

Invion Limited

ABN 76 094 730 417

Appendix 4D

Half Year Report

for the six months ended 31 December 2013 (current period)
and the previous corresponding period, the six months to 31 December 2012

Results for announcement to the market

				\$
Revenue from continuing operations	Up	237.48%	to	249,734
Total Income	Up	528.67%	to	584,664
(Loss) from ordinary activities after tax attributable to members:	Down	-8.14%	to	(2,904,760)
Net (Loss) for the period attributable to members:	Down	-6.90%	to	(2,943,730)
		Current period		Previous corresponding period
Net tangible asset backing per ordinary share		(0.63) cents		(0.94) cents

This information should read be in conjunction with the most recent Annual Financial Report (30 June 2013). Full financial details of the Company are available in the attached audit reviewed Financial Report for the half-year ended 31 December 2013.

An explanation of the results of the current period is set out in the Directors Report.

Joint Ventures/Associates: The Company is not part of any Joint Venture and has no associated entities.

This report is based on the interim consolidated financial statements which have been audited by Ernst & Young (EY). EY have issued a review report that has been issued with a material uncertainty regarding continuation as a going concern.

Invion Limited
Financial report
For half-year ended 31 December 2013



Company Directory

Directors

Dr Ralph Craven, Chairman
Dr Greg Collier, Managing Director & CEO
Mitchell Glass, M.D., Executive VP R&D and CMO
Dr James Campbell, Non-executive Director
Mr Brett Heading, Non-executive Director
Mr Warren Brown, Non-executive Director
Mr Gregory Brown (Alternate Director)

Company Secretary

Ms Melanie Farris

Registered Office

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Australian Business Number

76 094 730 417

Securities Exchange Listing

Australian Securities Exchange
ASX Code: IVX

Auditors

Ernst & Young
Brisbane
Australia

Lawyers

McCullough Robertson Lawyers
Brisbane
Australia

Share Registry

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Directors' Report

Your directors submit their report for the half-year ended 31 December 2013.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Dr Ralph Craven, Chairman

Dr Greg Collier, Managing Director and Chief Executive Officer

Mitchell Glass, M.D., Executive VP R&D and Chief Medical Officer

Dr James Campbell, Non-executive Director

Mr Brett Heading, Non-executive Director

Mr Warren Brown, Non-executive Director

Mr Gregory Brown (Alternate Director)

On 14 October 2013, Dr James Campbell returned to a non-executive director role, after serving as an executive director since August 2012.

Review and Results of operations

The Invion Group consists of Invion Limited and its wholly owned subsidiary Invion, Inc. The Group has operations in Brisbane, Australia and Delaware, USA. The main activity of Invion during the period was the clinical and regulatory development of its assets: INV102 (nadolol), INV103 (ala-Cpn10), and INV104 (zafirlukast). The loss attributable to the owners of the parent for the period ended 31 December 2013 was \$2,904,760 (2012: \$3,162,336). No dividend was proposed or paid during the period.

In July 2013, the Company announced the commencement of its phase II clinical trial in lupus patients, and the commencement of its phase II "smoking cessation" clinical trial in patients with established chronic obstructive pulmonary disease (COPD). Further to the commencement in January 2013 of the Company's nadolol in mild asthma (NIMA) study, Invion now has three phase II clinical trials underway.

In August, the Company advised that it had satisfied the requisite criteria under AusIndustry's R&D Tax Incentive Scheme for an advance finding with respect to overseas R&D activities conducted in the development of INV103 (ala-Cpn10). Under the scheme, companies with a turnover of less than \$20 million are entitled to a cash refund of up to 45 cents per dollar spent on eligible research and development activity. Accordingly, Invion was eligible to receive up to approximately \$360,000 R&D cash rebate for overseas R&D activities conducted in the 2011/2012 financial year, and a further \$1.1 million R&D cash rebate in respect of local and overseas expenditure incurred on eligible R&D activities for the 2012/2013 financial year. The Company received R&D rebate funds of \$1.46 million during the period under review.

Also in October, the Company announced the execution of an exclusive, worldwide licence agreement with US-based Accolade Pharma LLC, for intellectual property to develop inhaled formulations of *zafirlukast* for the treatment of asthma and other respiratory conditions. A licence

Directors' Report (continued)

fee of \$500,000 is payable by Invion to Accolade Pharma LLC over a 12 month period commencing January 2014, with a royalty of 20% of net sales received by Invion payable to Accolade.

On 20 December 2013, the Company announced that the US Food and Drug Administration (FDA) had requested changes to the protocol for its "smoking cessation" clinical study that resulted in a halt to enrolment (clinical hold) for that trial. On 29 January 2014, the Company announced the re-launch of this trial, subsequent to Invion's prompt and full response to FDA requests and the FDA lifting the clinical hold.

Changes to the Executive

In October, the Company announced that Dr James Campbell was returning to a non-executive director role, after serving as an executive director since August 2012.

Changes to issued capital

On 13 August 2013, a General Meeting of Invion shareholders passed a number of resolutions relating to the placement of shares to sophisticated and professional investors that closed on 19 June 2013. Shareholders ratified the previous allotment and issue of 50,278,783 shares at an issue price of 3.8 cents per share. Shareholders also approved the issue of 3,013,332 placement shares to directors and other related parties, at a price of 3.8 cents per share. These shares were issued on 14 August 2013. At the date of this report, the number of total ordinary shares of Invion Limited on issue is 462,709,792.

The General Meeting also approved the issue of Share Options to Managing Director and CEO, Dr Greg Collier. On 14 August 2013, a total of 10,000,000 options were issued with an exercise price of \$0.10 (10c) and an expiry date of 9 November 2017. Subject to certain terms, 20% of the total options will vest every 12 months from 9 October 2013 to 9 October 2017.

Also on 14 August 2013, the company issued 300,000 options under its ESOP to a consultant to the business. The options have an exercise price of \$0.10 (10c) and an expiry of 9 November 2017. Subject to certain terms, 20% of the total options will vest every 12 months from 9 October 2013 to 9 October 2017.

On 28 November, 1,500,000 options with an exercise price of \$0.09 and an expiry date of 9 November 2017 lapsed, unexercised.

Litigation

In February 2012 legal proceedings were commenced against four former officers of the Company. The proceedings relate to the resignations on or about 12 October 2011 of the Company's then executive chairman, chief executive officer, chief financial officer and company secretary; and gross payments made to these officers. A statement of claim was filed

Directors' Report (continued)

at the Queensland Supreme Court on 23 February 2012. An amended statement of claim was filed on 3 April 2012. A further amended statement of claim was filed on 31 July 2012. In the further amended statement of claim the Company claims a total of approximately \$1,200,000 from the former executives.

On 25 October 2012 the company announced that the former executives had filed and served defences to the further amended statement of claim and that in its defences the former executives lodged a counterclaim against the company in the amount of \$1,246,666.96. The company noted that it considers that the counterclaims lack merit, and will vigorously defend them.

On 21 May 2013 the Company announced that it had reached a confidential settlement with one of the Defendants to the litigation, pursuant to which the Defendant has agreed, with no admission as to liability, to repay the purported Termination Payment to the Company together with a sum representing interest and costs.

The Company has continued to meet all requirements and obligations to progress the matter expeditiously. There were a number of interlocutory hearings in the period under review which caused delays to the process that were outside the Company's control. Trial dates are set down for May 2014. Invion will continue to vigorously pursue its claim against the Defendants, which includes interest and costs, and will continue to inform the market as appropriate.

On 19 February 2014, the Company received final orders against the Defendants in the sum of approximately \$67,000 for costs of the interlocutory matters. As this amount was not received by the Company in the ordered timeframe, the Company has filed bankruptcy notices against the Defendants with the Australian Financial Security Authority. The three remaining Defendants are jointly and severally liable for the amount of costs awarded.

The Directors consider that the risk of a liability arising out of the litigation is remote. As such there is no contingent liability recorded in these Financial Statements.

Events after the reporting period

On 19 February 2014, the Company announced a collaboration with 3M Drug Delivery Systems to assess the feasibility of inhaled versions of its two respiratory drug assets - INV102 (nadolol) and INV104 (zafirlukast) – delivered using 3M's proprietary pressurized metered dose inhalation (pMDI) technology. The agreement enables manufacture for toxicology, and subsequently phase I studies, under an Invion-sponsored Investigational New Drug application (IND), with the US FDA.

On 21 February 2014, the Company announced the completion of a private placement to institutional and professional investors. The Company issued a total of 66,666,671 fully paid ordinary shares to raise gross proceeds of approximately \$5 million. The issue price per share was 7.5 cents, which represents a 20% discount to the five day VWAP of Invion shares traded on the

Directors' Report (continued)

ASX to Tuesday 18 February 2014 (being the last trading day prior to commencement of the placement).

In conjunction with the placement, the Company announced the intention to offer a 1 for 20 non-renounceable rights issue to raise A\$2 million, providing the Company's existing shareholders with the opportunity to participate in the capital raising on the same terms as the placement.

Funds raised from the placement and rights issue will be applied to the collaboration with 3M Drug Delivery Systems to develop Invion's inhaled respiratory drugs franchise and continuing development of Invion's three drug assets - INV102 (nadolol), INV103 (ala-Cpn10) and INV104 (zafirulkast).

Auditor's Independence Declaration

We have obtained the independence declaration on page 7 from our auditors, Ernst & Young.

Signed in accordance with a resolution of the directors.



Dr Ralph Craven
Chairman
Brisbane, 25 February 2014



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Auditor's Independence Declaration to the Directors of Invion Limited

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

Ernst & Young

Ric Roach
Partner
25 February 2014

Interim consolidated statement of comprehensive income

	Notes	31 December 2013 \$	31 December 2012 \$
Grant received		207,337	-
Interest revenue		42,397	73,897
Total revenue		<u>249,734</u>	<u>73,897</u>
Other income	4	334,930	19,164
Employee and employee benefits expense		(697,958)	(776,834)
Depreciation and amortisation expenses		(960,374)	(662,916)
Administration & corporate expenses		(824,598)	(1,162,709)
Rent and occupancy expense		(19,986)	(69,287)
Share-based payment expense	13	(182,768)	(61,833)
Research & development costs	5	(883,865)	(531,322)
Patent costs		(176,564)	(107,184)
Business development		(124,156)	(133,788)
Loss before income tax expense		(3,285,605)	(3,412,812)
Income tax benefit	6	380,845	250,476
Loss for the period attributable to owners of the parent		(2,904,760)	(3,162,336)
Other comprehensive loss			
<i>Items may be reclassified subsequently to profit or loss:</i>			
Unrealised exchange differences on translation of foreign subsidiary		(38,978)	365
Total comprehensive loss attributable to owners of the parent		<u>(2,943,730)</u>	<u>(3,161,971)</u>
Earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the parent			
Basic and dilutive earnings (cents)		(0.63)	(0.94)

Interim consolidated statement of financial position

	Notes	31 December 2013 \$	30 June 2013 \$
Current assets			
Cash and cash equivalents	7	1,865,061	3,050,948
Trade and other receivables	8	658,968	1,611,282
Other current assets		52,893	103,830
Total current assets		2,576,922	4,766,060
Non-Current Assets			
Trade and other receivables	8	69,640	143,378
Property, plant and equipment		21,790	16,959
Intangible assets	9	10,867,062	11,323,474
Total Non-Current Assets		10,958,492	11,483,811
Total Assets		13,535,414	16,249,871
Current Liabilities			
Trade and other payables	10	909,689	577,101
Financial liabilities	11	16,764	16,173
Short-term provisions		70,988	62,258
Total current liabilities		997,441	655,532
Non-Current Liabilities			
Deferred tax liabilities		4,146,825	4,529,390
Long-term provisions		11,028	29,367
Total Non-Current Liabilities		4,157,853	4,558,757
Total Liabilities		5,155,294	5,214,289
Net Assets		8,380,120	11,035,582
Equity			
Issued Capital	12	107,513,313	107,407,805
Reserves		20,334,392	20,190,602
Accumulated losses		(119,467,585)	(116,562,825)
Total Equity		8,380,120	11,035,582

Interim consolidated statement of changes in equity

	Issued capital \$	Options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
As at 1 July 2013	107,407,805	20,190,602	-	(116,562,825)	11,035,582
Loss for the period	-	-	-	(2,904,760)	(2,904,760)
Other comprehensive income	-	-	(38,978)	-	(38,978)
Total comprehensive income	-	-	(38,978)	(2,904,760)	(2,943,738)
Shares issued to directors and related parties	114,280	-	-	-	114,280
Transaction costs	(8,772)	-	-	-	(8,772)
Share option expense	-	182,768	-	-	182,768
As at 31 December 2013	107,513,313	20,373,370	(38,978)	(119,467,585)	8,380,120

	Issued capital \$	Options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
As at 1 July 2012	97,318,321	20,083,664	-	(111,388,745)	6,013,240
Loss for the period	-	-	-	(3,162,336)	(3,162,336)
Other comprehensive income	-	-	365	-	365
Total comprehensive income	-	-	365	(3,162,336)	(3,161,971)
Issue of share capital	7,174,349	-	-	-	7,174,349
Share option expense	-	61,833	-	-	61,833
As at 31 December 2012	104,492,670	20,145,497	365	(114,551,081)	10,087,451

Interim consolidated statement of cash flows

	31 December 2013 \$	31 December 2012 \$
Cash flows from (used in) operating activities		
Payments to suppliers and employees	(2,897,613)	(2,625,144)
Cash received in the course of operations	12,381	20,082
R&D Tax Rebate	1,447,985	2,227,501
Interest received	42,396	73,897
Net cash used in operating activities	(1,364,851)	(303,664)
Cash flows from (used in) investing activities		
Costs related to acquisition	-	(459,069)
Purchase of plant and equipment	-	(4,920)
Proceeds on the sale of plant and equipment	-	909
Purchase of bank guarantee	(44,960)	(2,808)
Proceeds from bank guarantee	104,603	-
Other - US subsidiary account on acquisition	-	7,128
Net cash provided by (used in) investing activities	59,643	(458,760)
Cash flows from (used in) financing activities		
Proceeds from issue of shares	114,280	-
Cost of capital raising	(8,772)	-
Net cash provided by in financing activities	105,508	-
Net increase (decrease) in cash held	(1,199,700)	(762,424)
Net foreign exchange differences	13,813	11,041
Cash and cash equivalents at beginning of period	3,050,948	4,185,201
Cash and cash equivalents at end of period	1,865,061	3,433,818

Notes to the consolidated financial statements

1. Corporate information

Invion Limited (formerly CBio Limited) is a Company limited by shares incorporated in Australia whose shares have been publicly traded on the Australian Securities Exchange since its listing on 15 February 2011 (ASX:IVX). Invion Limited is a clinical-stage life sciences (drug development) company. The Company is focused on the development of treatments for major market opportunities in inflammatory diseases including asthma, chronic bronchitis and lupus. Invion has three therapeutic candidates: INV102 (nadolol) – a repurposed beta adrenergic inverse agonist; INV103 (ala-Cpn10) – a modified naturally occurring human protein; and INV104 (zafirlukast) - a leukotriene receptor antagonist (LTRA) or anti leukotriene.

The Invion Group ("the Group") consists of Invion Limited ("Invion" or "the Company") and its wholly owned subsidiary Invion, Inc. The Group has operations in Brisbane (Australia) and Delaware (USA).

2. Basis of preparation and changes to the Company's accounting policies

The interim consolidated financial statements for the six months ended 31 December 2013 have been prepared in accordance with AASB 134 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 30 June 2013 and to the announcements issued to the ASX.

2a. Going concern

This financial report for the six months ended 31 December 2013 has been prepared on a going concern basis. The Company incurred an operating loss after income tax of \$2,904,760 (2012: \$3,162,336 loss) for the half-year. At 31 December 2013 the Company had net assets of \$8,380,120 (30 June 2013: \$11,035,582). In common with other companies in the biotechnology sector, the Company's operations are subject to risks and uncertainty due primarily to the nature of the drug development and commercialisation. To allow the Company to execute its near term and longer term plans the Board intends to raise capital sufficient enough to meet operational and program development needs. The Company announced on 21 February 2014, the completion of a private placement to raise \$5 million and the intention to offer a Rights Issue to raise \$2 million (refer to Note 19) to meet the Company's short-term needs. These conditions of uncertainty and the need to raise further capital give rise to significant uncertainty as to whether the Company will be able to continue as a going concern and be able to pay its debts as and when they fall due. In the event that such arrangements are not entered into or are not successful, there is uncertainty whether the Company will continue as a going concern and the Company may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different from those stated in the financial report. This report does not include any adjustments relating to the recoverability or

Going concern (continued)

classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

2b. New standards, interpretations and amendments thereof, adopted by the Company

This half-year consolidated financial report has been prepared by adopting accounting policies that are consistent with those adopted in the annual financial statements for the year ended 30 June 2013. New standards and amendments to standards mandatory for the first time for the financial year beginning 1 July 2013 have been adopted. The adoption of these standards will not have a material financial effect on the current period or any prior period and is not likely to affect future periods. Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting periods and have not yet been applied in the financial report. The Directors believe that these new or amended Standards and Interpretations will not have any material financial effect on the financial statements presented.

3. Licence Agreement - intangible asset

On 28 October, the Company announced the execution of an exclusive, worldwide licence agreement with US-based Accolade Pharma LLC, for intellectual property to develop inhaled formulations of zafirlukast for the treatment of asthma and other respiratory conditions. A licence fee of \$500,000 is payable by the Company to Accolade Pharma LLC in equal installments over a 12 month period commencing January 2014. This amount is recorded in payables in the statement of financial position. The in-licenced intellectual property is reflected as an intangible asset.

4. Other income

	31 December 2013 \$	31 December 2012 \$
Other income		
Gain on disposal of assets	-	32,521
Unrealised foreign exchange gain (loss)	5,665	(14,893)
R&D tax rebate	327,806	-
Other income	1,459	1,536
	<u>334,930</u>	<u>19,164</u>

5. Research and Development costs

	31 December 2013 \$	31 December 2012 \$
R&D costs		
Clinical trial costs	591,214	286,205
Drug production and supply	284,790	163,653
Preclinical and assay development studies	-	70,000
Other R&D costs	7,861	11,464
	<u>883,865</u>	<u>531,322</u>

6. Income tax benefit

The company has recorded a tax benefit of \$380,845 for the period ended 31 December 2013 (2012: \$250,476). The tax benefit arises from the amortisation of the deferred tax liability recorded on acquisition of Inverseon, Inc. and will not be included in the carried forward losses of the company.

7. Cash and cash equivalents

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	31 December 2013 \$	30 June 2013 \$
Cash at bank and in hand	1,865,061	3,050,948
Short term deposits	-	-
Overdraft or other loan	-	-
Total cash and cash equivalents	<u>1,865,061</u>	<u>3,050,948</u>

8. Trade and other receivables

	31 December 2013 \$	30 June 2013 \$
Trade and other receivables		
Current ⁽ⁱ⁾		
Trade debtors	207,130	9,524
R&D tax incentive rebate	326,486	1,476,665
Good and services tax refundable	7,846	20,490
Bank guarantee	-	104,603
Other – unsecured	117,506	-
Total trade and other receivables	658,968	1,611,282
Non-current		
Bank guarantee deposit	69,640	24,680
Other – unsecured	-	118,698
	69,640	143,378

(i) The carrying value of trade debtors and other receivables approximate the fair value at balance date.

9. Intangible assets

	31 December 2013 \$	30 June 2013 \$
Intangible Assets		
Intellectual property (at cost)	15,494,500	14,994,500
Less: impairment	(4,125,000)	(4,125,000)
Less: accumulated amortisation	(1,168,710)	(724,170)
Net carrying value	10,200,790	10,145,330
Funding right (at cost)	2,012,000	2,012,000
Less: Accumulated amortisation	(1,345,728)	(833,856)
Net carrying value	666,272	1,178,144
	10,867,062	11,323,474

9. Intangible assets (continued)

	31 December 2013 \$	30 June 2013 \$
Reconciliation of intellectual property (at cost)		
Balance at 1 July	10,145,330	-
Additions through acquisition of subsidiary In-licence INV104 (zafirlukast)	-	10,869,500
Amortisation charge	(444,540)	(724,170)
Closing carrying value at 31 December	10,200,790	10,145,330
Reconciliation of funding right (at cost)		
Balance at 1 July	1,178,144	-
Additions through acquisition of subsidiary	-	2,012,000
Amortisation charge	(511,872)	(833,856)
Closing carrying value at 31 December	666,272	1,178,144

10. Trade and other payables

	31 December 2013 \$	30 June 2013 \$
Trade and other payables		
Current ⁽ⁱ⁾		
Trade creditors	792,173	466,045
Accrued expenses	95,976	91,923
Director related payables	21,540	19,133
	909,689	577,101

- (i) The carrying value of trade creditors and other payables approximate the fair value at balance date.

11. Financial Liabilities

	31 December 2013 \$	30 June 2013 \$
Financial liabilities		
Current ⁽ⁱ⁾		
Promissory notes payable (from acquisition)	16,764	16,173
Interest accrued on promissory notes	-	-
	16,764	16,173

- (i) Promissory notes payable are recorded at approximately fair value at balance date.

2013, the company issued 300,000 options under its ESOP to a consultant to the business. The options have an exercise price of \$0.10 (10c) and an expiry of 9 November 2017.

3. On 28 November 2013, 1,500,000 options with an exercise price of \$0.09 and an expiry date of 9 November 2017 lapsed, unexercised.

Share Purchase Agreement with Numoda Capital Innovations

In December 2012, the Group engaged the services of Numoda Corporation for the provision of clinical trial management services for the INV102 and INV103 phase II clinical trials. At the same time, the Group entered into a Share Purchase Agreement (SPA) with Numoda Capital Innovations (NCI). Under the share purchase agreement, NCI have committed to acquire Invion shares via private placement and open market transactions whilst INV102 and INV103 clinical trials are ongoing. NCI's total commitment under the agreement is for an investment of up to \$2 million to occur across current and future clinical trials. The Board of Invion estimates the value of shares to be purchased and placed relative to the two clinical trials currently underway will be in the order of \$250,000. At the date of this report, NCI had invested approximately \$40,000 via open market purchase, and \$65,000 via private placement for a total investment of approximately \$105,000. It is anticipated a further approximately \$145,000 will be invested under this SPA prior to 30 June 2014.

13. Share-based payment

On 13 August 2013, a General Meeting of Invion shareholders approved the issue of Share Options to Managing Director and CEO, Dr Greg Collier. On 14 August 2013, a total of 10,000,000 options were issued with an exercise price of \$0.10 (10c) and an expiry date of 9 November 2017. Subject to certain terms, 20% of the total options will vest every 12 months from 9 October 2013 to 9 October 2017.

Also on 14 August 2013, the company issued 300,000 options under its ESOP to a consultant to the business. The options have an exercise price of \$0.10 (10c) and an expiry of 9 November 2017.

The fair value of options granted during the six months ended 31 December 2013 was estimated on the date of grant using the Black-Scholes option pricing model applying the following assumptions:

Dividend yield (%)	0.00
Expected volatility (%)	90
Average risk-free interest rate over life (%)	3.035
Expected life (months)	49
Weighted average share price (\$)	\$0.061

For the six months ended 31 December 2013, the Group has recognized \$182,768 of share-based payment transactions expense in the statement of comprehensive income (31 December 2012: \$61,833).

14. Commitments and contingencies

In May 2012 the Company entered into a four-year lease for new premises. In March 2013 the Company assigned its lease to a third party and subsequently entered into a sub-lease. The sublease expires in April 2016. Current sub-lease payments are approximately \$24,000 per annum. Further to the Assignment of the primary lease, the Company no longer has a “make good” obligation at the expiration of the lease term. In October 2013, Invion, Inc (subsidiary company) entered into a 12 month lease for premises. Lease payments are approximately \$25,000 per annum. The Company has leasing commitments in connection with telephone, broadband and photocopying/printing totalling approximately \$45,000 over the next three years.

At the Balance Date, the Company had contractual commitments relating to R&D development activities totalling approximately \$2.3 million (30 June 2013: \$2 million).

On 30 March 2001, the Company entered into a Royalty Agreement with CSL Limited (CSL). This agreement was entered into contemporaneously with the Deed of Assignment, an agreement which assigned CSL's rights to its Research Agreement with Uniquest Pty Ltd to CSL for payment of \$125,000. The Royalty Agreements stipulates that Invion is to pay royalties to CSL after commercialisation of products developed under the Research Agreement.

The Directors consider that the risk of a liability arising out of the litigation (as noted in the Directors' Report) is remote. As such there is no contingent liability recorded in these Financial Statements.

	Within one year	After one but within five years
	\$	\$
Operating leases		
Premises	44,465	32,733
Telephone, broadband, photocopying, printing	31,863	10,389
	76,328	43,122
R&D Commitments		
Drug manufacturing & clinical trial costs	2,200,748	82,500
	2,200,748	82,500

16. Related party transactions

Transactions with the subsidiary

Invion Limited is the parent entity in the Group. Details of the Group's subsidiary are set out below. During the period the parent transacted with the subsidiary. All transactions were on an arm's length basis and have been eliminated on consolidation.

Name	Country of incorporation	% equity interest	
		31 Dec 2013	30 Jun 2013
Invion Inc.	USA	100%	100%

17. Other transactions

McCullough Robertson Lawyers has provided legal advisory services to the Company for a period in excess of five years. Mr Brett Heading, who was appointed to the Board on 26 February 2012, is a Partner at McCullough Robertson. In the reporting period fees of \$91,462 were paid or were payable to McCullough Robertson Lawyers in connection with the provision of legal advisory services to the Company, and disbursements including Court fees and fees payable to Counsel engaged on the Company's behalf of approximately \$28,000.

On 28 October 2013, Invion announced it had entered a licence agreement with Accolade Pharma LLC for an exclusive, worldwide licence to develop and commercialise all inhaled formulations and applications of zafirlukast. A licence fee of \$500,000 is payable by Invion to Accolade Pharma LLC over a 12 month period commencing January 2014. Dr Mitchell Glass, Invion's Executive Vice President of R&D and Chief Medical Officer, led the development and submission of Accolade for Zeneca (now AstraZeneca) to its FDA approval letter in 1998, and is a substantial shareholder of Accolade Pharma LLC.

18. Segment Note

The Invion Group operates as a clinical-stage pharmaceutical drug development company with operations in Australia and the United States. The Company does not currently consider that the risks and returns of the Company are affected by differences in either the products or services it provides, nor the geographical areas in which the Group operates. As such the Group does not report segment information.

19. Subsequent events

On 19 February 2014, the Company announced a collaboration with 3M Drug Delivery Systems to assess the feasibility of inhaled versions of its two respiratory drug assets - INV102 (nadolol) and INV104 (zafirlukast) – delivered using 3M's proprietary pressurized metered dose inhalation (pMDI) technology. The agreement enables manufacture for toxicology, and subsequently phase I studies, under an Invion-sponsored Investigational New Drug application (IND), with the US FDA.

Subsequent events (continued)

On 21 February 2014, the Company announced the completion of a private placement to institutional and professional investors. The Company issued a total of 66,666,671 fully paid ordinary shares to raise gross proceeds of approximately \$5 million. The issue price per share was 7.5 cents, which represents a 20% discount to the five day VWAP of Invion shares traded on the ASX to Tuesday 18 February 2014 (being the last trading day prior to commencement of the placement).

In conjunction with the placement, the Company announced the intention to offer a 1 for 20 non-renounceable rights issue to raise A\$2 million, providing the Company's existing shareholders with the opportunity to participate in the capital raising on the same terms as the placement.

Funds raised from the placement and rights issue will be applied to the collaboration with 3M Drug Delivery Systems to develop Invion's inhaled respiratory drugs franchise and continuing development of Invion's three drug assets - INV102 (nadolol), INV103 (ala-Cpn10) and INV104 (zafirulkast).

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

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the financial position as at 31 December 2013 and the performance for the half-year ended on that date; and
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

- (b) subject to the inherent uncertainty regarding the continuation as a going concern as expressed in Note 2a, that is, the ability of the company to pay its debts as and when they fall due, the Board is of the opinion that there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Dr Ralph Craven
Chairman
25 February 2014

Independent audit report to members of Invion Limited

Report on the Half-year Financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

Independence

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

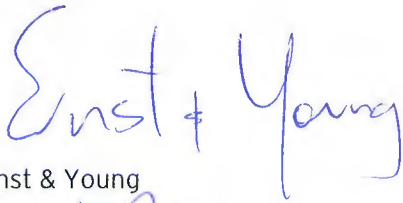
Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2a in the financial report which indicates that the company incurred a loss from continuing operations after income tax of \$2,904,760 in the half-year ended 31 December 2013 (2012: \$3,162,336 loss) and is dependent on the raising of additional funds to continue activities. As a result of this matter there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Ric Roach
Partner
Brisbane
25 February 2014