

directors' report

for the year ended 30 June 2009

VAST®:

- the completion of the synthesis of a 14,500 compound drug discovery library referred to as Alchemia's Diversity Scanning Library or DSL.

Details of progress:

Generic fondaparinux

The filing of the abbreviated new drug application (ANDA) for generic fondaparinux in the US in March was a landmark for Alchemia. The achievements of the teams at Alchemia and our manufacturing partner Dr Reddy's Laboratories cannot be overstated. Fondaparinux is, without question, one of the most challenging molecules to synthesize in the pharmaceutical or, indeed, any industrial arena. While the timing of the approval of our generic fondaparinux in the US is in the hands of the FDA, based on the interactions with the agency thus far, we remain confident that the drug could be approved in 2009. Strategically, we continue to work on improvements to the current synthetic pathway to improve profitability of the product and to explore other ways to exploit our abilities in this area.

When launched, our generic is expected to take market share from the branded version of fondaparinux, Arixtra®. Under the terms of Alchemia's manufacturing and marketing agreement with Dr Reddy's, Alchemia will receive a profit share of between 50-60% depending on the annualised value of sales of Arixtra® in the USA at the time of launch of generic fondaparinux. US sales of Arixtra® totaled US\$172 million in 2008, an annualized increase of 60% based on IMS data. Data from both GSK and IMS health (commissioned by Alchemia) show a strong trend in sales growth in Europe and the US.

HyACT® Technology

Alchemia's lead cancer product, HA-Irinotecan, is now ready to start phase III clinical trials for the treatment of metastatic colorectal (bowel) cancer – the second leading cause of cancer death in the world's major markets. Our clinical trial strategy changed dramatically in the second half of 2008 due to the publication of data at the American Society of Clinical Oncology annual meeting. One of our Clinical Advisory Board members, Professor Eric Van Cutsem presented data from the CRYSTAL study, which showed that patients who had a specific mutation (in the Kras gene) in their tumors, do not respond to a commonly used treatment, Erbitux®. While this voided our initial plans to look at the effectiveness of HA-Irinotecan in combination with Erbitux®, it offered a perfect opportunity to conduct the trial in patients that couldn't receive Erbitux®. These patients have a worse prognosis and few treatment options meaning that, if successful in controlling these patients' disease, HA-Irinotecan would be satisfying a significant medical need.

In addition to patients who have the mutation in their Kras gene, many patients who do not live in rich countries cannot afford to pay for Erbitux and HA-Irinotecan will, therefore, offer a lower cost alternative. Irinotecan is a very widely used drug and, based on the positive Phase II trial results, we would expect HA-Irinotecan to take a significant share of the market. In 2007, the year before the patent on Irinotecan expired, sales of the branded version of Irinotecan (Pfizer's Camptosar®) were close to US\$1 billion.

VAST® Technology

We are aggressively seeking deals that we hope will realise a return for the investment that has been made in our VAST® technology. The key achievement during the past year was the completion of the synthesis of a 14,500 compound drug discovery library referred to as our Diversity Scanning Library or DSL. People familiar with drug discovery will know that the industry has relied for decades on the random screening of libraries that often contain in excess of a million compounds. Such numbers of molecules are needed to try to fill 'diversity space' i.e. every possible shape and size of molecule that may be needed to hit a target. Alchemia's DSL was designed from the outset to fill diversity space and is able to achieve this due to our unique, patented, chemistry. Whilst we had originally planned to validate the DSL through our own proprietary drug discovery programs we are currently seeking to do this through collaborations with third parties. Inevitably we have less control over this process, but we believe we will still be able to determine the value of the technology. We feel it is appropriate to acknowledge the contributions to this technology of the many scientists who are, sadly, no longer with Alchemia.

Performance indicators

Management and the Board monitor the Group's overall performance, from its implementation of the mission statement and strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key Management and the Board monitor KPIs on a regular basis.

Dynamics of the business

Whilst Alchemia Limited recorded revenues for the 2009 financial year these were due to the receipt of grant and interest income and the Company is not yet profitable. Alchemia expects to be in receipt of revenues from the sale of its generic fondaparinux in the United States of America (USA) in calendar year 2010.

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As noted above, the annualised sales of the patented version of fondaparinux, GlaxoSmithKline, Arixtra®, continue to grow strongly. Until the launch of its generic fondaparinux the Company remains dependent on funding from equity markets and through collaborative and out-licensing deals. In light of the significant tightening in capital markets, balanced against the pending approval of the Company's generic fondaparinux, the Company implemented, in October 2008, a cost reduction strategy to reduce cash-burn thereby providing sufficient reserves until receipt of revenues from the forecast sales of its generic fondaparinux. The Company ended the 2009 financial year with a cash balance of \$8.3 million.

Operating results for the year

The Group reported a net loss of \$8.4 million for the 2009 financial year, down from \$10.9 million loss in 2008.

Total income for the period was \$2.2 million, down from the previous period (2008: \$2.7 million). This reduction was driven by lower grant income, in-line with lower R&D spend on related projects, received from both (i) the Queensland State Government under the Smart State Innovation Fund for the Company's collaboration with Euroscreen SA to discover new drug candidates for G-Protein coupled receptors and (ii) the Federal Government Commercial Ready Grant for the commercialisation of the Company's HA-Irinotecan, new tumour-targeted anti-cancer agent. Interest income was also down on the corresponding period due to the steady reduction in the cash balance held over the period compared to the corresponding previous period, together with the reduction in deposit rates received following successive cuts to the official cash rate by the Reserve Bank of Australia.

Operating expenditure of \$11.0 million was lower than the corresponding period (2008: \$14.0 million). The reduction is a direct consequence of the execution, in October 2008, of the Company's prudent cash management strategy which resulted in a reduction in staff numbers by 60% and the cessation and/or mothballing of a number of projects, particularly around the Company's VAST® technology. This strategy has significantly reduced the Company's cash-burn however did result in one off costs of \$1.2 million, relating to staff terminations and related expenses.

Operating costs were favourably impacted in the period due to the recognition of \$1.2 million of reimbursable costs (refunds) from Dr Reddy's following achievement of a significant milestone towards the commercialisation of the Company's lead product, generic fondaparinux in December 2008. This receipt related to the reimbursement of R&D costs previously incurred by the Company on the fondaparinux campaign and accordingly has been treated as a reduction in current period R&D spend.

Other expenses/income includes the impact of foreign exchange movements. In the current period the Company recognised a \$0.2 million exchange gain on that portion of Dr Reddy's US dollar denominated receivable (for cost reimbursement) carried forward from prior periods which has been positively impacted by the devaluation of the Australian dollar.

The consolidated cash position of the Group over the reporting period has seen a reduction in cash balances, in line with the net spend, from \$15.6 million to \$8.3 million at 30 June 2009. Net cash outflows from operating activities were down by \$1.3 million to \$7.2 million due to a reduction in R&D and associated staff spend offset by one off costs associated with the shut-down in October 2008. Based upon projected rates of expenditure, and excluding any revenue from the sales of generic fondaparinux, the Company has sufficient funds to finance operating activities until early 2011.

The Group has an established treasury function responsible for tracking and monitoring the Group's cash position against forecasts. This allows management to proactively accelerate or decelerate programs based upon its cash position and anticipated changes, through financing or other activities, in that position.

Significant events after the balance date

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

Likely developments

Any further information on likely developments in the operations of the consolidated entity and the expected results of operations has not been included in this report because Directors believe it would result in unreasonable prejudice to the consolidated entity.

Corporate structure

Alchemia Limited is a company limited by shares that is incorporated and domiciled in Australia. Alchemia Limited has prepared a consolidated financial report incorporating subsidiaries Alchemia Inc. (incorporated and domiciled in USA) and Alchemia Oncology Pty Ltd.

Environmental regulations and performance

Alchemia's activities are subject to licences and regulations under environmental laws that apply in the jurisdiction of its operations. These licences specify limits for and regulate the management of discharges to stormwater run-off associated with the Company's activities, as well as the storage of hazardous materials.

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There have been no significant known breaches of the licence conditions or other environmental regulations.

Alchemia has in place an integrated environmental health and safety management system, which includes regular monitoring, auditing and reporting within the Company. The system is designed to continually improve Alchemia's performance and systems with training, regular review, improvement plans and corrective action as priorities.

Share options

As at the date of this report, there were 600,000 options, granted to the CEO, to be approved by shareholders at the Company's annual general meeting.

Details of options granted to key management personnel and exercised during the year are set out in the Remuneration Report section.

Insurance and indemnification of Directors and Officers

During the financial year, Alchemia paid premiums for insurance policies insuring any past, present or future

Director, Secretary, Executive Officer of Alchemia against certain liabilities. In accordance with common commercial practice, the insurance policies prohibit disclosure of the nature of the insurance cover and the amount of the premiums.

Under the Alchemia constitution, every Officer of Alchemia is indemnified (to the maximum extent permitted by law) out of the property of Alchemia against:

- a) A liability to another person (other than Alchemia or a related corporate body) unless the liability arises out of conduct involving a lack of good faith;
- b) Liability for costs and expenses incurred by the person:
 - i) In defending proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted;
 - ii) In connection with an application in relation to such proceedings in which the courts grant relief to the person under relevant legislation.

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director are as follows:

member	board of directors' meetings		meetings of committees			
	held	attended	audit & risk		remuneration	
			held	attended	held	attended
M Bridges	12	12	3	3	2	2
P Smith	12	12	-	-	-	-
P Andrews*	6	6	-	-	-	-
J Clark*	6	6	1	1	-	-
C Montagner	12	12	3	3	2	2
TE Ramsdale	12	12	-	-	2	2
N Withnall	12	12	3	3	-	-

**Both directors attended all Board and committee meetings they were eligible to attend prior to their resignation on 21 November 2008.*

There were no meetings of the Nomination Committee in the period under review. As set out in the Corporate Governance Statement, due to the recent changes within the Company following the implementation of the prudent cash management strategy, the next Nomination Committee meeting will be conducted in September 2009 as part of a broader company wide strategic review.

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Committee membership

As at the date of this report, the Company had an Audit & Risk Committee, Nomination Committee and a Remuneration Committee. Members acting on the committees of the Board during the year were:

	audit & risk	remuneration	nomination
M Bridges	•	•	• (c)
P Smith	–	–	•
P Andrews	–	•	•
J Clark	•	•	•
C Montagner	•	• (c)	•
TE Ramsdale	–	•	•
N Withnall	• (c)	–	•

Note: (c) Designates the chairman of the committee.

Significant changes in state of affairs

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

Employees

As at the 30 June 2009, Alchemia and its subsidiaries had a total of 16 employees (2008: 47 employees).

Corporate Governance

Details of Alchemia's corporate governance policies and procedures including information about Board Committees are set out in the section of this report entitled "Corporate Governance".

Tax consolidation

The Company has not formed a tax consolidated group at 30 June 2009.

Rounding

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

Auditor's Independence and Non-Audit Services

The directors received the following declaration from the auditor of Alchemia Limited.



Auditor's Independence Declaration to the Directors of Alchemia Limited

In relation to our audit of the financial report of Alchemia Limited for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Winna Brown'.

Winna Brown
Partner

26 August 2009

Liability limited by a scheme approved
under Professional Standards Legislation

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	2009	2008
IT advisory services to the Company	\$ 3,552	\$ -

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Remuneration report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the Parent and the Group.

Details of key management personnel (including the five highest executives of the Company and the Group)

Directors

M Bridges	Chairman (Non-Executive)
P Smith	Managing Director and Chief Executive Officer
Professor P Andrews A.O.	Director (Non-Executive) resigned 21 November 2008
J Clark	Director (Non-Executive) resigned 21 November 2008
C Montagner	Director (Non-Executive) appointed 7 March 2008
TE Ramsdale	Director (Non-Executive)
N Withnall	Director (Non-Executive)

Executives

D Green	Chief Financial Officer & Company Secretary
T Brown	Vice President – Preclinical Development
J Dyszynski	Vice President – Business Development retrenched 1 January 2009
W Meutermans	Vice President – Drug Development
M West	Vice President – Intellectual Property & Technology Transfer

Other than the resignation of Professor P Andrews and J Clark, together with the retrenchment of J Dyszynski, there were no other changes in directors or KMP after the reporting date and before the date the financial report was authorised for issue.

Remuneration Committee

The Remuneration Committee of the Board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives 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, high performing director and executive team.

Remuneration policy

The Remuneration Committee is responsible for the remuneration strategies and initiatives and recommends the nature and amount of remuneration of directors, executives and employees in line with the principles articulated in the Alchemia remuneration policy.

The key principles are:

- Pay competitive salaries to recruit and retain staff with the right skills and experience;
- Reward individuals on the basis of performance so that higher levels of performance attract higher rewards;
- Align rewards of management to those of shareholders;
- Manage and link the overall cost of remuneration to the ability of the Company to pay.

Remuneration structure

The remuneration structure is in two parts:

- Fixed remuneration comprises base salary, superannuation and other minor benefits provided by the Company.
- Variable remuneration comprises incentives provided as both cash and equity.

Alchemia aims to set fixed remuneration at market levels for positions of comparable responsibility in both industry and academia, based on a formal job evaluation process. This fixed remuneration is supplemented by providing incentives (variable remuneration) to enable top performers to achieve further remuneration based on company performance, team performance and demonstrated individual superior performance.

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The key features of incentives to Executives & Employees are tabled as per below depending upon the role and responsibilities of the participant:

staff level	bonus entitlement [% of salary]	bonus "split"		hurdles
		cash	shares	
Level 1	10%	50%	50%	<ul style="list-style-type: none"> • 50% subject to positive TSR & comparator group; • 25% on achievement of team KPI's; and • 25% on achievement of individual KPI's.
Level 2	15%	33.3%	66.6%	
Level 3	20%	33.3%	66.6%	
Level 4	30%	20%	80%	

Overall, the objective is to align incentives with performance by imposing weighted criteria on the employee's Bonus Entitlement, including:

- 25% of the Bonus Entitlement is payable on achievement of team key performance indicators (KPI's);
- 25% of the Bonus Entitlement is payable on achievement of an individuals key performance indicators (KPI's); and
- No bonus is payable regardless of the Company's Total Shareholder Return (TSR), if all team and individual KPI's are not met.
- 50% of the Bonus Entitlement is payable if the TSR for the Company is positive and the Company achieves a TSR in the previous 12 months equal to at least the median of a Comparator Group of pre-agreed ASX listed biotech companies. Depending on the comparative performance, the award of shares may be nil, partial or fully allocated, as shown below:

Alchemia Limited TSR vs. comparator group

< below median	0% of max entitlement
> above median	50% of max entitlement
3rd quartile pro rata	50-100% of max entitlement (2% per % point above median)
4th quartile	100% of max entitlement

The comparator companies for determination of the TSR are:

- Acrux Limited
- Antisense Therapeutics Limited
- Arana Therapeutics Limited
- Avexa Limited
- Bionomics Limited
- Biota Holdings Limited
- ChemGenex Pharmaceuticals Limited
- Cytopia Limited
- Metabolic Pharmaceuticals Limited
- Neuren Pharmaceuticals Limited
- Peplin, Inc
- Pharmaxis Limited
- Phosphagenics Limited
- Prana Biotechnology Limited
- Prima Biomed Limited
- Progen Pharmaceuticals Limited
- Starpharma Holdings Limited

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The Board determines the composition of this peer group on an annual basis to ensure an appropriate mix of companies.

For the year ended 30 June 2009 the details of the entitlement and award of incentive payments to the Chief Executive Officer and key management personnel executives were as set out below.

Director	incentive	
	awarded	forfeited
Peter Smith <i>Chief Executive Officer</i>	44%	56%
Key management personnel – Executives		
David Green <i>Chief Financial Officer & Company Secretary</i>	65%	35%
Tracey Brown <i>Vice President – Oncology</i>	80%	20%
Wim Meutermans <i>Vice President – Drug Development</i>	65%	35%
Michael West <i>Vice President – Intellectual Property and Technology Transfer</i>	65%	35%

In addition to the above formal entitlements under the executive and employees incentive schemes the Board may also allocate options under the Officers and Employees Share Option Scheme to employees who have demonstrated exceptional performance in a year. Pursuant to this discretion, 1,750,000 options were issued to 16 employees and 5 consultants in June 2009 (together with 600,000 options to the Managing Director to be issued upon approval at the 2009 AGM). In June 2008, 2,015,000 options were granted to 47 employees and 4 consultants, (together with 500,000 options to the Managing Director which were approved at the 2008 AGM).

The Company has no specific policy in relation to limiting employee or directors' exposure in relation to securities issued as a part of a person's remuneration except as set out in the Company's share trading policy. The policy however requires that all trading in shares and options of the Company by directors and executives must be approved by the Chairman.

Relating rewards to performance

Alchemia Limited has operated as a listed public company since December 2003.

The following table indicates Alchemia Limited's performance and its relationship to executive remuneration. The Company is a development stage company which has not yet achieved profitability. Accordingly the most appropriate measure of company wide performance is considered to be Total Shareholder Performance (TSR) and as the Company has not

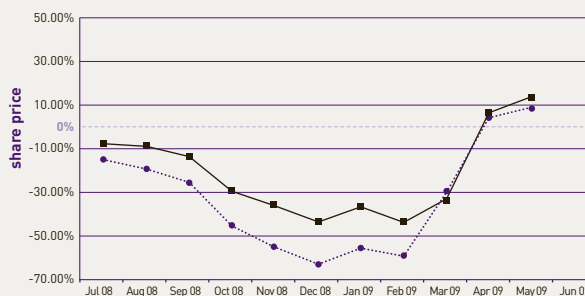
paid dividends TSR represents entirely capital appreciation of the Company's ordinary shares.

	2009	2008
Average share price	\$0.224	\$0.647
Percentile ranking of TSR against comparator group	7	18
% increase in fixed remuneration	1.53%	(6.87%)
% increase in total remuneration	4.27%	(10.72%)

Percentage monthly change in Alchemia Limited's share price vs Comparator Group 2009:

Percentage Change in SP since 30 June 2008

- ACL Share Price
- Average Comparator Share Price



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Alchemia Limited's closing share price at the end of each financial year since inception are:

	2009	2008	2007	2006	2005	2004
30 June	0.36	0.30	0.86	1.08	0.53	0.61

Remuneration of Non-Executive Directors

Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The Remuneration Committee considers the level of remuneration required to attract and retain Directors with the necessary skills and experience for the Alchemia Board. This remuneration is reviewed annually with regard to market practice, relativities and Director duties and accountability.

Non-Executive Directors' fees are determined within an aggregate Director's fee pool limit, which is subject to approval by shareholders at general meetings. The maximum available aggregate remuneration approved for Directors is \$500,000, approved by shareholders in 2007.

The sum of Directors' fees fall within the aggregate fee pool approved in 2007. Consulting fees paid to Carlo Montagner and Tracie Ramsdale for services to the Company in addition to his/her role as non executive director are not considered to form part of this aggregate pool.

Other executives

Each of the Executives has a service contract with the Company. The principal terms of each of these contracts is set out below:

executives	Julian Dyszynski*	David Green	Tracey Brown	Michael West	Wim Meutermans
position	VP Business Development	Chief Financial Officer and Company Secretary	VP Oncology	VP IP & Technology Transfer	VP Discovery
base salary	Base salary is subject to remuneration committee approval and reviewed annually in June				
superannuation	The Company will match the Executive's contribution into a US 401K defined contribution plan		Superannuation guarantee contribution of 9%		
incentive arrangements	Annual bonus of 30% of salary subject to the Company achieving performance objectives and achievement of team and individual performance objectives				
length of contract	No fixed term	No fixed term	No fixed term	No fixed term	No fixed term
notice period					
- employee	Six months	Six months	Six months	Six months	Six months
- termination by company	Six months	Six months	Six months	Six months	Six months

* Julian Dyszynski was retrenched effective 31 December 2008 and no longer has a service contract with the Company.

No additional fees are paid to Directors for participating on Board committees. There are no retirement allowances payable to Non-Executive Directors, however all Non-Executive Directors with the exception of Mel Bridges receive a superannuation guarantee contribution that is nine percent of their fees.

Employment contracts

Chief Executive Officer

Peter Smith is employed under an employment contract with no fixed expiry. His contract provides for a salary package of \$375,000 including superannuation. In addition there is an annual performance based short term incentive of 30 percent of his package. The salary is subject to annual review and Board approval. The performance based incentive, which has a maximum payout of 30 percent of annual salary package, is assessed against individual and company performance and subject to annual review and Board approval. A maximum of 20 percent of the total payout under the performance based incentive entitlement is payable in cash, with the balance satisfied by the issue of shares.

Under the terms of his existing contract, the Company is required to give six months notice of termination, or payment in lieu of notice.

Remuneration of key management personnel and the five highest paid executives of the Company and the Group

Table 1: Remuneration for the year ended 30 June 2008 and 30 June 2009

	short term		post employment		long term		equity-based payments		total		performance related	
	salary & fees	cash bonus	non monetary benefits	other	super-annuation contributions	retirement benefits	incentive plans	long service leave	options	shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		%
Non-Executive Directors												
Mel Bridges - Chairman												
2009	75,000	-	-	-	-	-	-	-	-	-	75,000	n/a
2008	75,000	-	-	-	-	-	-	-	42	-	75,042	n/a
Peter Andrews³												
2009	-	-	-	-	24,525	-	-	-	-	-	24,525	n/a
2008	-	-	-	-	49,050	-	-	-	42	-	49,092	n/a
Julian Clark³												
2009	22,500	-	-	-	2,025	-	-	-	-	-	24,525	n/a
2008	45,000	-	-	-	4,050	-	-	-	42	-	49,092	n/a
Carlo Montagner¹												
2009	45,000	-	-	60,000	4,050	-	-	-	-	-	109,050	n/a
2008	29,153	-	-	-	1,274	-	-	-	42	-	30,469	n/a
Tracie Ramsdale²												
2009	45,000	-	-	60,069	4,050	-	-	-	-	-	109,119	n/a
2008	94,698	-	-	-	4,050	-	-	-	42	-	98,790	n/a
Nerolie Withnall												
2009	45,000	-	-	-	4,050	-	-	-	-	-	49,050	n/a
2008	45,000	-	-	-	4,050	-	-	-	42	-	49,092	n/a
Errol Malta³												
2009	-	-	-	-	-	-	-	-	-	-	-	n/a
2008	28,632	-	-	-	6,638	-	-	-	-	-	35,270	n/a
Sub-total Non-Executive Director												
2009	232,500	-	-	120,069	38,700	-	-	-	-	-	391,269	n/a
2008	317,483	-	-	-	69,112	-	-	-	252	-	386,847	n/a
Executive Director												
Peter Smith												
2009	343,880	-	-	-	31,382	-	-	20,734	85,563	44,911	526,470	24.78%
2008	330,275	4,806	-	-	29,725	-	-	11,379	170,772	19,222	566,179	34.41%
Other key management personnel												
Tracey Brown												
2009	186,750	-	10,466	-	32,350	-	-	31,614	53,805	47,943	362,928	28.04%
2008	166,530	5,000	3,450	-	43,129	-	-	24,946	26,304	19,998	289,357	17.73%
Julian Dyszynski^{4,5}												
2009	103,838	-	8,304	-	35,003	217,663	-	-	(16,611)	-	348,197	-4.77%
2008	196,099	-	10,741	-	8,963	-	-	-	13,843	-	229,646	6.03%
David Green												
2009	247,169	-	-	-	13,129	-	-	10,308	25,646	50,993	347,245	22.07%
2008	236,486	5,436	1,477	-	13,129	-	-	4,357	236,934	21,743	519,562	50.83%
Wim Meutermans												
2009	132,364	-	-	-	80,014	-	-	34,111	40,345	37,426	324,260	23.98%
2008	151,162	3,798	-	-	48,453	-	-	27,960	13,843	15,193	260,409	12.61%
Michael West												
2009	177,833	-	-	-	30,702	-	-	40,585	40,345	37,426	326,891	23.79%
2008	177,761	3,303	-	-	21,969	-	-	37,635	13,843	13,211	267,722	11.34%
Sub-total executive KMP												
2009	1,191,834	-	18,770	-	222,580	217,663	-	137,352	229,093	218,699	2,235,991	20.03%
2008	1,258,313	22,343	15,668	-	165,368	-	-	106,277	475,539	89,367	2,132,875	27.53%
Total remuneration												
2009	1,424,334	-	18,770	120,069	261,280	217,663	-	137,352	229,093	218,699	2,627,260	17.04%
2008	1,575,796	22,343	15,668	-	234,480	-	-	106,277	475,791	89,367	2,519,722	23.32%

¹ Includes consultancy services and director fees since commencement on 7 March 2008

² Includes consultancy services provided in general scientific advisory services

³ Includes salary and consultancy fees until their resignation period

⁴ Includes termination payment effective 31 December 2008

⁵ Includes expense reversed in relation to forfeited options

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The amount included above in respect of options under the share based payments component of remuneration represents the amortisation over the expected life of the option of the fair value of the option at the date of grant. The fair value of the cash settled options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted.

Table 2: Compensation options: Granted and vested during the year (Consolidated)

30 June 2009	terms & conditions for each grant							vested	
	granted no.	grant date	fair value per option at grant date (\$)	exercise price per option (\$)	expiry date	first exercise date	last exercise date	no.	%
Directors									
P Smith	600,000	30 Jun 09	\$0.215	\$0.36	29 Jun 13	30 Jun 10	29 Jun 13	500,000	19.23%
Executives									
T Brown	200,000	30 Jun 09	\$0.215	\$0.36	29 Jun 13	30 Jun 10	29 Jun 13	200,000	29.15%
J Dyszynski	-	-	-	-	-	-	-	-	-
D Green	300,000	30 Jun 09	\$0.215	\$0.36	29 Jun 13	30 Jun 10	29 Jun 13	200,000	21.05%
W Meutermsans	200,000	30 Jun 09	\$0.215	\$0.36	29 Jun 13	30 Jun 10	29 Jun 13	200,000	42.55%
M West	200,000	30 Jun 09	\$0.215	\$0.36	29 Jun 13	30 Jun 10	29 Jun 13	200,000	42.55%
Total	1,500,000							1,300,000	
30 June 2008									
Directors									
M Bridges ¹	100,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
P Smith	500,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	1,100,000	55.00%
P Andrews ¹	100,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
J Clark ¹	100,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
C Montagner ¹	100,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
T Ramsdale ¹	100,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
N Withnall ¹	100,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
Executives									
T Brown	100,000	27 Jul 07	\$0.48	\$0.88	26 Jul 12	27 Jul 09	26 Jul 12	-	-
T Brown	200,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
J Dyszynski	50,000	27 Jul 07	\$0.48	\$0.88	26 Jul 12	27 Jul 09	26 Jul 12	-	-
J Dyszynski	200,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
D Green	200,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	450,000	69.23%
W Meutermsans	50,000	27 Jul 07	\$0.48	\$0.88	26 Jul 12	27 Jul 09	26 Jul 12	-	-
W Meutermsans	200,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
M West	50,000	27 Jul 07	\$0.48	\$0.88	26 Jul 12	27 Jul 09	26 Jul 12	-	-
M West	200,000	30 Jun 08	\$0.15	\$0.49	29 Jun 12	30 Jun 09	29 Jun 12	-	-
Total	2,350,000							1,550,000	

¹ The 100,000 options granted to non executive directors at 30 June 2008 were, by resolution of the Board of Directors, withdrawn prior to the 2008 AGM, and were never issued.

directors' report

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Table 3: Options granted as part of remuneration

	value of options granted during the year	value of options exercised during the year	value of options lapsed during the year	remuneration consisting of options for the year
	\$	\$	\$	%
P Smith	128,880	-	-	24.48
T Brown	42,960	-	-	11.84
J Dyszynski	-	-	233,296	-
D Green	64,440	-	-	18.56
W Meutermans	42,960	-	-	13.41
M West	42,960	-	-	13.14
Total	322,200	-	233,296	-

Table 4: Shares issued on exercise of compensation options (Consolidated)

There were no shares issued on exercise of compensation options during the period.

	shares issued no.	paid per share	unpaid per share
	\$	\$	\$
30 June 2009	-	-	-
30 June 2008	-	-	-

Signed in accordance with a resolution of the directors.



P Smith

Managing Director and Chief Executive Officer

Signed at Brisbane on 26 August 2009