Limited.

Mr Beaumont was Managing Director of the Advent venture capital group until 1998 and represented Advent's interests as a director of Primary Health Care, Benchmark Mutual Hospital Group, The Preston Group, Tower Technology and the Ayers Rock Resort Company. He is also a former non-executive director of Ruralco Limited. Prior to joining Advent, Mr Beaumont had more than ten years of strategy consulting experience, after holding senior management positions in a large listed company.

**Other current directorship**

Steelbro Group Pty Ltd

**Former directorships in the last 3 years**
Evogenix Ltd
Arana Therapeutics Ltd
Select Vaccines Ltd

**Special responsibilities**

Chairman of the Audit Committee

**Interest in shares and options**

Shares: 400,000 indirectly held

**Company Secretary**

**Mr Andrew Bursill CA**
Company Secretary (appointed 10 December 2008)

Mr Bursill is a member of the Institute of Chartered Accountants in Australia and has been employed by Franks and Associates for over 10 years where he provides outsourced Company secretarial and Chief Financial Officer services for listed and unlisted public companies.

He is a Company secretary for Australian Oriental Minerals (ASX:AOM), MOKO.mobi (ASX:MKB), Argonaut Resources (ASX: ARE), Acuvax Limited (ASX: ACU) and other unlisted public and private companies.

**Board and Audit Committee meetings**

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

| | | Board meetings | | Audit Committee meetings | | Remuneration meetings | |
|---|---|---|---|---|---|---|---|
| | | number eligible to attend | Number attended | Number eligible to attend | number attended | Number eligible | Number attended |
| Ms Maria Halasz | ** | 10 | 10 | * | * | - | - |
| Mr Koiche Koike | | 10 | 9 | 2 | 2 | - | - |
| Dr David King | | 10 | 9 | 2 | 2 | - | - |
| Mr Robin Beaumont | | 6 | 5 | - | - | - | - |

The Nomination Committee of the board met on several occasions during the financial year on an informal basis.

* Attends the Audit Committee meetings by invitation.
** Executive director

**Remuneration report**

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The remuneration report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration
B. Details of remuneration
C. Service agreements
D. Share-based compensation
E. Additional information

**A. Principles used to determine nature and amount of remuneration (audited)**

The performance of the Group depends on the quality of its directors and executives.

To prosper, the Group must attract, motivate and retain highly skilled directors and executives. To this end, the Group embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives
- link executive rewards to shareholder value
- ensure that a significant portion of executive remuneration is 'at risk', and therefore dependent on meeting pre-determined performance benchmarks
- establish appropriate performance hurdles in relation to variable executive remuneration.

The Board of Directors assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

***Remuneration structure***

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

**Non-executive director remuneration**

Objective

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, while incurring costs that are acceptable to shareholders.

## Remuneration report (continued)

Structure

Each non-executive director receives a fixed fee for being a director of the Group.

The Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. At the general meeting of shareholders in 2005, this maximum amount was set at $300,000 per annum. In 2010, the Group paid non-executive directors a total of $186,869 (2009: $92,380) including superannuation.

The amount of aggregate remuneration sought to be approved by shareholders and the fixed fees paid to directors are reviewed annually. The Board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process.

***Executive remuneration***

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- reward executives for Group and individual performance against targets set by reference to appropriate benchmarks
- align the interests of executives with those of shareholders
- link reward with the strategic goals and performance of the Group
- ensure total remuneration is competitive by market standards.

Structure

A policy of the Board is the establishment of employment or consulting contracts with the CEO and other senior executives. At the time of this report this included the CEO.

Remuneration consists of fixed remuneration under an employment or consultancy agreement and long term equity-based incentives that are subject to satisfaction of performance conditions. The equity-based incentives are intended to retain key executives and reward performance against agreed performance objectives.

*Fixed remuneration*

The level of fixed remuneration is set so as to provide a base level of remuneration that is both appropriate to the position and competitive in the market.

Fixed remuneration is reviewed annually by the Board and the process consists of a review of Group-wide and individual performance, relevant comparative remuneration in the market, and internal and (where appropriate) external advice on policies and practices.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and expense payment plans, such that the manner of payment chosen is optimal for the recipient without creating additional cost for the Group.

***Remuneration policy and performance***

Other than the CEO, Ms Halasz, none of the Director's remuneration is 'at risk' remuneration. Refer page 13 for further information on Ms Halasz's remuneration.

**B. Details of remuneration (audited)**

Details of the remuneration of the directors and key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and the highest paid executives of Cellmid Limited are set out in the following tables.

**2010**

| | short-term benefits | | | post-employment benefits | | share-based payments | |
|---|---|---|---|---|---|---|---|
| **Name** | **cash salary and fees** | **cash bonus** | **non-monetary benefits** | **super-annuation** | **retire-ment benefits** | **options** | **Total** |
| | $ | $ | $ | $ | $ | $ | $ |
| **Non-executive directors** | | | | | | | |
| David King (Chairman)[1] | 65,000 | - | - | 5,750 | - | - | 70,750 |
| Koichiro Koike | 45,087 | - | - | - | - | 57,000 | 102,087 |
| Mr Robin Beaumont[2] | 14,032 | - | - | - | - | - | 14,032 |
| **Total non-executive directors** | **124,119** | **-** | **-** | **5,750** | **-** | **57,000** | **186,869** |
| **Executive directors & Key Management** | | | | | | | |
| Maria Halasz (MD/CEO) | 350,000 | - | - | 31,500 | - | 198,100 | 579,600 |
| Julia Hill[3] | 35,152 | - | - | 1,139 | - | - | 36,291 |
| Andrew Bursill (Sec)[4] | - | - | - | - | - | - | - |
| **Total Executive directors & key management** | **385,152** | **-** | **-** | **32,639** | **-** | **198,100** | **615,891** |
| **Total** | **509,271** | **-** | **-** | **38,389** | **-** | **255,100** | **802,760** |

[1] An amount of $43,333 is still due and payable to Mr King

[2] Mr Robin Beaumont was appointed as director effective 12 October 2009 and has agreed to be paid 50% of his director's fees by way of options. The number and terms of these options are yet to be agreed.

[3] Julia Hill resigned on 4 August 2009.

[4] Mr Bursill, company secretary, is an associate of Franks & Associates Pty Ltd who provides accounting and company secretarial services to Cellmid Limited. The contract is based on normal commercial terms. A total of $65,549 (2009: $11,206) in cash was received by Franks & Associates in relation to this contract for the year.

## Remuneration report (continued)

### *Details of remuneration (continued)*

**2009**

| | short-term benefits | | | post-employment benefits | | share-based payments | |
|---|---|---|---|---|---|---|---|
| **Name** | **cash salary and fees** | **cash bonus** | **non-monetary benefits** | **super-annuation** | **retire-ment benefits** | **options** | **Total** |
| | $ | $ | $ | $ | $ | $ | $ |
| **Non-executive directors** | | | | | | | |
| David King (Chairman)[5] | 64,999 | - | - | 5,850 | - | - | 70,849 |
| Koichiro Koike[6] | 16,473 | - | - | - | - | - | 16,473 |
| Stephanie Williams[7] | 4,640 | - | - | 418 | - | - | 5,058 |
| **Total non-executive directors** | **86,112** | **-** | **-** | **6,268** | **-** | **-** | **92,380** |
| **Executive directors & Key Management** | | | | | | | |
| Maria Halasz (MD/CEO)[8] | 350,000 | - | - | 31,500 | - | - | 381,500 |
| Julia Hill | 77,769 | - | **-** | 6,999 | | | 84,768 |
| Andrew Bursill (Sec)[9] | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total Executive directors & key management** | **427,769** | **-** | **-** | **38,499** | **-** | **-** | **466,268** |
| **Total** | **513,881** | **-** | **-** | **44,767** | **-** | **-** | **558,648** |

[5] An amount of $43,333 is still due and payable to Mr King

[6] Mr Koichiro Koike was appointed as director effective 10 September 2008

[7] Dr Williams resigned as a director effective 26 August 2008

[8] Ms Halasz's employment agreement sets out certain performance incentives that are payable subject to achievement of specific milestones. Key milestones that trigger performance incentives are related to definitive agreement for the licensing or acquisition of new technology. Ms Halasz has met these performance incentives.

[9] Mr Bursill, company secretary, is an associate of Franks & Associates Pty Ltd who provides accounting and company secretarial services to Cellmid Limited. The contract between Cellmid Limited and Franks & Associates is based on normal commercial terms. A total of $11,206 (2008: $Nil) in cash and $40,000 in shares and options (2008: $Nil), being 4,000,000 shares issued on 8 May 2009 for $0.01 each and 800,000 options expiring 8 January 2012, exercisable at $0.03 each was received by Franks & Associates in relation to this contract for the year.

### Remuneration report (continued)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name | Fixed remuneration | | At risk -STI | | At risk – LTI | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| ***Directors*** | | | | | | |
| David King | **100%** | 100% | **-** | - | **-** | - |
| Maria Halasz | **66%** | 100% | **-** | - | **34%** | - |
| Mr Koichiro Koike | **100%** | 100% | **-** | - | **-** | - |
| Mr Robin Beaumont | **100%** | N/A | **-** | - | **-** | - |
| | | | | | | |
| | | | | | | |
| **Other company and group executives** | | | | | | |
| Andrew Bursill | **100%** | 100% | **-** | - | **-** | - |

**C. Service agreements (audited)**

The CEO, Ms Halasz is an employee of the Group under an agreement signed on 21 September 2007. Under the terms of the present contract:

- Ms Halasz may resign from her position and thus terminate this contract by giving six months' written notice. On resignation any unvested options will be forfeited.
- The Group may terminate the employment agreement by providing six months' written notice or providing payment in lieu of the notice period (based on the fixed component of Ms Halasz's remuneration).
- The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the CEO is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. On termination with cause, any unvested options will immediately be forfeited.
- Ms Halasz's employment agreement sets out certain performance incentives that are payable subject to achievement of specific milestones. Key milestones that trigger performance incentives are related to definitive agreement for the licensing or acquisition of new technology and the formation of a Clinical Advisory Board.

### Remuneration report (continued)

### D. Share-based compensation

***Options***

**2010**

| | Options Granted in 2010 | Value of options at grant date | Options Vested in 2010 | Value of options expensed in 2010 | Proportion of remuneration |
|---|---|---|---|---|---|
| | | | | ($) | % |
| Maria Halasz | 7,000,000 | 198,100 | 5,000,000 | 198,100 | 34% |
| Koichiro Koike | 2,000,000 | 57,000 | 125,000 | 57,000 | 56% |
| | 9,000,000 | 255,100 | 5,125,000 | 255,100 | |

The issuance of options to Directors, Executives and Key Management Personnel was approved by shareholders at the Annual General Meeting on 17 November 2009.

These options were granted for no consideration. The terms and conditions of the grant of options affecting remuneration are as follows:

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

The Executive options for Ms Halasz were granted at the date of approval being at the Annual General Meeting held on 17 November 2009. The options were issued in three separate tranches, having met all vesting conditions.

The assessed fair value at grant date of options granted is allocated over the period from grant date to vesting date. The amounts are included in the tables in Sections B and D above. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free rate for the term of the option.

The model inputs for options granted to Maria Halasz included:

- options are granted for no consideration
- exercise price: $0.045
- grant date: 17 November 2009
- expiry date: 17 November 2014
- share price at grant date: $0.03
- expected price volatility of the Company's shares: 175%
- expected dividend yield: nil%
- risk-free interest rate: 5.11%

The Director options for Koichiro Koike were granted and vested in full at the date of approval being at the Annual General Meeting held on 17 November 2009.

The assessed fair value at grant date of options granted is allocated over the period from grant date to vesting date. The amounts are included in the tables in Sections B and D above. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free rate for the term of the option.

## Remuneration report (continued)

## D. Share-based compensation (continued)

The model inputs for the options granted to Koichiro Koike included:

- options are granted for no consideration
- exercise price: $0.0375
- grant date: 17 November 2009
- expiry date: 17 November 2014
- share price at grant date: $0.03
- expected price volatility of the Company's shares: 175%
- expected dividend yield: nil%
- risk-free interest rate: 5.14%

None of the Director or Executive options granted as share-based compensation were exercised during the period.

No options have been granted since the end of the financial year.

**Loans to directors and executives**

There were no loans to directors or executives during or since the end of the year.

**Shares under option**

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

| | Expiry Date | Issue Price | Number under option |
|---|---|---|---|
| | | | ($) |
| Restricted options | 8 January 2012 | $0.30 | 50,000 |
| Unlisted options | 15 June 2013 | $0.06 | 5,000,000 |
| Unlisted options | 8 January 2012 | $0.18 | 499,995 |
| Unlisted options | 8 January 2012 | $0.03 | 6,800,000 |
| Unlisted options | 1 June 2014 | $0.05 | 5,250,000 |
| Unlisted options | 1 July 2014 | $0.022 | 5,002,006 |
| Unlisted options | 17 November 2014 | $0.0283 | 7,000,000 |
| Unlisted options | 17 November 2014 | $0.0285 | 2,000,000 |
| Unlisted options | 19 February 2015 | $0.028 | 600,000 |
| | | | 32,202,001 |

**Shares issued on the exercise of options**

No ordinary shares of Cellmid Limited were issued during and since the year ended 30 June 2010 on the exercise of options (2009: $Nil). No amounts are unpaid on any of the shares (2009:$Nil).

**2009**

No options were granted for the year ended 30 June 2009.

**Insurance of officers**

During the financial year, the Group paid a premium to insure the directors and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

**Indemnification of officers**

The Group has entered into Deeds of Indemnity, Insurance and Access with each of the directors and the Company Secretary. Each deed provides officers with the following:

- a right to access certain Board papers of the Group during the period of their tenure and for a period of seven years after that tenure ends
- subject to the Corporations Act, an indemnity in respect of liability to persons other than the Group and its related bodies corporate that they may incur while acting in their capacity as an officer of the Group or a related body corporate, except where that liability involves a lack of good faith and for defending certain legal proceedings, and
- the requirement that the Group maintain appropriate directors' and officers' insurance for the officer.

No liability has arisen under these indemnities as at the date of this report.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001.*

**Non-audit services**

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group and/or the Group are important.

Details of the amounts paid or payable to the auditor, PKF (2009: PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

### Non-audit services (continued)

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| **(a) Assurance services** | | |
| *Audit services* | | |
| *Pricewaterhouse Coopers* | | |
| *Audit of financial reports and other audit work under the* Corporations Act 2001 | 44,010 | 51,910 |
| *PKF* | | |
| Audit of financial reports and other audit work under the *Corporations Act 2001* | 15,000 | - |
| Total remuneration for audit services | 59,010 | 51,910 |
| *Other assurance services* | | |
| Due diligence services | - | - |
| Total remuneration for other assurance services | - | - |
| Total remuneration for assurance services | 59,010 | 51,910 |
| **(b) Taxation services** | | |
| Tax compliance services, including review of Company income tax returns | - | - |
| Total remuneration for taxation services | - | - |
| **(c) Other services** | | |
| Other | - | - |
| Total remuneration for other services | - | - |
| Total remuneration for non-audit services | - | - |

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

**Auditor**

PKF continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of Directors:

David King
Chairman

Sydney
27 August 2010

**PKF**

Chartered Accountants
& Business Advisers

## Auditors' Independence Declaration

As lead auditor for the audit of Cellmid Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cellmid Limited and the entity it controlled during the period.

**PKF**

**Bruce Gordon**
**Partner**

**27 August 2010**
**Sydney**

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

# Corporate Governance

The Board of Directors of Cellmid Limited (the Company) is committed to ensuring the most appropriate corporate governance arrangements are in place to achieve optimal performance and the long term prosperity while meeting shareholder expectations.

The Board determines the most appropriate corporate governance arrangements having regard to the best interests of the Company, its shareholders and consistent with its responsibilities to other stakeholders. This statement outlines the Company's main corporate governance practices.

As required by the ASX Listing Rules this statement sets out the extent to which the Company has followed the Corporate Governance Council's Corporate Governance Principles and Recommendations. This statement is based on the revised Recommendations released by ASX in August 2007. Where the Company departs from the Recommendations an explanation is provided.

### Principle 1—Lay solid foundations for management and oversight

*Recommendation 1.1 – Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions*

*Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives*

*Recommendation 1.3 – Companies should disclose the process for evaluating the performance of senior executives*

The Company has also established guidelines in relation to the allocation of individual responsibility in relation to the appointment of Directors, in particular the role of the Managing Director and the Chairman as well as issuing formal letters of appointment to all new Director's setting out the key terms and conditions of that appointment which are clearly defined in the Board Operating Manual.

The Board, through the Chairman, is charged with undertaking an evaluation against appropriate key indicators of the performance of the Board, individual Directors and the Board committees as well as the performance of the Managing Director. The evaluation of the Managing Director includes a review of financial results, achievement of strategic goals, compliance and other key objectives as established by the Board.

During the financial year the Managing Director has had two performance reviews based on the criteria set out above. The Board is scheduled to undertake a review of its performance, that of individual Directors and the Board committees during the last half of this calendar year.

There have been no departures from Principle 1 during the year ended 30 June 2010.

### Principle 2—Structure the Board to add value

*Recommendation 2.1 – A majority of the board should be independent directors*

*Recommendation 2.2 – The chair should be an independent director*

*Recommendation 2.3 – The roles of chair and chief executive officer should not be exercised by the same individual*

*Recommendation 2.4 – The board should establish a nomination committee*

*Recommendation 2.5 – The Company should disclose the process for evaluating the performance of the board, its committees and individual directors*

*Recommendation 2.6 – The Company should provide the information indicated in the Guide to reporting on Principle 2*

The Board considers that the number of directors and the composition of the Board are critical for the success of the Company. It is acknowledged that these numbers could vary from time to time depending on the circumstances of the Company.

The total number of directors permitted by the constitution is not less than three, nor more than nine. The Board considers that the appropriate number in the current circumstances is three. However, the number of Directors may need to increase during the coming financial year as the business opportunities from the acquisition of the midkine intellectual property portfolio develop and commercialisation of the intellectual property is underway. The Board will seek suitably qualified directors with an appropriate mix of skills that allows the Board collectively to understand the business environment in which the Company operates and who can add value to the current Board.

**Independence of directors**

*Departure from Recommendation 2.1:* As at the date of this report, two of the three Directors are not considered independent, namely Dr David King, who is an associate of a substantial shareholder and Ms Maria Halasz, who is an executive Director of Cellmid Limited. This departure arises from the size and nature of operations of the Company.

The Group has in place a clear division of responsibility between the Chairman and the Managing Director as set out in the Board Operating Manual. The role of Chairman and Managing Director are held by different individuals.

The Board has established a Nominations Committee to assist in the execution of the Board's responsibilities. Given there are only four Board members, the Board as a whole, exercises the responsibility of the Nominations Committee. The Nominations committee is responsible for the selection and appointment of Directors. It is also charged with undertaking evaluation of the Board's performance and developing and implementing a plan for identifying, assessing and enhancing Directors competencies though these responsibilities have been undertaken by the Board as a whole to date.

The process for the evaluation of the Board, its committees and individual directors is available on the Group's website. The process for conducting the review consists of the Chairman conducting individual interviews with each of the Directors at which time they are able to make any comment or raise issues they have in relation to the Board's or the Board Committee's operations. A written report is then prepared by the Chairman for inclusion in the next Board papers.

The Audit Committee consists of Dr. David King, Chairman and Mr Koichiro Koike with the Managing Director attending by invitation.

A copy of the Charter for the Audit Committee can be found on the Group's website.

*Access to information*

Directors may request additional information as and when they consider it appropriate or necessary to discharge their obligation as a Director of the Group. This includes access to internal senior executives or external advisor when and as appropriate. The Board has in place a policy dealing with Directors entitlements to access external independent advice with the consent of the Chairman and at the expense of the Group.

Apart from those noted above, there have been no departures from Principle 2 during the year ended 30 June 2010.

**Principle 3: Promote ethical and responsible decision making**

*Recommendation 3.1 – The Group should establish a code of conduct and disclose the code*

*Recommendation 3.2 – The Group should establish a policy concerning trading in company securities and disclose a summary of that policy*

*Recommendation 3.3 – The Group should provide the information indicated in the Guide to reporting on Principle 3*

The Group has in place a robust framework of policies centered on its Codes of Conduct to ensure it maintains the highest standards for both Directors and employees in dealing with all its stakeholders, both internally and externally.  Copies can be found on the Group's website.

Directors and employees are to ensure that the Group conducts its business in accordance with all applicable laws and regulations and in a way that enhances the Group's reputation.

In addition Directors should make reasonable endeavours to ensure that the Group gives proper consideration to:

- the impact on the environment of the Group's activities and proposed activities and that the Group observes it obligations in respect of environmental practices and
- matters affecting the health, safety and general wellbeing of its employees.

To ensure that clear, consistent and appropriate information is given to regulatory bodies and the media. The Chairman and the CEO are the only officers authorised to speak to the media.

**Policy regarding trading in securities**

The Group has established a securities trading policy which balances the investment interests of employees and Directors with the requirements for ensuring such trades only take place when all information relevant to making such an investment decision is fully disclosed to the market.

One of the key aspects of the policy relates to Directors notifying the Chairman directly or via the Company Secretary prior to dealing and they only proceed to deal after receiving due acknowledgement.  A copy of the Trading Policy can be found on the Group's website.

The acquisition of shares or options acquired pursuant to an employee share or option plan and the acquisition of securities through exercising rights to securities or through conversion of convertible securities is specifically excluded from this policy. This exclusion applies only to the acquisition, exercise or conversion of securities.  Subsequent dealing in the underlying securities is restricted as outlined in the policy.

Directors must notify the Company Secretary in writing of all transactions in accordance with the requirements of Sections 205F and 205G of the Corporations Act 2002.  The Group will notify the ASX of the details of any transaction, on behalf of the Directors.

The above restrictions extend to a Director's spouse, partner, children and organisations (e.g private companies or trusts) in which a Director has a material interest and the capacity to control the decision. These restrictions also apply in all situations where a Director is in a position of exerting significant influence over the voting intentions of parties personally known to that Director (e.g. where the Director is a trustee and is in a position to make investment decisions or exert significant influence on those making such decisions even though he may not be a beneficiary of the trust).

There have been no departures from Principle 3 during the year ended 30 June 2010.

**Principle 4: Safeguard integrity in financial reporting**

*Recommendation 4.1 – The board should establish an Audit Committee*

*Recommendation 4.2 – The Audit Committee should be structured so that it: (i) consists only of non-executive directors, (ii) consists of a majority of non-executive directors; (iii) is chaired by an independent chair, who is not the chair of the board; and (iv) has at least three members.*

*Recommendation 4.3 – The Audit Committee should have a formal charter*

*Recommendation 4.4 – The Group should provide the information indicated in the Guide to reporting on Principle 4*

The Group has in place processes aimed at ensuring that the financial statements and related notes are complete and prepared in accordance with applicable accounting standards and provide a true and fair view of the Group's financial position.

*Audit Committee*

The Group has an Audit Committee comprising two non-executive directors on whom with financial skills and experience relevant to the committee's functions. The Audit Committee charter can be found on the Group's website.

The Audit Committee comprises Dr. David King and Mr Koichiro Koike.

| Audit Committee Membership | Audit Meetings Held | Audit Meetings Attended |
|---|---|---|
| Dr. David King[10] | 2 | 2 |
| Mr Koichiro Koike[11] | 2 | 2 |

The main object of the Audit Committee is to assist the Board in fulfilling its responsibility to oversee the integrity of the Group's financial reporting and compliance including:

- overseeing the compliance with legislative and other mandatory reporting standards
- assisting with the determinations regarding accounting and regulatory practices and disclosures and reviewing the scope and results of the audit process
- assisting with the internal controls and risk management framework
- ensuring legal and regulatory compliance with appropriate standards, policies and codes and
- oversight of the independence and effectiveness of external auditors.

*Auditor selection, appointment and lead partner rotation*

The Audit Committee will annually review the audit process including assessment of auditor independence. Any non-audit work will require the prior approval of the Audit Committee which approval will only be given where it can be established that it will not compromise the independence of the audit.

[10] Dr. David King was appointed to the Board on 18th January 2008

[11] Mr Koichiro Koike was appointed to the Board on 26th August 2008

The Board has responsibility to ensure that the audit partner rotation policy is effective and the overall succession plan is designed to minimize the effect on the Company.

*Contracts and transactions between the Group and its officers*

Any proposed contract between an officer and the Group must be approved by the Board prior to its execution.

Officers include any Directors, employees of the Group or subsidiaries with the ability to enter into agreements on behalf of the Company.

The contract may be either direct with the officer, a member of the officer's family or an entity in which the officer of a member of the officer's family holds an interest. Holdings in publicly-listed companies of less than 5% are excluded.

There have been departures from Principle 4 during the year ended 30 June 2010:

*Recommendation 4.2:* - While the current membership of the committee does not comply with ASX Recommendations in that only one member is independent, the Board considers that the current number of members and their status is appropriate given the Group's present circumstances.

**Principle 5: Make timely and balance disclosure**

*Recommendation 5.1 – The Group should put in place mechanisms designed to ensure compliance with the ASX Listing Rule requirements.*

*Recommendation 5.2 – The Group should provide the information indicated in the Guide to reporting on Principle 5*

The Group has established procedures to ensure that the share market in which the Group's shares are traded is properly informed of matters that may have a material impact on the price at which the Group's securities are traded. Specifically, the Company's policy is to ensure compliance with the Australian Stock Exchange (ASX) Listing Rules 3.1, 3.1A and 3.1B. A summary of the policy can be found on the Company's website.

There have been no departures from Principle 5 during the year ended 30 June 2010.

**Principle 6: Respect the rights of shareholders**

*Recommendation 6.1 – The Group should design a communications policy for promoting effective communication with shareholders.*

*Recommendation 6.2 – The Group should provide the information indicated in the Guide to reporting on Principle 6*

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. All ASX announcements are posted to the Company's website in a clearly marked Shareholder Information section. Shareholders are encouraged to participate at general meetings and are specifically offered the opportunity of receiving communications via email.

There have been no departures from Principle 6 during the year ended 30 June 2010.

**Principle 7: Recognise and manage risk**

*Recommendation 7.1 – The Group should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

*Recommendation 7.2 – The Group should require management to design and implement a risk management and internal control system to manage the Group's material business risks.*

*Recommendation 7.3 – The Group should disclose whether it has received assurance from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and that the system is operating effectively in all material respects in relation to financial reporting risks.*

*Recommendation 7.4 – The Group should provide the information indicated in the Guide to reporting on Principle 7*

The Group has in place strategies and controls in relation to management of financial risk which includes identifying and measuring the financial risk, developing strategies to minimise the identified risks and monitoring implementation. Management is required to provide assurance to the Board as to the contents of the Annual Financial Statements including compliance with accounting standards and that the accounts represent a true and fair view of the Group's financial position.

Given the Group's size, number of employees and level of activity there has not been the time nor the resources to undertake the work required to establish a general business risk framework. The Group is currently establishing a business risk framework based on AS4360 to ensure management, control and oversight of the business risk as the Group proceeds with the commercialisation of the recently acquired midkine intellectual property. As part of this process a Risk Management Committee will be established to ensure oversight of the Group's business risk and report to the Board.

There have been departures from Principle 7 during the year ended 30 June 2010.

At this stage the Group is not fully in compliance with Principle 7 but it is envisaged that the business risk framework, Risk Management Committee and reporting structure will be in place towards the end of 2010 calendar year.

**Principle 8: Remunerate fairly and responsible**

*Recommendation 8.1 – The Board should establish a Remuneration Committee*

*Recommendation 8.2 – The Group should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

*Recommendation 8.3 – The Group should provide the information indicated in the Guide to Reporting on Principle 8*

Given the current number of Directors, the Board acts as the Remuneration Committee, though no formal Charter has been developed, in accordance with documented remuneration policies. These policies establish a balance between fixed and incentive pay for both the short and long term.

Short term incentives include a fixed (cash) element and variable incentive components which may include both cash and equity based remuneration. Long term incentives are in the form of cash payments linked to major performance milestones and participation in an option plan for full or part time employees or consultants of the Group. The Group may impose conditions in relation to these options (including vesting periods, exercise price and conditions precedent to exercise) which must be satisfied before the options can be exercised.

Non-executive Directors fees are specifically dealt with under the Group's Remuneration Policies. In particular Directors will not be entitled to a retirement benefit nor are they entitled to participate in share or option plans except with the approval of the shareholders. For further information, refer to the Remuneration Report included in the Director's Report.

There have been no departures from Principle 8 during the year ended 30 June 2010.

# Financial Report

This financial report covers both Cellmid Limited, the consolidated entity, consisting of Cellmid Limited and its subsidiary. The financial report is presented in Australian currency.

Cellmid Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6
40 King Street
Sydney
NSW 2000
Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 3 - 18, which is not part of this financial report.

The financial report was authorised for issue by the directors on 27 August 2010. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on our website: www.cellmid.com.au.

**Cellmid Limited**

**Statements of Comprehensive Income**
**For the year ended 30 June 2010**

| | Notes | Consolidated 2010 $ | 2009 $ |
|---|---|---|---|
| **Revenue** | 6 | **325,999** | 15,413 |
| Other income | 6 | **7,571** | 5,539 |
| Consultancy expenses | | **(177,973)** | (88,228) |
| Share-based compensation | 31 | **(315,900)** | (563,132) |
| Research and development expense | | **(306,466)** | (10,448) |
| Depreciation and amortisation expense | 7 | **(13,721)** | (1,566,893) |
| Professional fees | | **(35,111)** | (218,191) |
| Directors' remuneration | | **(124,117)** | (92,380) |
| Employee benefits | | **(566,932)** | (575,720) |
| Patent costs | | **-** | (707) |
| Occupancy | 7 | **(55,810)** | (199,707) |
| Travel | | **(106,259)** | (100,961) |
| Other expenses | | **(155,442)** | (170,266) |
| Finance costs | 7 | **(4,455)** | 76,387 |
| Loss on foreign exchange | | **(2,247)** | - |
| **Loss before income tax** | | **(1,530,863)** | (3,489,294) |
| Income tax benefit | 8 | **190,915** | 154,748 |
| **Net loss attributable to equity holders of Cellmid Limited** | | **(1,339,948)** | (3,334,546) |
| **Other comprehensive income** | | | |
| **Revaluation of available for sale asset** | | **3,893** | - |
| **Total comprehensive loss attributable to equity holders of Cellmid Limited** | | **(1,336,055)** | (3,334,546) |
| | | **Cents** | Cents |
| **Earnings per share for loss attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | 30 | **(0.48)** | (2.77) |
| Diluted earnings per share | 30 | **(0.48)** | (2.77) |

*The above statements of comprehensive income should be read in conjunction with the accompanying notes.*

**Cellmid Limited**

**Statements of Financial Position**
**As at 30 June 2010**

| | Notes | Consolidated 2010 $ | 2009 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **2,093,185** | 163,161 |
| Trade and other receivables | 10 | **56,941** | 38,301 |
| Inventory | 11 | **1,000,000** | 1,000,000 |
| Total current assets | | **3,150,126** | 1,201,462 |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **14,232** | 20,991 |
| Available for sale asset | 13 | **53,893** | - |
| Total non-current assets | | **68,125** | 20,991 |
| | | | |
| **Total assets** | | **3,218,251** | 1,222,453 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **312,760** | 395,322 |
| Borrowings | 16 | **-** | 26,021 |
| Provisions | 17 | **56,552** | 62,461 |
| Total current liabilities | | **369,312** | 483,804 |
| | | | |
| **Non current liabilities** | | **-** | - |
| | | | |
| **Total liabilities** | | **369,312** | 483,804 |
| | | | |
| **Net assets** | | **2,848,939** | 738,649 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 19 | **17,386,273** | 14,255,828 |
| Reserves | 20(a) | **1,664,124** | 1,344,331 |
| Accumulated losses | 20(b) | **(16,201,458)** | (14,861,510) |
| | | | |
| **Total equity** | | **2,848,939** | 738,649 |

*The above statements of financial position should be read in conjunction with the accompanying notes.*

**Cellmid Limited**

**Statements of changes in equity**
**For the year ended 30 June 2010**

## Consolidated

| | Notes | Issued Capital $ | Share Based Payments Reserve $ | Available for Sale Reserve | Accumulated Losses $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2008** | | 10,871,395 | 1,271,199 | - | (11,526,964) | 615,630 |
| Total comprehensive income for the period | | - | - | - | (3,334,546) | (3,334,546) |
| **Subtotal** | | 10,871,395 | 1,271,199 | - | (14,861,510) | (2,718,916) |
| Contributions of equity | 19(c) | 3,520,047 | - | - | - | 3,520,047 |
| Capital raising costs | 19(c) | (8,305) | - | - | - | (8,305) |
| Equity component of convertible note | | (127,309) | - | - | - | (127,309) |
| Movement in share based payments | 20 | - | 73,132 | - | - | 73,132 |
| **Balance at 30 June 2009** | | **14,255,828** | **1,344,331** | **-** | **(14,861,510)** | **738,649** |
| **Total comprehensive loss for the year** | | **-** | - | **3,893** | **(1,339,948)** | **(1,336,055)** |
| **Transactions with equity holders:** | | | | | | |
| Contributions of equity | 19(c) | 3,380,221 | - | - | - | 3,380,221 |
| Capital raising costs | 19(c) | (249,776) | - | - | - | (249,776) |
| Movement in share based payments reserve | 20 | - | 315,900 | - | - | 315,900 |
| | | **3,130,445** | **315,900** | **3,893** | **(1,339,948)** | **2,110,290** |
| **Balance at 30 June 2010** | | **17,386,273** | **1,660,231** | **3,893** | **(16,201,458)** | **2,848,939** |

**Cellmid Limited**

**Cash flow statements**
**For the year ended 30 June 2010**

| | Notes | Consolidated 2010 $ | 2009 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(1,354,399)** | (1,252,126) |
| Research and development expenses | | **(283,271)** | - |
| Revenue and other income | | **219,739** | 5,539 |
| Interest received | | **64,032** | - |
| Grant income | | **190,915** | 154,748 |
| Interest paid | | **(4,455)** | (8,352) |
| **Net cash (outflow) from operating activities** | 28 | **(1,167,439)** | (1,100,191) |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | | **(6,961)** | (6,792) |
| Interest received | | **-** | 30,569 |
| Net cash inflow/ (outflow) from investing activities | | **(6,961)** | 23,777 |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares and other equity securities net of transaction costs | | **3,130,445** | 770,197 |
| Interest paid on convertible note | | **-** | (31,917) |
| Repayment of convertible note | | **-** | (454,239) |
| Repayment of borrowings | | **(26,021)** | (12,708) |
| Net cash inflow from financing activities | | **3,104,424** | 271,333 |
| **Net decrease in cash and cash equivalents** | | **1,930,024** | (805,081) |
| Cash and cash equivalents at the beginning of the financial year | | **163,161** | 968,242 |
| **Cash and cash equivalents at end of year** | 9(a) | **2,093,185** | 163,161 |

*The above cash flow statements should be read in conjunction with the accompanying notes.*

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Cellmid Limited as the consolidated entity consisting of Cellmid Limited and its subsidiary. A note containing the parent entities results are shown in the notes to the financial report.

### (a) Basis of preparation

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

*Compliance with IFRSs*
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Cellmid Limited comply with International Financial Reporting Standards (IFRS).

*Historical cost convention*
These financial statements have been prepared under the historical cost convention.

*Critical accounting estimates*
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

### (b) Principles of consolidation

*Subsidiaries*
The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Cellmid Limited (''Company'' or ''parent entity'') as at 30 June 2010 and the results of its subsidiary for the year then ended. Cellmid Limited and its subsidiary together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted.

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, is the Board of directors.

The group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis that used for internal reporting purposes. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision makers.

As a result of the adoption of the revised AASB 8, certain cash generating units have been redefined having regard to the requirements in AASB 136: Impairment of Assets.

### (d) Revenue recognition

Licence fees and royalty fees are recognised on a straight-line basis over the life of the agreement.

Interest income is recognised on a time proportion basis using the effective interest method.

Government research and development tax rebates are recognised as revenue when received.

### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these 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 if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

*Tax consolidation legislation*
Cellmid Limited and its wholly-owned Australian controlled entity have decided not to implement the tax consolidation legislation.

### (f) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

### (g) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

### (i) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statement of comprehensive income.

### (j) Inventories

Raw materials, work in progress and finished goods are stated at lower of cost and net realisable value. Costs comprise direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the later being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

### (k) Investments and other financial assets

The Group classifies its investments in the following categories: loans and receivables and held-to-maturity available for sale financial assets. The classification depends on the nature and purpose of the investment and is determined at the time of initial recognition.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 10).

Loans and receivables are measure at amortised cost using the effective interest method, less any impairment.

*(ii) Available for sale financial assets*
Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as available for sale and are stated at fair value.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the available for sale reserve.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

### (l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in an active market is determined by reference to the published price quotations.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (m) Leasehold improvements, furniture, fittings and office equipment

Leasehold improvements, furniture, fittings and office equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

| | |
|---|---|
| - Furniture, fittings and office equipment | 3-5 years |
| - Leasehold improvements | 3 years – or over shorter lease term of the related lease. |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

### (n) Intangible assets

*Intangible assets – other intangibles*
Costs incurred in acquiring intellectual property are capitalised and amortised on a straight line basis over the period of the expected benefit. Intellectual property held at the reporting date is amortised over its estimated useful life of five years, using the straight line method. Management review the useful economic life of intellectual property at each year end.

*(i) Patents and Trademarks*
Patents and trademarks are expensed through the profit and loss.

*(ii) Research and development*
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### (o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### (q) Employee benefits

*Employee benefits*
*(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Retirement benefit obligations*

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Contributions are paid into the fund nominated by the employee.

*(iv) Share-based payments*

The fair value of options granted is recognised as a benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the directors and executives become unconditionally entitled to the options.

The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

**(r) Other Share Based Payments**

The fair value of options granted is recognised as a benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the designated party becomes unconditionally entitled to the options.

The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

**(s) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

**(t) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(u) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

**(v) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

**AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share Based Payment Transactions [AASB 2]*** (effective from 1 January 2010)
The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as equity- or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the group's or the parent entity's financial statements.

**AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*** (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indications are that it may affect the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group recognised $15,000 of such gains in other comprehensive income. The group has not yet decided when to adopt AASB 9.

**Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards*** (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. However, it has yet to put systems into place to capture the necessary information. It is therefore not possible to disclose the financial impact, if any, of the amendment on the related party disclosures.

**AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*** (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

## Note 2: Parent Entity Information

| | **2010** | 2009 |
|---|---|---|
| Information relating to Cellmid Limited [the parent entity] : | **$'000** | $'000 |
| Current assets | **3,149,607** | 1,195,180 |
| Total assets | **3,217,733** | 1,216,171 |
| Current liabilities | **(369,312)** | 483,804 |
| Total liabilities | **(369,312)** | 14,255,828 |
| Issued capital | **17,368,273** | 14,255,828 |
| Accumulated losses | **(16,201,976)** | (14,867,792) |
| Reserves | **1,664,124** | 1,344,331 |
| Total shareholders' equity | **2,848,421** | 732,267 |
| Loss of the parent entity | **(1,335,944)** | (3,334,546) |
| Total comprehensive loss of the parent entity | **(1,335,944)** | (3,334,546) |
| | | |
| The parent company has not entered into any guarantees, has no significant contingent liabilities, or contractual commitments for the acquisition of property, plant or equipment. | | |

## 3 Financial risk management

The Group's activities expose it to a number of financial risks as described below. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. To date, the Group has not had the need to utilise derivative financial instruments such as foreign exchange contracts or interest rate swaps to manage any risk exposures identified.

The Group holds the following financial instruments:

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| **Financial assets** | | |
| Cash and cash equivalents | **2,093,185** | 163,161 |
| Trade and other receivables | **56,941** | 38,301 |
| Available for sale financial asset | **53,893** | - |
| | **2,204,019** | 201,462 |
| **Financial liabilities** | | |
| Trade and other payables | **312,760** | 395,322 |
| Borrowings | **-** | 26,021 |
| | **312,760** | 421,343 |

### (a) Market risk

*Foreign exchange risk and price risk*
The Group and parent entity are not exposed to any material foreign exchange risk nor any price risk.

### (b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks. For banks, only independently rated parties with a minimum rating of 'A' are accepted. The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in the table above.

### (c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. The Group and parent have no access to borrowing facilities at the reporting date.

### (d) Fair value estimation

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in the Statement of Accounting Policies.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of intellectual property

The Group tests annually whether intellectual property has suffered any impairment, in accordance with the accounting policy stated in note 1(g). The recoverable amounts of the intellectual property have been determined based on reviewing the status of the research and development program, progress on its patent applications and projected cash flow calculations. These calculations require the use of assumptions.

## 5 Segment information

The primary business segment and the primary geographic segment within which the consolidated entity operates are biotechnology and Australia respectively. For primary reporting purposes, the entity operates in one business segment and one geographic segment as described.

## 6 Revenue and other income

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | **$** |
| *Other revenue* | | |
| Interest | **63,831** | 15,413 |
| Royalty income | **262,168** | - |
| | **325,999** | 15,413 |
| *Other income* | | |
| Miscellaneous income | **7,571** | 5,539 |
| | **7,571** | 5,539 |
| | **333,570** | 20,952 |

## 7 Expenses

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| **Loss before income tax includes the following specific expenses:** | | |
| *Depreciation and amortisation* | | |
| Plant and equipment | **13,721** | 21,393 |
| Acquired intellectual property | **-** | 1,545,500 |
| Total depreciation and amortisation | **13,721** | 1,566,893 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | **4,455** | (76,387) |
| *Net loss on disposal of property, plant and equipment* | **-** | 514 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | **55,810** | 199,707 |
| Contingent rentals | **-** | - |
| Total rental expense relating to operating leases | **55,810** | 199,707 |

## 8 Income tax expense

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| **(a) Income tax expense** | | |
| Current tax | **-** | - |
| Deferred tax | **-** | - |
| Income tax benefit | **190,915** | 154,748 |
| | **190,915** | 154,748 |

## 8 Income tax expense (continued)

**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| Loss before income tax expense | **(1,530,863)** | (3,489,294) |
| Tax (benefit) at the Australian tax rate of 30% | **(459,259)** | (1,046,788) |
| Tax effect of amounts which are not deductible in calculating taxable income: | | |
| Amortisation of intangibles | **-** | 463,650 |
| Research and development expenditure | **197,161** | - |
| Share-based payments | **94,770** | 168,940 |
| Sundry items | **1,098** | 198 |
| Adjusted income tax | **(166,230)** | (414,000) |
| Tax losses not brought to account | **(166,230)** | (414,000) |
| Research and development tax offset | **190,915** | 154,748 |
| Income tax benefit | **190,915** | 154,748 |

The $190,915 (2009 $154,748) research and development tax offset was received for a claim in accordance with the Commonwealth Governments Research and Development Tax Concession initiatives where the consolidated groups' expenditure on research and development is below $1 million and revenue is less than $5 million.

An amount of $463,409 is expected to be received on lodgement of the 30 June 2010 income tax in research and development tax offset.

**(c) Tax losses**

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| Unused tax losses for which no deferred tax asset has been recognised | **3,746,416** | 3,739,656 |
| Temporary difference deferred tax assets not recognised | **(62,304)** | (413,266) |
| Potential tax benefit @ 30% | **1,105,234** | 997,917 |

All unused tax losses were incurred by Australian entities.

This benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

**(d) Tax consolidation legislation**

Cellmid Limited and its wholly-owned Australian entity have decided not to implement the tax consolidation legislation.

## 9 Current assets – Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Cash at bank and in hand | **2,093,185** | 42,679 |
| Investment account | **-** | 120,482 |
| | **2,093,185** | 163,161 |

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Balances as above | **2,093,185** | 163,161 |
| Balances per statement of cash flows | **2,093,185** | 163,161 |

### (b) Cash

Cash at bank and in hand are non-interest bearing. The cash in the investment account earns a floating interest rate between 4% and 4.5% (2009 – 2% and 6.15).

### (c) Interest Rate Risk

The Group's exposure to interest rate risk relates primarily to the cash balances in the investment account detailed above.

## 10 Current assets – Trade and other receivables

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Other receivables | **34,667** | 9,128 |
| Prepayments | **22,274** | 29,173 |
| | **56,941** | 38,301 |

### (a) Effective interest rates and credit risk

There is no interest rate risk for the balance of Trade and other receivables.

There is no material credit risk associated with other receivables and prepayments.

## 11 Current assets – Inventory

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Purchased inventory at the lower of cost and net realisable value | **1,000,000** | 1,000,000 |

## 12 Non-current assets – Plant and equipment

| | Furniture, fittings and office equipment $ | Leasehold improvements $ | Total $ |
|---|---|---|---|
| **At 1 July 2008** | | | |
| Cost | **83,511** | - | 83,511 |
| Accumulated depreciation | **(47,405)** | - | (47,405) |
| Net book amount | **36,106** | - | 36,106 |
| | | | |
| **Year ended 30 June 2009** | | | |
| Opening net book amount | **36,106** | - | 36,106 |
| Additions | **6,792** | - | 6,792 |
| Disposals | **(514)** | - | (514) |
| Depreciation charge | **(21,393)** | - | (21,393) |
| Closing net book amount | **20,991** | - | 20,991 |
| | | | |
| **At 30 June 2009** | | | |
| Cost | **83,078** | - | 83,078 |
| Accumulated depreciation | **(62,087)** | - | (62,087) |
| Net book amount | **20,991** | - | 20,991 |

| | Furniture, fittings and office equipment $ | Leasehold improvements $ | Total $ |
|---|---|---|---|
| **Year ended 30 June 2010** | | | |
| Opening net book amount | **20,991** | - | 20,991 |
| Additions | **6,961** | - | 6,961 |
| Disposals | **-** | - | - |
| Depreciation charge | **(13,721)** | - | (13,720) |
| Closing net book amount | **14,232** | - | 14,232 |
| | | | |
| **At 30 June 2010** | | | |
| Cost | **90,040** | - | 90,040 |
| Accumulated depreciation | **(75,808)** | - | (75,808) |
| Net book amount | **14,232** | - | 14,232 |

## 13 Non current – Available for sale financial assets

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| **Listed securities** | | |
| Equity securities | **53,893** | - |
| Total available for sale financial assets | **53,893** | - |

**Impairment and risk exposure**
The maximum exposure to credit risk at the end of the reporting is the fair value of the equity securities classified as available for sale.

All available for sale investments are denominated in Australian currency. For an analysis of the sensitivity of available for sale financial assets to price and interest rate risk refer to note 3.

## 14 Non-current assets - Deferred tax assets

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| *Amounts recognised in profit or loss* | | |
| Accrued expenses claimable in future periods | **158,460** | 50,384 |
| Unused tax losses | **-** | - |
| *Amounts recognised directly in equity* | | |
| Transaction costs | **-** | - |
| | **158,460** | 50,384 |
| Set-off of deferred tax liability of parent entity pursuant to set-off provisions (note 18) | **(254,045)** | (463,650) |
| Temporary difference deferred tax assets not recognised | **412,505** | 413,266 |
| Net deferred tax assets | **-** | - |

## 15 Current liabilities - Trade and other payables

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| Trade payables | **82,070** | 83,509 |
| Other payables | **230,690** | 311,813 |
| | **312,760** | 395,322 |

## 16 Current liabilities – Borrowings

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| **Unsecured** | | |
| Macquarie Premium Funding | - | 26,021 |
| Total unsecured current borrowings | - | 26,021 |

The borrowings were repaid in the current year.

### (a) Interest rate risk exposures

The Group has no significant exposure to interest rate risk on borrowings.

### (b) Convertible notes

The parent entity issued 10,741,095 8% convertible notes for $1.83 million on 8 May 2007. The notes were convertible into ordinary shares of the parent entity, at the option of the holder, or repayable on 31 December 2008. The number of ordinary shares to be issued for each convertible note will be determined by dividing the issue price of the note ($0.17) by the lesser of $0.17 (the market price per share at the date of issue of the notes) and the market price per share at settlement date.

On 18 February 2009, the Consolidated Entity finalised an agreement with all the holders of Convertible Notes in Cellmid Limited ("Noteholders"), whereby each Noteholder was be issued 2.55 ordinary shares and paid 6.8 cents cash for each Convertible Note currently held, with all shares issued and payments made prior to 25 February 2009.

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| Face value of notes issued | - | 1,660,978 |
| Converted to shares | - | (1,251,548) |
| Other equity securities - value of conversion rights | - | 127,309 |
| Payment to Credit Note Holders | - | (454,239) |
| | - | (82,500) |
| Interest expense * | - | - |
| Interest paid | - | - |
| Interest writeback | - | 82,500 |
| Current liability – interest payable | - | - |
| Transaction costs | - | - |
| Non-current liability | - | - |

* Interest expense is calculated by applying the effective interest rate of Nil% (2009:Nil%) to the liability component

## 17 Current liabilities – Provisions

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| Employee benefits –annual leave | **56,552** | 62,461 |
| | **56,552** | 62,461 |

## 18 Non-current liabilities – Deferred tax liabilities

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| *Amounts recognised in profit or loss* | | |
| Amortisation | 254,045 | 463,650 |
| | 254,045 | 463,650 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (254,045) | (463,650) |
| Net deferred tax liabilities | - | - |

## 19 Contributed Equity

| | Notes | Consolidated 2010 Number | Consolidated 2009 Number | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|---|---|---|
| **(a) Share capital** | | | | | |
| Ordinary shares | | | | | |
| Fully paid | (c), (d) | **325,781,294** | 187,571,266 | **17,328,284** | 14,197,839 |
| | | **325,781,294** | 187,571,266 | **17,328,284** | 14,197,839 |
| **(b) Options** | | | | | |
| Listed | | **-** | - | **57,989** | 57,989 |
| Managing Director (M Halasz) | | **12,000,000** | 5,000,000 | **-** | - |
| Other | | **18,652,001** | 13,049,995 | **-** | - |
| Directors | | **2,000,000** | - | **-** | - |
| Executives | | **50,000** | 50,000 | **-** | - |
| | | **32,702,001** | 18,099,995 | **57,989** | 57,989 |
| **Total contributed equity** | | | | **17,386,273** | 14,255,828 |

## 19 Contributed equity (continued)

### (c) Movements in ordinary share capital:

| Date | Details | Notes | Number of shares | Issue price | $ |
|---|---|---|---|---|---|
| | **Opening balance 1 July 2008** | | **74,085,624** | | **10,686,097** |
| 1 Jul 2008 | Share Issue | | 20,000,000 | $0.05 | 1,000,000 |
| 16 Sep 2008 | Exercise of 9,474,437 converting note options | | 9,474,437 | $0.048 | 460,187 |
| 17 Sep 2008 | Exercise of 1,235,295 converting note options | | 1,235,295 | $0.048 | 60,000 |
| 20 Nov 2008 | Exercise of 1,029,413 converting note options | | 1,029,413 | $0.048 | 50,000 |
| 17 Dec 2008 | Share issue | | 712,503 | $0.04 | 28,500 |
| 23 Feb 2009 | Exercise of 17,033,994 converting note options | | 17,033,994 | $0.04 | 681,360 |
| 23 Feb 2009 | Share issue | | 7,500,000 | $0.03 | 225,000 |
| 8 May 2009 | Share issue | | 7,500,000 | $0.03 | 225,000 |
| 8 May 2009 | Share issue | | 34,000,000 | $0.01 | 340,000 |
| 8 May 2009 | Share issue | | 15,000,000 | $0.03 | 450,000 |
| | Less transaction costs arising on share issue | | | | (8,305) |
| | **Closing balance 30 June 2009** | | **187,571,266** | | **14,197,839** |
| | | | | | |
| | **Opening balance 1 July 2009** | | **187,571,266** | | **14,197,839** |
| 7 Jul 2009 | Exercise of 25,010,028 converting note options | | 25,010,028 | $0.022 | 550,221 |
| 26 Nov 2009 | Share issue | | 113,200,000 | $0.048 | 2,830,000 |
| | Less transaction costs arising on share issue | | | | (249,776) |
| | **Closing balance 30 June 2010** | | **325,781,294** | | **17,328,284** |

## 19 Contributed equity (continued)

### (d) Ordinary shares

No limit has been set on the total number of ordinary shares that the Company may issue. The ordinary shares do not carry par value.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (e) Movements in options:

| | | Number | $ |
|---|---|---|---|
| | **Opening balance 1 July 2008** | **7,505,000** | **57,989** |
| 31 Dec 2008 | Options lapsed | (1,455,005) | - |
| 08 May 2009 | Options issued | 6,800,000 | - |
| 01 June 2009 | Options issued | 5,250,000 | - |
| | **Closing balance 30 June 2009** | **18,099,995** | **57,989** |
| | **Opening balance 1 July 2009** | **18,099,995** | **57,989** |
| 7 Jul 2009 | Options issued | 5,002,006 | - |
| 31 Dec 2009 | Options issued | 9,000,000 | - |
| 1 June 2010 | Options lapsed | (3,000,000) | - |
| 30 Jun 2010 | Options issued | 3,600,000 | - |
| | **Closing balance 30 June 2010** | **32,702,001** | **57,989** |

### (f) Options

In June 2008, 5,000,000 unlisted options were granted to Ms Halasz. These options vested at the date of approval by a general meeting of shareholders held on 16 June 2008. The options vested as Ms Halasz has completed one full year of service and completion of a materially significant transaction evidenced by the acquisition of the Midkine technology.

In May 2009, 6,800,000 unlisted $0.03 options expiring on 8 May 2012 were issued to applicants of Cellmid Limited's 34,000,000 share issue with 1 option for every 5 shares applied for no additional consideration.

In June 2009, 5,250,000 unlisted $0.05 options expiring on the 1 June 2014 were issued as payment for work performed by consultants. These options were issued at $0.1393 resulting in equity based payments of $73,132.

**(f) Options (continued)**

In November 2009, a further 7,000,000 unlisted options were granted to Ms Halasz. These options have meet its vesting conditions and were issued in three separate tranches as follows: 2,000,000 options vested on the date of shareholder approval at the annual general meeting held on 17 November 2009; 3,000,000 options vested on completion of the first materially significant transaction, that is, the licence agreement with Celera Corporation; and 2,000,000 options vested on completion of the second materially significant transaction, being the license agreement signed with Yamasa Corporation.

In November 2009, 2,000,000 unlisted options were granted to Mr Koike. These options vested at the date of approval by the annual general meeting of shareholders on 17 November 2009.

In February 2010, 600,000 unlisted options were issued as part of an employee incentive program and a further 3,000,000 unlisted options were issued to a supplier for provision of services.

## 20 Reserves and accumulated losses

### (a) Reserves

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| *Share-based payments reserve* | | |
| Balance 1 July | **1,344,331** | 1,271,199 |
| Option expense | **315,900** | 73,132 |
| Balance 30 June | **1,660,231** | 1,344,331 |
| *Available for sale reserve* | | |
| Balance 1 July | **-** | - |
| Revaluation | **3,893** | - |
| Balance 30 June | **3,893** | - |
| **Total reserves** | **1,664,124** | 1,344,331 |

### (b) Accumulated losses

Movements in accumulated losses were as follows:

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Balance 1 July | **14,861,510** | 11,526,964 |
| Net loss for the year | **1,339,948** | 3,334,546 |
| Balance 30 June | **16,201,458** | 14,861,510 |

### (c) Nature and purpose of reserves

*(i) Share-based payments reserve*
The share-based payments reserve is used to recognise the fair value of options granted but not exercised.

## 21 Key management personnel disclosures

### (a) Directors

The following persons were directors of Cellmid Limited during the financial year:

*(i) Chairman - non-executive*

Dr D King (from 18 January 2008 to current)

*(ii) Executive directors*

Ms M Halasz, Managing Director (from 16 April 2007 to current)

*(iii) Non-executive directors*
Mr Koichiro Koike (from 10 September 2008 to current)
Mr Robin Beaumont (from 12 October 2009 to current)

### (b) Directors and key management personnel compensation

| | Consolidated | |
|---|---|---|
| | **2010** **$** | 2009 $ |
| Short-term employee benefits | 509,271 | 513,882 |
| Post-employment benefits | 38,389 | 44,767 |
| Share-based payments | 255,100 | - |
| | 802,760 | 558,649 |

The Group has taken advantage of the relief provided by *AASB 124* and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 9 to 15.

### (c) Equity instrument disclosures relating to key management personnel

*Options provided as remuneration and shares issued on exercise of such options*
Details of options provided as remuneration, together with terms and conditions of the options, can be found in note 19.

*Option holdings*
The numbers of options over ordinary shares in the Company held during the financial year by each director of Cellmid Limited and other key management personnel of the Group, including their personally related parties, are set out below.

## 21 Key management personnel disclosures (continued)

| **2010**<br>Name | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| ***Directors of Cellmid Limited*** | | | | | | |
| M Halasz | 5,000,000 | 7,000,000 | - | - | - | 12,000,000 |
| D King | - | - | - | - | - | - |
| K Koike | - | 2,000,000 | - | - | - | 2,000,000 |
| R Beaumont | - | - | - | - | - | - |
| ***Other key management personnel*** | | | | | | |
| A Bursill | - | - | - | - | - | - |

The 5,000,000 options for Ms Halasz were granted and vested at the date of approval by a general meeting of shareholders held on 16 June 2008. The options vested as Ms Halasz has completed one full year of service and completion of a materially significant transaction evidenced by the acquisition of the Midkine technology.

In November 2009, a further 7,000,000 unlisted options were granted to Ms Halasz. These options have meet its vesting conditions and were issued in three separate tranches as follows: 2,000,000 options vested on the date of shareholder approval at the annual general meeting held on 17 November 2009; 3,000,000 options vested on completion of the first materially significant transaction, that is, the licence agreement with Celera Corporation; and 2,000,000 options vested on completion of the second materially significant transaction, being the license agreement signed with Yamasa Corporation.

In November 2009, 2,000,000 unlisted options were granted to Mr Koike. These options vested at the date of approval by the Annual General Meeting of shareholders on 17 November 2009.

| **2009**<br>Name | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| ***Directors of Cellmid Limited*** | | | | | | |
| M Halasz | 5,000,000 | - | - | - | - | 5,000,000 |
| D King | - | - | - | - | - | - |
| K Koike | - | - | - | - | - | - |
| ***Other key management personnel*** | | | | | | |
| A Bursill | - | - | - | - | - | - |

*(iii) Share holdings*

The numbers of shares in the Company held during the financial year by each director and key management personnel of Cellmid Limited, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

## 21 Key management personnel disclosures (continued)

| **2010**<br>Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| ***Directors and Key Management Personnel of Cellmid Limited*** | | | | |
| **Ordinary shares** | | | | |
| D King | 9,555,000 | - | 455,000 | 10,010,000 |
| M Halasz | 439,250 | - | 660,000 | 1,099,250 |
| K Koike | - | - | - | - |
| R Beaumont | 400,000 | - | - | 400,000 |
| A Bursill | - | - | - | - |

Dr King owns 10,010,000 shares indirectly.

Ms Halasz owns 1,099,250 shares indirectly.

Mr Koike does not own shares directly or indirectly.

R Beaumont owns 400,000 shares indirectly.

| **2009**<br>Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| ***Directors and Key Management Personnel of Cellmid Limited*** | | | | |
| **Ordinary shares** | | | | |
| D King | 830,000 | - | 8,725,000 | 9,555,000 |
| M Halasz | 133,000 | - | 306,250 | 439,250 |
| K Koike | - | - | - | - |
| J Hill | - | - | - | - |
| A Bursill | - | - | - | - |

Dr King owns 9,555,000 shares indirectly.

Ms Halasz owns 439,250 shares indirectly.

Mr Koike does not own shares directly or indirectly.

Mr Bursill, company secretary, is an associate of Franks & Associates Pty Ltd who provides accounting and company secretarial services to Cellmid Limited. The contract between Cellmid Limited and Franks & Associates is based on normal commercial terms. $40,000 in shares, being 4,000,000 shares issued on 8 May 2009 for $0.01 each was received by Franks & Associates in relation to this contract for the year ended 30 June 2009.

### (d) Other transactions with key management personnel

The Chief executive officer is employed under a employment services contract.

There were no transactions with key management personnel during the financial year ended 30 June 2010.

## 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and a non-related audit firm:

| | Consolidated | |
|---|---|---|
| | **2010** **$** | 2009 $ |
| **(a) Assurance services** | | |
| *PricewaterhouseCoopers* Audit of financial reports and other audit work under the *Corporations Act 2001* | 44,010 | 51,910 |
| *PKF* Audit of financial reports and other audit work under the *Corporations Act 2001* | 15,000 | - |
| Total remuneration for audit services | **59,010** | 51,910 |
| *Other assurance services* | | |
| Due diligence services | - | - |
| Total remuneration for other assurance services | - | - |
| Total remuneration for assurance services | **59,010** | 51,910 |
| **(b) Taxation services** | | |
| Tax compliance services, including review of Company income tax returns | - | - |
| Total remuneration for taxation services | - | - |
| **(c) Other services** | | |
| Total remuneration for other services | - | - |
| Total remuneration for non-audit services | - | - |
| | - | - |

## 23 Contingencies

### (a) Contingent liabilities

The parent entity and Group had no significant contingent liabilities at 30 June 2010 or at 30 June 2009.

### (b) Contingent assets

The parent entity and Group had no significant contingent assets at 30 June 2010 or at 30 June 2009.

## 24 Commitments

### (a) Operating Lease commitments : Group as lessee

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Commitments for minimum lease payments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | **-** | 5,202 |
| Later than one year but not later than five years | **-** | - |
| Later than five years | **-** | - |
| | **-** | 5,202 |
| Representing: | | |
| Non-cancellable operating leases | **-** | 5,202 |
| | **-** | 5,202 |

The Group leased an office under a non-cancellable operating lease which expired in July 2009, however continues to occupy the office on a month by month expired lease.

## 25 Related party transactions

### (a) Parent entities

Cellmid Limited is the ultimate parent entity within the wholly-owned Group.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 26.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

### (d) Amounts receivable or payable to Related Parties

These amounts have been eliminated on consolidation of the Group.

### (e) Transactions with related parties

Other than those outlined in Note 21, no related party transaction occurred during the financial years 30 June 2010.

## 26 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b):

| Name of entity | Country of incorporation | Class of shares | Equity holding | |
|---|---|---|---|---|
| | | | **2010** | 2009 |
| | | | **%** | % |
| Biotech Pty Limited | Australia | Ordinary | **100** | 100 |

The subsidiary is classified as a small company and is exempt from submitting accounts to the Australian Securities and Investments Commission and therefore is not required to enter into a deed of cross guarantee.

## 27 Events occurring after the balance sheet date

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years
- the results of those operations in future financial years or
- the Group's state of affairs in future financial years.

## 28 Reconciliation of loss after income tax to net cash outflow from operating activities

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Loss for the year | **(1,339,948)** | (3,334,546) |
| Depreciation and amortisation | **13,721** | 1,577,948 |
| Write off property, plant and equipment | | 514 |
| Non-cash expense - share-based payments | **315,900** | 446,514 |
| Non-cash income | **(50,000)** | - |
| Convertible note effective interest rate | **-** | 31,917 |
| Interest income | **-** | (30,568) |
| Change in operating assets and liabilities | | |
| (Increase)/Decrease in trade and other receivables | **5,287** | 19,529 |
| Increase (decrease) in trade and other payables | **(118,308)** | 161,895 |
| Increase (decrease) in provisions | **5,909** | 26,606 |
| Net cash (outflow) from operating activities | **1,167,439** | (1,100,191) |

## 29 Non-cash investing and financing activities

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Inventory from Cell Signals Inc | **1,000,000** | 1,000,000 |

The consideration for the Midkine inventory acquired from Cell Signals Inc. was 20,000,000 ordinary shares. 10,000,000 shares to be held in escrow until 1 July 2009 and 10,000,000 shares to be held in escrow until July 2010.

## 30 Earnings per share

| | Consolidated 2010 Cents | Consolidated 2009 Cents |
|---|---|---|
| **(a) Basic and diluted earnings per share** | | |
| Loss attributable to the ordinary equity holders of the Company | **(0.48)** | (2.77) |
| **(b) Loss used in calculating basic and diluted earnings per share** | | |
| Loss | **(1,336,055)** | (3,334,546) |

### (c) Weighted average number of shares used as the denominator

| | Consolidated 2010 Number | Consolidated 2009 Number |
|---|---|---|
| *Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share* | **277,273,648** | 120,397,192 |

### (d) Information concerning the classification of securities

*(i) Options*
Options granted to executives and directors are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. In the year ended 30 June 2010, these options were in fact anti-dilutive, and consequently diluted EPS is the same as basis EPS. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 19.

## 31 Share-based payments

Total expenses arising from share-based payment transactions recognised during the period were as follows:

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Shares issued to Cell Signals Inc.* | **-** | 450,000 |
| Shares issued to Franks & Associates | - | 40,000 |
| Options issued to Directors | 255,100 | - |
| Options issued to Employees | 16,800 | - |
| Options issued to Advisors | 44,000 | 73,132 |
| | 315,900 | 563,132 |

* 15,000,000 shares issued to Cell Signals Inc. as consideration for the transfer of intellectual property assets that were subsequently expensed relating to Midkine.

**Cellmid Limited**

**Directors' declaration**
**30 June 2010**

In the directors' opinion:

(a) the financial statements and notes set out on pages 26 to 58 are in accordance with the *Corporations Act 2001*and other mandatory professional reporting requirements, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 9 to15 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

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

David King
Chairman

Sydney
27 August 2010

PKF

Chartered Accountants
& Business Advisers

# INDEPENDENT AUDITORS' REPORT

To the members of Cellmid Limited

## Report on the Financial Report

We have audited the accompanying financial report of Cellmid Limited, which comprises the Statements of Financial Position as at 30 June 2010, and the Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for Cellmid Limited (the consolidated entity). The consolidated entity comprises the Company and the entity 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 Group are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Independence*

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

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Chartered Accountants
& Business Advisers

*Auditors' Opinion*

In our opinion:

(a) the financial report of Cellmid Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also comply with International Financial Reporting Standards as disclosed in Note 1(a).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in 7 to 13 of the directors' report for the year ended 30 June 2010. The directors of the group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Cellmid Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Acts 2001*.

**PKF**

**Bruce Gordon**
**Partner**

**27 August 2010**
**Sydney**

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