INVION LIMITED

ANNUAL REPORT 2014

INVION

Targeting inflammation

COMPANY PROFILE

The Invion Group is a life sciences group consisting of Invion Limited and its wholly owned subsidiary, Invion Inc., with activities in pharmaceutical drug development.

Invion's expertise and assets target chronic inflammation in two key areas of human health – inflammatory airway disease (or respiratory disease), and inflammation caused by autoimmune disease.

Invion aims to grow a diverse business with a broad pipeline of drug assets that target improved patient outcomes and major commercial opportunities.

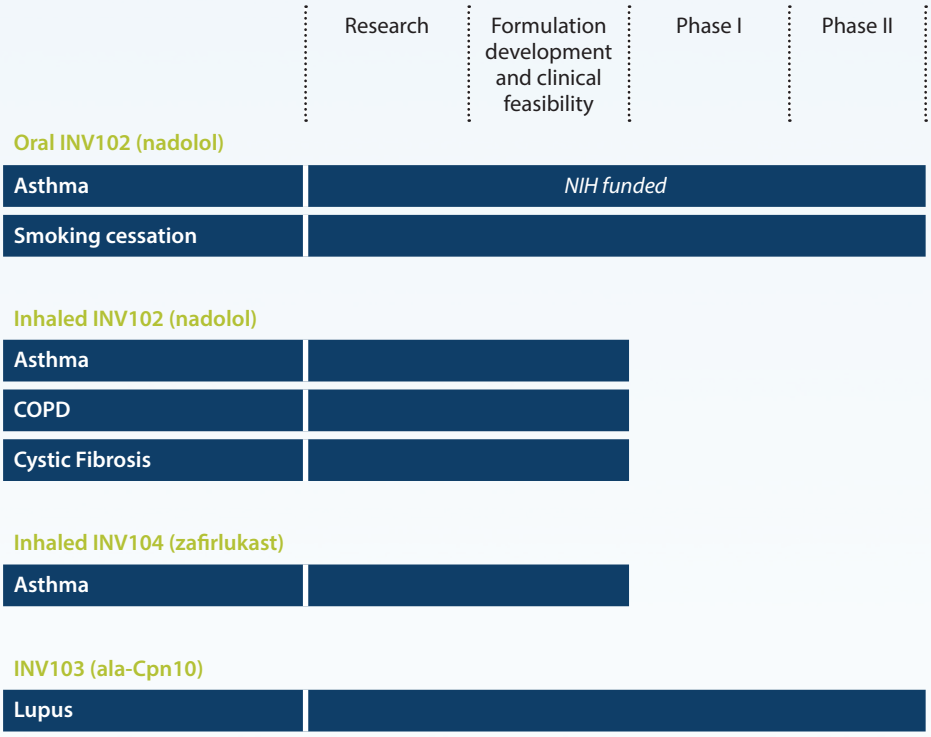
The Group has three drug assets in development in multiple clinical programs, including three phase II clinical trials currently underway in the United States.

Invion Limited is an ASX listed company (ASX:IVX) with its clinical headquarters in Delaware, USA.

INVION'S ASSETS

- **INV102 (nadolol)**: a beta blocker (beta adrenergic biased ligand) currently used to treat high blood pressure, coronary chest pain (angina) and migraine, is being repurposed to treat chronic inflammatory airway diseases (e.g. asthma and COPD).
- **INV103 (ala-Cpn10)**: a modified naturally occurring human protein which has been proposed as a founding member of the Resolution Associated Molecular Pattern (RAMPs) family, hypothesised to maintain and restore immune homeostasis, is being developed to treat systemic lupus erythematosus (lupus or SLE).
- **INV104 (zafirlukast)**: a leukotriene receptor antagonist (LTRA) that reduces inflammation, constriction of the airways and the build-up of mucus in the lungs, is being developed as an inhaled therapy to treat asthma in adults and children.

Invion pipeline



Operations

- Brisbane, Australia
- Delaware, USA
- Invion Limited trades on the Australian Securities Exchange (ASX:IVX)

Milestones

2H 2014

- Interim data from NIH-funded phase II study of INV102 (nadolol) in asthma patients
- Interim data from phase II study of INV103 (ala-Cpn10) in lupus patients
- Phase II interim data from oral INV102 (nadolol) study in patients undergoing smoking cessation
- Pre-IND for inhaled INV102 (nadolol) as a potential therapy for asthma, COPD & cystic fibrosis
- Formulation development and feasibility of INV104 (zafirlukast) as an inhaled therapy for asthma

1H 2015

- Completion and final data from phase II study of INV103 (ala-Cpn10) in lupus patients
- Completion and final data from phase II oral INV102 (nadolol) study in patients undergoing smoking cessation
- Completion of enrolment of NIH-funded phase II study of INV102 (nadolol) in asthma patients
- Commencement of phase I studies of inhaled INV102 (nadolol)

2H 2015

- Reporting on NIH-funded phase II study of INV102 (nadolol) in asthma patients
- End of phase II meeting with FDA for oral INV102 (nadolol) in smoking cessation
- IND for INV104 (zafirlukast) as an inhaled therapy for asthma
- Initiation of phase II (proof of concept) studies for inhaled INV102 (nadolol) in COPD, asthma and cystic fibrosis
- Initiation of phase II (proof of concept) study of INV104 (zafirlukast) in asthma

LETTER FROM CHAIRMAN & CEO

Dear Shareholders

Welcome to Invion's 2014 Annual Report.

We are delighted to share with you the many positive developments in our work targeting potential new therapies for the treatment of chronic inflammatory diseases.

The last 12 months have been active, commencing with the in-licence of a new drug asset - INV104 (zafirlukast) – which we are targeting as an inhaled therapy for the treatment of asthma and other respiratory conditions, and which will form part of our expanding inhaled respiratory drug franchise.

Following this in-licence, earlier this year we announced a collaboration with 3M Drug Delivery Systems for the development of our inhaled respiratory drug assets. Invion and 3M are now assessing the feasibility of inhaled versions of INV102 (nadolol) and INV104 (zafirlukast), delivered using 3M's proprietary pressurised metered dose inhalation technology. Feasibility for these programs is well underway, and we anticipate regulatory filings and the commencement of clinical programs in the coming year.

As shareholders know, as well as feasibility studies underway for the development of an inhaled version of INV102 (nadolol), Invion currently has two phase II clinical programs underway for the development of oral nadolol.

The NIH-funded NIMA study, investigating the use of nadolol in patients with mild asthma, delivered interim blinded data in Q3. The data showed that nadolol was being titrated to its highest doses, was safe and well tolerated in patients, and that there was no increase in the use of rescue medications in patients on study. This is a significant and promising finding given that nadolol is currently contraindicated in patients due to the increased risk of acute wheezing or shortness of breath. The study of approximately 60 patients is due to complete enrolment in early 2015.

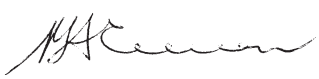
Invion's chronic bronchitis (smoking cessation) study, which re-commenced in January 2014 after a change of FDA division, is recruiting well and interim signals are expected in Q4 2014.

During the 3rd quarter of 2014, the company also reported on its phase II clinical trial of INV103 (ala-Cpn10) in patients with lupus. This trial, which aims to generate data on the safety, tolerability, and biochemical efficacy of INV103 as a potential new therapy in this disease area, released interim data from the first two trial cohorts, which has supported a significant increase in the amount of drug delivered, and the enrolment of more severe lupus patients. We expect this trial will complete recruitment in 2014, and report in early 2015.

In the coming year the strategy remains centered on the continued development of the Group's three drug assets - INV102, INV103 and INV104 - as well as the respiratory drug franchise. This will involve the progression to completion of the three phase II clinical trials currently underway, and the completion of feasibility assessments and commencement of drug manufacture and clinical testing for the inhaled respiratory drug assets. Business development activities will be geared towards maximising the potential commercial opportunities arising from the drug development programs of Invion's assets.

In order to meet our objectives, we retain a highly skilled and committed team operating over two continents, and we continue to seek out strategic partnerships with experienced and respected commercial partners and clinical trial specialists.

We are excited by Invion's future, and we acknowledge the support of all shareholders, which has been so important for the Company.



Dr Ralph Craven
Chairman

Dr Greg Collier
Managing Director and CEO

"Invion aims to grow a diverse business with a broad pipeline of drug assets that target improved patient outcomes and major commercial opportunities."

THE BOARD OF DIRECTORS

Ralph Craven BE PhD FAICD

Non-executive Chairman

Dr Ralph Craven has broad experience as a company director across a range of industry sectors. A highly respected member of the international energy industry, Dr Craven's executive career included being CEO of both Ergon Energy Corporation Limited and Transpower New Zealand Limited. Previous appointments include Chair of Ergon Energy Corporation Limited, Chair of Tully Sugar Limited, and Deputy Chair of Arrow Energy Limited (ASX:AOE). Dr Craven's current roles include being non-executive director and Chair of the Audit Committee of Senex Energy Limited (ASX:SXY) and of Mitchell Services Limited (ASX:MSV), non-executive director of AusNet Services (ASX:AST) and Windlab Limited.

Greg Collier PhD

Managing Director & Chief Executive Officer

Dr Greg Collier has more than 20 years experience spanning operational, clinical and scientific aspects of pharmaceutical research, development and commercialisation. He has led the planning and execution of multiple commercial transactions and has successfully taken a drug from discovery through to regulatory approval at ChemGenex which was sold to Cephalon for $230M in 2011. Dr Collier is published in over 150 peer reviewed publications, with senior authorship on 33 patents. Dr Collier was the inaugural Alfred Deakin Professor at Deakin University, and also held positions at Melbourne, Monash University and the University of Toronto.

Mitchell Glass M.D.

Executive Vice President R&D and Chief Medical Officer

Dr Mitchell Glass graduated from the University of Chicago and is board certified in internal medicine, pulmonary and critical care medicine. He is a 25 year veteran of the pharmaceutical industry (including AZ, GSK). Dr Glass has filed 50 INDS and 5 NDAs with the US FDA, including "first in class" and for the beta blocker carvedilol (Coreg®). Dr Glass' experience includes research, teaching and patient care at the University of Pennsylvania; establishing the pulmonary therapeutics group at ICI Pharmaceuticals, and leading the development and NDA submission of the antileukotriene ACCOLATE®.

Brett Heading BCom LLB (Hons)

Non-executive Director

Mr Brett Heading is an experienced corporate lawyer with a depth of experience across M&A, capital raising, Takeovers Panel and Government and ASX listed company board positions. Mr Heading has been a partner of the Australian law firm McCullough Robertson for 29 years, and has had significant involvement in the food and agribusiness and life sciences sectors during his career. He is currently the Chairman of ASX listed Trinity Limited and a director of Empire Oil & Gas NL (ASX:EGO).

James Campbell PhD MBA

Non-executive Director

Dr James Campbell is a senior biotechnology executive with more than 20 years international experience in scientific research, research management, management consulting and venture capital. Dr Campbell has held research positions at the CNRS and the CSIRO. He is a principal of Gemini Biotechnology, a specialist biotechnology advisory services company advising life science companies on M&A, partnering and corporate strategy. Dr Campbell was an executive at ChemGenex Pharmaceuticals for nine years until the company was acquired in 2011, and has served on the investment committee of UniSeed, a $60 million pre-seed venture fund, and various state and local government advisory committees concerning biotechnology.

Warren Brown B Eng

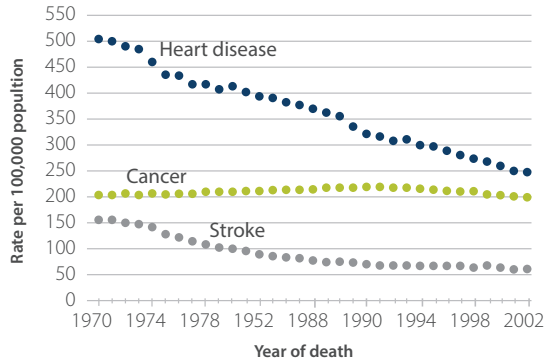
Non-executive Director

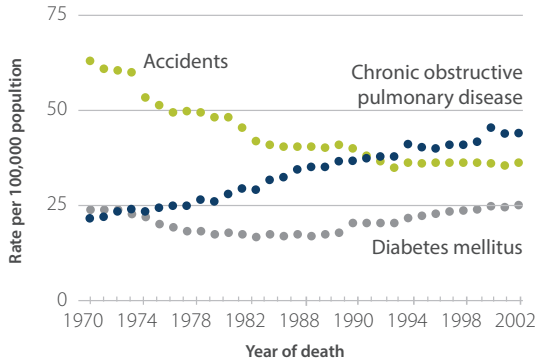
Mr Warren Brown has extensive experience in managing large projects and large labour forces. He has strong skills in negotiating contracts and corporate strategy. Mr Brown formed a consulting engineering practice in 1992 that employed 25 people at the time of sale in 2005. Prior to this Mr Brown held a management position at Major Engineering Construction where he was responsible for engineering construction projects throughout Queensland.

INVION
Targeting chronic inflammatory airway disease

	Asthma	Chronic Obstructive Pulmonary Disease
Disease Description	Asthma is a chronic lung disease that affects a person's breathing. In clinical practice, asthma is defined by the presence of variation in expiratory airflow that is greater than that seen in people without asthma; and respiratory symptoms (e.g. wheeze, shortness of breath, cough, chest tightness) that vary over time and may be present or absent at any point in time.	Chronic obstructive pulmonary disease (COPD) is a serious, progressive and disabling condition that limits airflow in the lungs. People with COPD are prone to severe episodes of shortness of breath, with fits of coughing. In contrast to asthma where medication can reverse symptoms or they can reverse naturally, shortness of breath related to COPD may not be fully reversible even with treatment.
Prevalence	It is estimated that up to 300 million people worldwide of all ages and ethnic backgrounds suffer from asthma. For the past 40 years, the prevalence of asthma has increased in all countries in parallel with that of allergy. Asthma is still increasing worldwide as communities adopt modern lifestyles and become urbanised, with up to an additional 100 million people expected to have asthma by 2025.	COPD is the third leading cause of death in America, claiming the lives of 133,965 Americans in 2009. In 2011, 12.7 million U.S. adults (aged 18 and over) were estimated to have COPD. However, close to 24 million U.S. adults have evidence of impaired lung function, indicating an under diagnosis of COPD.
Health & economic burden	The economic cost of asthma is considerable both in terms of direct medical costs (such as hospital admissions and the cost of pharmaceuticals) and indirect medical costs (such as time lost from work and premature death).	In 2010, the cost to USA for COPD was projected to be approximately $49.9 billion, including $29.5 billion in direct health care expenditures, $8.0 billion in indirect morbidity costs and $12.4 billion in indirect mortality costs.
Treatment options	In addition to COPD medications, other major asthma treatments include monotherapy ICSs, oral leukotriene receptor antagonists and/or oral steroids for severe disease. Over recent years, studies employing patient centric tools, such as the asthma control questionnaire, have revealed surprisingly low asthma control at all severities, highlighting an underestimated medical need.	The typical treatment for both COPD and asthma is a fixed-dose combination of an inhaled corticosteroid (ICS) with a long-acting beta2-agonist (LABA) or for COPD specifically, an inhaled long-acting muscarinic antagonist as either monotherapy or adjunctive to ICS/LABA treatment. Current treatment has recently demonstrated the potential for some survival benefit, but the impact of medication on the course of the disease is small and the prognosis of the COPD patient remains poor.
Global Market size	Existing Asthma and COPD therapies generate significant income for global pharmaceutical companies. Of the total prescription respiratory world market ($64B in 2012), asthma and COPD drugs constitute over $34B with the leading asthma and COPD drugs having sales of $16B+.	Existing Asthma and COPD therapies generate significant income for global pharmaceutical companies. Of the total prescription respiratory world market ($64B in 2012), asthma and COPD drugs constitute over $34B with the leading asthma and COPD drugs having sales of $16B+.

Trends in age–standardized death rates for the six leading causes in the United States, 1970 to 2002

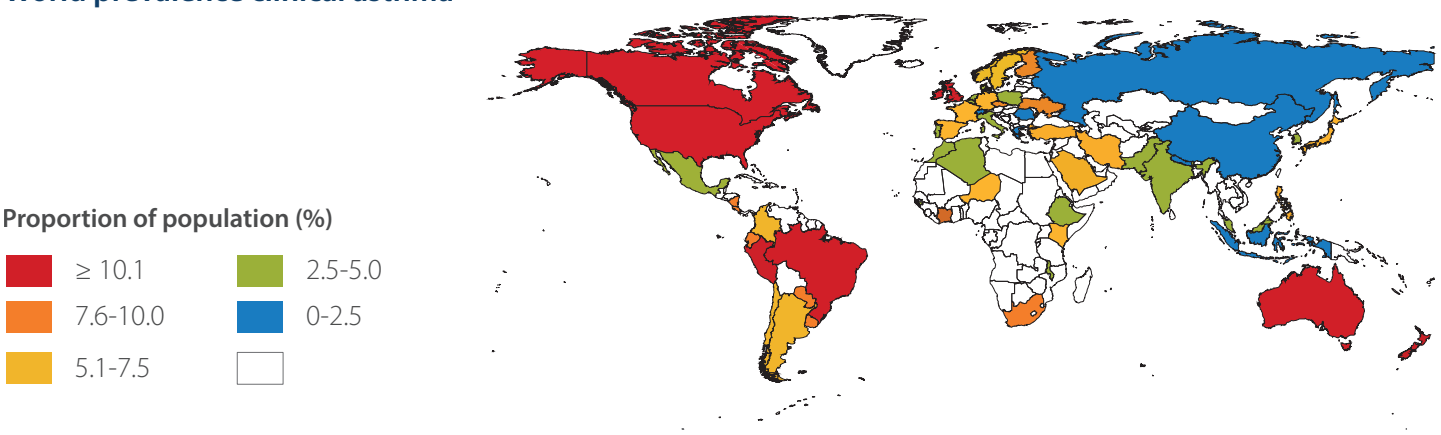




INVION
Targeting chronic inflammatory airway disease

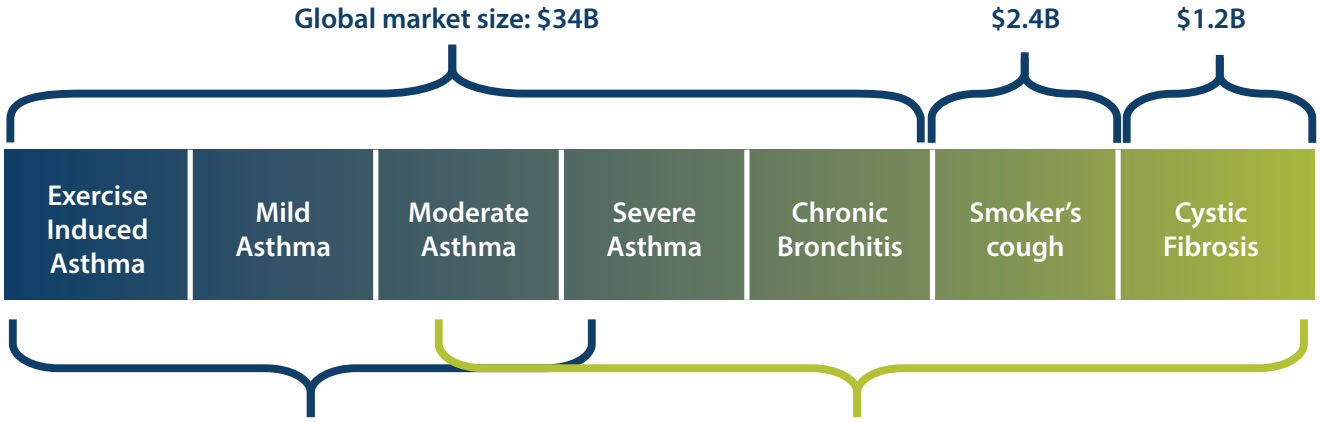
	Smoking Cessation	Cystic Fibrosis
Disease Description	Smoking is the primary risk factor for COPD, and patients with a smokers cough have been shown to have excessive mucus production. Approximately 85-90% of COPD deaths are caused by smoking, and smokers are 12-13 times as likely to die from COPD as those who have never smoked.	Cystic Fibrosis (CF) is a genetic disorder that affects the respiratory, digestive and reproductive systems involving the production of abnormally thick mucus linings in the lungs and can lead to fatal lung infections. The disease can also result in various obstructions of the pancreas, hindering digestion.
Prevalence	Worldwide, tobacco use causes more than 5 million deaths per year, and current trends show that tobacco use will cause more than 8 million deaths annually by 2030. Cigarette smoking is responsible for about one in five deaths annually and an estimated 49,000 of these smoking-related deaths are the result of secondhand smoke exposure.	CF is the most common life threatening, recessive genetic condition affecting Australian children. In the EU 1 in 2,000-3,000 newborns is found to be affected by CF, in the US the incidence is reported to be 1 in every 3,500 births. CF is severely underreported in Asia and Africa.
Health & economic burden	In 2000–2004, cigarette smoking cost more than $193 billion (i.e. $97 billion in lost productivity plus $96 billion in health care expenditures). Information published in 2005 documented that secondhand smoke costs more than $10 billion.	The median age of survival for a person with CF is currently 33.4 years. As more advances have been made in the treatment of CF, the number of adults with CF has steadily grown. Today, nearly 40% of the CF population is age 18 and older.
Treatment options	Treatment options at this time tend to focus on the addiction element of smoking, and include nicotine replacement therapy, stop smoking medication, e.g. Zyban and Champix, and electronic cigarettes. Current stop smoking therapies are not geared towards lung healing.	Mucus cell metaplasia is a major finding in histopathology of patients with CF. Drug therapies include mucolytics to thin mucus, antibiotics to treat infections,, and hypertonic saline to draw more water into the airways and make it easier to cough out the mucus. Kalydeco, FDA approved in 2012, is a pill taken twice daily and helps to improve lung function, however treats only 4% of those with CF.
Global Market size	The smoking cessation drug market was estimated at $2.4 billion in 2012. Nicotine replacement therapy (NRT) is the bulk of existing market, however as these therapies do not address lung healing, there is a large untapped market for a therapy that can work to heal the lung in concert with efforts to break nicotine addiction.	2013 sales of Kalydeco, which treats approximately 4% of those with CF, are expected to be approx $360M. The CF therapeutics market across the US, France, Germany, Italy, Spain, and the UK was valued at $1.2 billion in 2012, and is predicted to rise to $4.6 billion by 2017 at a rapid compound annual growth rate of 31.9%.

World prevalence clinical asthma



INVION
Approach to new treatments for respiratory disease

Spectrum of airway disease and opportunities



Strategic focus: an inhaled respiratory drug franchise

Rationale

1. Medical: addressing critical unmet patient needs; and
2. Commercial: huge markets, global issue

Strategy is underpinned by

INV102 (nadolol)

= existing pre-clinical data demonstrating positive effect on airway
+ research showing only drug to effect mucous metaplasia
+ early ph II data showing decreased airway hyperresponsiveness and improved lung function
+ data emerging from current NIH sponsored ph II asthma trial
+ data emerging from current ph II smoking cessation trial
+ collaboration with leader 3M for inhaled delivery

INV104 (zafirlukast)

= FDA approved drug for asthma
+ existing clinical and pre-clinical data for new delivery method
+ collaboration with leader 3M for inhaled delivery

INV102 (nadolol)

Primary disease target:

- Inhaled INV102 for severe asthma, chronic obstructive pulmonary disease (COPD) and cystic fibrosis (CF)

Short-term regulatory and commercial target:

- Oral INV102 for smoking cessation in patients with established smoking-related airway disease, including chronic bronchitis

INV102 (nadolol) is a beta-blocker, or beta adrenergic biased ligand, with a unique demonstrated activity in the airway – the inactivation of intracellular inflammatory events. A generic drug being repurposed for a new target, INV102 (nadolol) was approved for use in the US in 1979 and is still commonly used, with more than 1 million prescriptions filled yearly for the management of hypertension and angina pectoris, as well as off-label for migraine and vascular headaches.

INV102's development is based on the science of Richard A. Bond PhD, Professor of Pharmacology, University of Houston. In collaboration with nobel-prize winning Robert Lefkowitz, Dr Bond undertook studies on the spontaneous activity of G-protein-coupled receptors (GPCRs) and compounds functioning as inverse agonists.

Dr Bond's research has demonstrated that:

- An active beta-arrestin signalling pathway in airway epithelial cells is necessary for the development of mucous metaplasia (mucous production);
- INV102 has been shown to inhibit the beta-arrest in signalling pathway; therefore,
- INV102 represents significant potential as a therapeutic to directly reverse mucous metaplasia and treat the underlying cause of chronic airway diseases including asthma, COPD and cystic fibrosis.

Invion's development strategy for oral INV102 is following the medical, regulatory and commercial precedent of repurposing carvedilol, another generic beta-blocker, now indicated for use in chronic heart failure (CHF). Once contraindicated for use in CHF, carvedilol was clinically progressed using novel dose titration methods, and is now the standard of care in this disease indication. Titration and tolerability are key to patient success in achieving therapeutic doses and are central to Invion's development strategy for INV102.

Mechanism of action

INV102 appears to target multiple pathways of inflammation in the airways

- Reduces goblet cell metaplasia
- Reduces mucous hypersecretion
- Restores ciliated epithelium
- Reduces levels of pro-inflammatory cytokines: IL-5, IL-10, IL-13
- Reduces (by 50%) eosinophils (in white blood cells)
- Restores lung function

Key pre-clinical and early phase II clinical findings:

- Preclinical studies showed reduction in inflammatory signals and activations in the lungs. These include:
  - Reduced airway hyper-responsiveness to methacholine
  - Decreased total inflammatory cells in the airway
  - Decreased mucous metaplasia
  - Decreased inflammatory cytokines, including interleukins 5, 10, and 13; and
  - Decreased expression of airway constricting enzymes.

The following phase II trial clinical findings led the US National Institutes of Health (NIH) to fund a larger phase II study in asthma patients:

- 9-10 weeks of treatment showed a dose-dependent decrease in airway hyper-responsiveness that achieved clinically significant improvement, and
- improved lung function

Current phase II clinical trials

INV102 (nadolol) in mild asthma (NIMA)

- Double-blinded, randomised, placebo-controlled, multi-centre
- 60 patients
- Primary endpoint: Improved airway hyper-responsiveness
- Interim data presented Q3 2014
  - High % of patients tolerated titration to maximum possible dose without severe adverse events
  - No pattern of cardiovascular or respiratory effects in patients during the four hours of observation required after each titration dose
  - Patients demonstrated no requirement to increase rescue medication usage – provided either as a short-acting beta-agonist (SABA) or as an anti-muscarinic agent
  - No pattern of adverse events - a significant finding given that INV102 (nadolol) is currently contraindicated in patients with asthma due to risks associated with worsening bronchospasm
- Trial enrolment completion anticipated 1H 2015

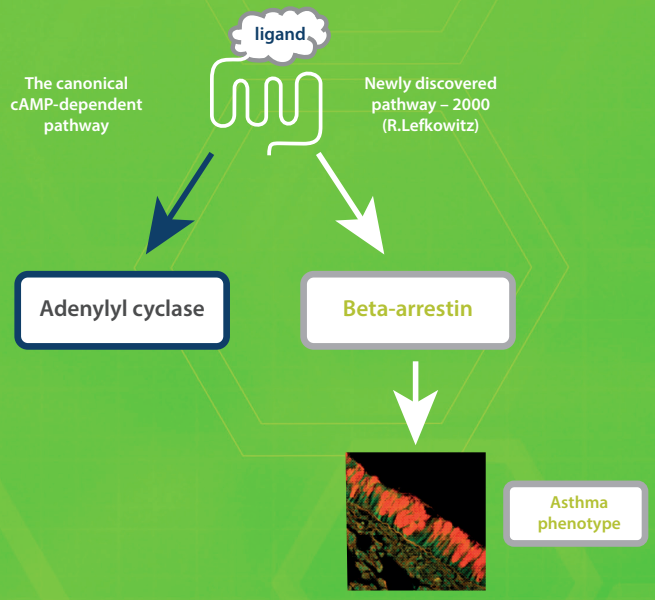
INV102 (nadolol) in smoking cessation of patients with pre-existing chronic bronchitis

- Double-blinded, randomised, placebo-controlled
- 136 patients
- Endpoints: Abstinence from smoking in last 2 weeks of trial, biological markers of chronic airway inflammation
- Interim data anticipated Q4 2014
- Trial completion anticipated 1Q 2015

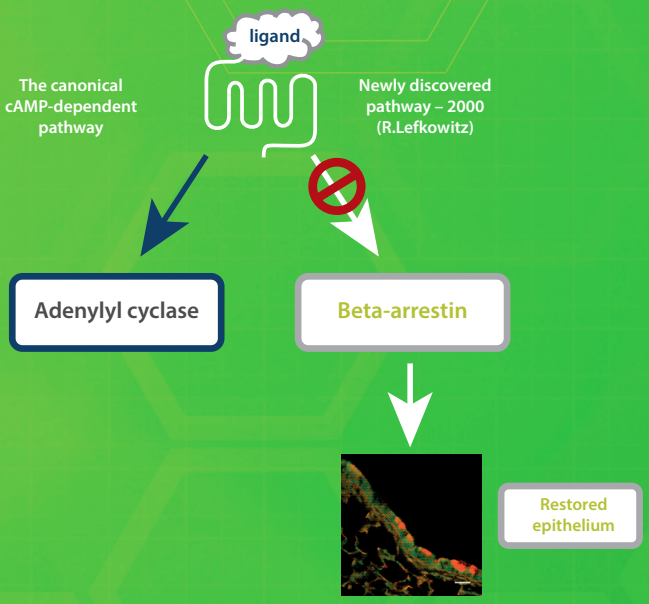
INV102 (nadolol)
targets and reverses mucous metaplasia

Dr Richard Bond's research has demonstrated that INV102 represents significant potential as a therapeutic to directly reverse mucous metaplasia and treat the underlying cause of chronic airway diseases including asthma, COPD and cystic fibrosis.

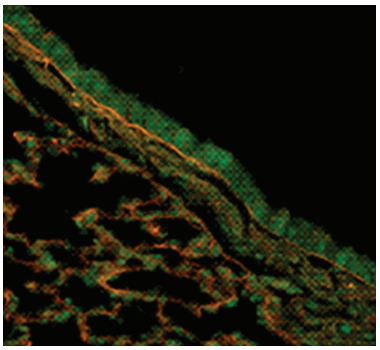
An active beta-arrestin signalling pathway in airway epithelial cells is necessary for the development of mucous metaplasia



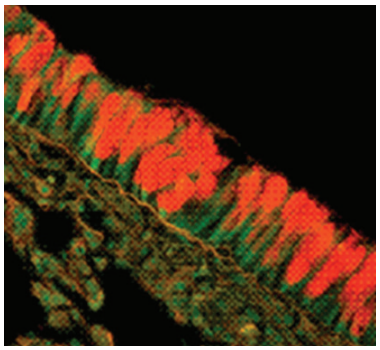
INV102 (nadolol) has been shown to inhibit the beta-arrestin signalling pathway



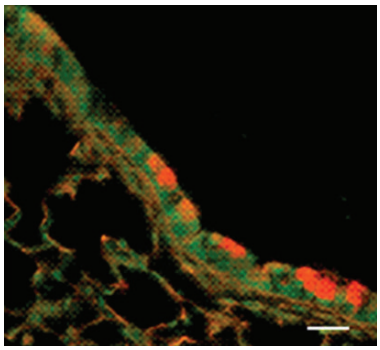
Preclinical studies have shown a reduction in inflammatory signals and activations in the lungs



Control lung tissue



Lung tissue of 'asthmatic' mice: epithelial cells have been converted to mucus-producing goblet cells. No effect of alprenolol.



Lung tissue of 'asthmatic' mice treated with INV102 (nadolol) for 28 days: restored epithelium.

INV104 (zafirlukast)

Primary disease target:

- Asthma: Inhaled monotherapy or combination with long-acting beta agonists (LABA) or inhaled corticosteroids (ICS)

INV104 (zafirlukast) is a leukotriene receptor antagonist (LTRA) or anti leukotriene that works by blocking the action of leukotrienes, which are chemicals released by the body as part of the inflammation response.

In the lungs, leukotrienes cause the muscles lining the airways to contract, thereby making the airways narrower. They also cause inflammation of the lining of the airways, which results in increased mucus production and further narrowing of the airway. By blocking the actions of leukotrienes, zafirlukast prevents the increased mucus production, inflammation and narrowing of the airways that occurs in asthma - this helps prevent asthma attacks from occurring.

Zafirlukast is currently used as a regular oral treatment to prevent asthma attacks, rather than to treat them. The oral version of this drug is a first-in-class anti-leukotriene, which has shown in seven clinical trials an attractive safety and efficacy profile when delivered by inhalation at <1% of the oral dose.

Invion is developing an inhaled version of the drug, known as INV104 (zafirlukast) to act as a monotherapy or in combination with short-acting beta agonists (SABA) or inhaled corticosteroids (ICS).

The target product profile of inhaled INV104 (zafirlukast) is projected to provide the following advantages:

1. The first and only inhaled non-steroidal anti-inflammatory drug for the lung
2. Use as needed e.g. prior to exposure to a known allergen (e.g. someone else's cat) without systemic side-effects due to low dose level
3. Targeted to provide immediate protection from exercise-induced or cold-air induced bronchospasm without tachycardia (increased heart rate outside normal range)
4. Targeted to be combined with inhaled corticosteroid to create a combination anti-inflamatory, or with a long-acting-beta-agonist (LABA) to create a unique non-steroidal anti-inflammatory / bronchodilator
5. To be indicated for use in children with mild asthma or exercise inducted bronchospasm, reducing need for child exposure to steroids

Invion's short term clinical strategy for the development of INV104 is to develop and submit novel IP based on formulations, combinations, devices & use with diagnostic tools; select an inhalational device; complete toxicology studies; file an IND with the US FDA; and, commence phase I clinical studies during 2015.

INV104 (zafirlukast): comparison oral vs inhaled

Oral (Accolate®) Label

- Astra Zeneca patent for zafirlukast expired
- Twice per day dosing with food effect, suicidal ideation warning, and liver toxicity reported
- Limited commercial uptake as a generic drug
- Not indicated for PRN (as needed) use
- Not indicated for reducing Long Acting Beta Agonist (LABA)
- Not indicated for reducing use of corticosteroids
- No indication or clinical experience in children under 12 years of age

Target Product Profile Inhaled INV104 (zafirlukast)

- IP protection based on formulation and device
- Once (or twice) daily dosing with no systemic side effects
- Novel monotherapy with opportunities for combinations
- Approved for single dose prophylaxis of Exercise-Induced Bronchospasm (EIB)
- Indicated to reduce use of LABA in adults and children
- Indicated for reducing use of corticosteroids
- Indicated for use in children 5 years of age or above with mild asthma or EIB

INVION
Targeting chronic inflammation caused by autoimmune disease

	Systemic Lupus Erythematosus
Disease Description	SLE is a multi-system, vascular inflammatory autoimmune disease that occurs when the immune system attacks the body's cells and tissues leading to chronic inflammation, antibody production, and immune complex deposition resulting in tissue damage. Symptoms can be vague and vary from person to person, and consequently diagnosis can be difficult. More common in women than men, lupus can affect any part of the body. Lupus increases a woman's risk of other health problems and can also cause heart diseases, osteoporosis and kidney disease to occur earlier in life. There is no known cure for lupus, and the goals of treatment are to prevent flares, treat symptoms when they occur, and reduce organ damage. Lupus is currently the focus of intense research. Studies are currently looking at the genes that play a role in the disease and in the immune system, ways to change the immune system in people with lupus, lupus in different ethnic groups, environmental causes or triggers of lupus, the role of hormones and treatments for lupus.
Prevalence	Prevalence estimates vary widely, and range as high as 1,500,000 in the United States alone. There is a trend towards higher incidence and prevalence of SLE in Europe and Australia compared to the USA. In Europe, the highest prevalence was reported in Sweden, Iceland and Spain. There are marked disparities in SLE rates worldwide.
Health & economic burden	Lupus is a chronic, unpredictable and potentially fatal disease. The health effects of lupus include heart attacks, strokes, seizures, and organ failure. 90% of lupus patients are women. Lupus is chronic and complex, and is often difficult to diagnose. There is no single laboratory test that can determine if a person has lupus. To complicate matters, many symptoms of lupus are similar to those of other diseases, and can come and go over weeks and months. It can often take years for a diagnosis to be made.
Treatment options	Medication plays an important role in treating lupus, and therapies can involve NSAIDs, corticosteroids, antimalarial drugs or immunosuppressant/chemotherapeutic medication. Because lupus is different for every person, treatments and medications are prescribed based on individual needs, however temporary relief from non-specific corticosteroids and potent immunosuppressants often comes with long term side effects. In 2011, the first lupus therapy in 50 years was approved with Benlysta (belimumab). Co-developed with Human Genome Sciences and GlaxoSmithKline, Belimumab is an antibody that interferes with the immune system's assault by binding to and inhibiting a protein called the 'B-lymphocyte stimulator' (BLyS). Blocking BLyS is thought to cause the immune system's antibody-producing B cells to self-destruct, thereby reducing the body's ability to attack its own tissues. Research finds that the top five unmet needs for new SLE therapies continue to be long-term safety, reduction in disease activity/flares, sustained efficacy, and steroid-sparing benefits. Generally speaking, rheumatologists are dissatisfied with current therapies for severe forms of SLE, and only one in three rheumatologists agree that their patients are optimally managed in terms of controlling the signs and symptoms of severe SLE.
Global Market Size	Benlysta (belimumab) is the first novel drug approved specifically for lupus in more than 50 years. Market research suggests that up to four additional new products will launch over the next 10 years, significantly altering the lupus market, and reaching sales of over $4 billion in the US and five major EU markets by 2020.

INV103 (ala-Cpn10)

Primary disease target:

– INV103 subcutaneous delivery for systemic lupus erythematosus (SLE).

INV103 (ala-Cpn10) is a modified version of a naturally occurring human protein.

In 2001, extended preclinical studies at the University of Queensland concluded that a heat shock protein identified as chaperonin10 played a key role in down-regulating the innate immune response in patients during pregnancy. Further research suggested that chaperonin10 appeared to intercede at a very early stage of the inflammatory process to prevent the over-expression of pro-inflammatory cytokines.

Chaperonin10 is thought to function as a natural regulator of the innate immune system: it is released locally by activated or damaged cells in response to "danger" signals, and down-regulates inflammatory immune responses. It is hypothesized that in disease states, levels of chaperonin10 may not be high enough to control inflammation; however, administration of pharmacological levels of chaperonin10 may overcome ongoing inflammatory signals and result in therapeutic benefit.

Recent studies propose that INV103 (ala-Cpn10) is a founding member of the Resolution Associated Molecular Pattern (RAMPs) family - a critical component of prevention of autoimmunity.

Phase I and II clinical trials have been completed in rheumatoid arthritis (RA), psoriasis and multiple sclerosis (MS). Data to date includes a dose response reduction in biomarkers of inflammation including serum IL-6, MCP1, and a strong safety profile in more than 250 patients including MS patients.

IL-6 is a marker of vascular inflammation. Given that INV103 clinical data to date has shown a significant reduction in biomarkers of inflammation that includes serum IL-6, INV103 is currently being targeted as a potential new therapy for the under-serviced lupus market.

Pre-clinical results in lupus models

– Strong pre-clinical data in lupus animal model (3 studies)

– Significantly reduced kidney pathology

– Improved survival

– Prevented cutaneous lupus

– Reduced renal and circulating levels of key pro-inflammatory mediators (TNF-α, IL-6 and MCP-1), reduced CD4+ T cells and auto-reactive T cells and increased the number of activated DC (critical in the establishment of self tolerance)

– INV103 also also binds nucleic acid-based ligands (e.g. DNA, RNA) implicated in SLE, therefore it may be a mechanism for removing altered self-molecules that activate and perpetuate the inflammatory response in these patients

Current clinical trial of INV103 (ala-Cpn10) in patients with Systemic Lupus Erythematosus

– Double-blinded, randomized, placebo-controlled, intravenous dosing

– Four cohorts of eight patients, for a total of 32 patients

– Interim data reported Q3 2014, trial completion anticipated Q1 2015

– Primary endpoint: reduction in serum IL-6 levels

– Exploratory endpoints: SELENA-SLEDAI score (disease activity index); pharmacodynamics; markers of systemic inflammation and vascular damage

Interim data, released Q3 2014

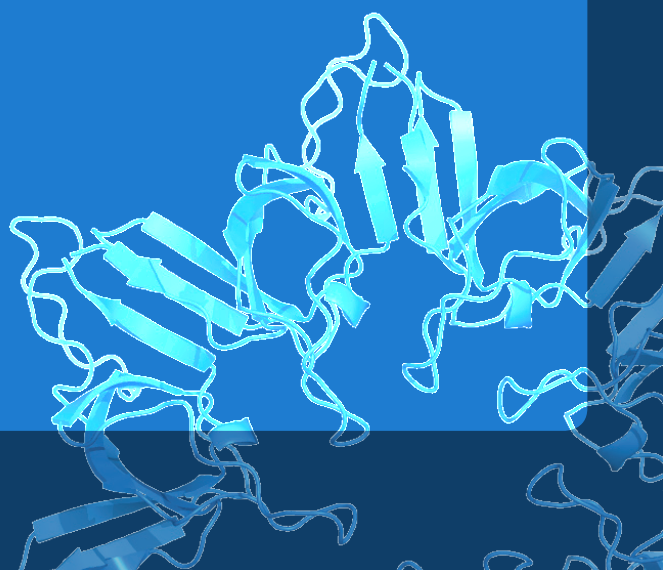
The current clinical trial was designed as a four-cohort trial, with each cohort receiving an increasing amount of active drug, or placebo. Interim analysis was built in to the protocol to allow ongoing tracking and confirmation of safety before moving to the highest doses. As this is first time INV103 is being studied in the complex lupus disease, the FDA required that safety be demonstrated in this new patient population. The interim analysis enabled Invion to open a dialogue with FDA about testing the drug in more severe patients, including patients with renal disorder associated with lupus. Renal disorders in lupus patients can be serious and sometimes life threatening, and there are strict FDA guidelines around studying novel drugs in this patient population.

– Data analysed from cohorts 1 & 2: patients received a twice-weekly intravenous (iv) dose of either 10mg or 30mg INV103, or placebo

– Demonstrated a safety profile supportive of testing higher doses

– Data supports increasing dose to 100mg twice-weekly, which which represents a 10-fold increase over the highest dose used in previous clinical trials

– The study is now moving to higher doses in lupus patients (100mg twice-weekly iv dose) and also into patients with more severe disease (30mg twice-weekly).



Scientific publications referencing INV102 (nadolol)

Nguyen, LP., et.al., 2012. Complementary anti-inflammatory effects of a β-blocker and a corticosteroid in an asthma model. Naunyn Schmiedebergs Arch Pharmacol. 2012 Feb;385(2):203-10.

Nguyen LP., et.al., 2011. Complementary anti-inflammatory effects of a β-blocker and a corticosteroid in an asthma model. Naunyn Schmiedebergs Arch Pharmacol. 2011: Oct 2.

Hanania, NA., et.al., 2010. Response to salbutamol in patients with mild asthma treated with nadolol. Eur Res. J 2010: 36(4): 963-5.

Lipworth, B., et.al., 2009. Beta blockers for asthma: a double-edged sword. The Lancet. 10;373(9658):104-5.

Nguyen, LP., et.al., 2009. Beta2-adrenoceptor signaling is required for the development of an asthma phenotype in a murine model. Proc Natl Acad Sci. 2009, Feb 17;106(7):2435-40.

Penn, R., 2009. Agonizing over agonism: should asthmatics turn their beta-receptors on or off? Proc Natl Acad Sci U S A. 2009 Feb 17;106(7):2095-6. Comment on: Proc Natl Acad Sci. 2009 Feb 17;106(7):2435-40.

Hanania, NA., et.al., 2008. The safety and effects of the beta-blocker, nadolol, in mild asthma: an open-label pilot study. Pulm Pharmacol Ther. 2008;21(1):134-41.

Lin, R., et.al., 2008. Changes in beta 2-adrenoceptor and other signaling proteins produced by chronic administration of 'beta-blockers' in a murine asthma model. Pulm Pharmacol Ther. 2008;21(1):115-24.

Nguyen, LP., et.al., 2008. Chronic exposure to beta-blockers attenuates inflammation and mucin content in a murine asthma model. Am J Respir Cell Mol Biol. 2008, Mar;38(3):256-62.

Callaerts-Vegh, Z., et.al., 2004. Effects of acute and chronic administration of beta-adrenoceptor ligands on airway function in a murine model of asthma. Proc Natl Acad Sci. 2004 Apr 6;101(14):4948-53.

Scientific publications referencing INV104 (zafirlukast)

Philip, G., et.al., 2011. Efficacy and Tolerability of Inhaled Montelukast Plus Inhaled Mometasone Compared with Mometasone Alone in Patients with Chronic Asthma . J Asthma. 2011 Jun;48(5):495-502

Makker, HK., et.al., 1993. The Protective Effect of Inhaled Leukotriene D4 Receptor Antagonist ICI 204,219 against Exercise-induced Asthma. . Am Rev Respir Dis. 1993 Jun;147(6 Pt 1):1413-8.

O'Shaughnessy, KM., 1993. Potent leukotriene D4 receptor antagonist ICI 204,219 given by the inhaled route inhibits the early but not the late phase of allergen-induced bronchoconstriction. Am Rev Respir Dis. 1993 Jun;147(6 Pt 1):1431-5.

Henderson, WR., 1991. Eicosanoids and platelet-activating factor in allergic respiratory diseases. Am Rev Respir Dis. 1991 May;143(5 Pt 2):S86-90.

Krell, RD., et.al., 1990. The Preclinical Pharmacology of ICI 204,219: A Peptide Leukotriene Antagonist. . Am Rev Respir Dis. 1990 Apr;141(4 Pt 1):978-87.

Smith, LJ., et.al., 1990. Inhibition of Leukotriene D4-induced Bronchoconstriction in Normal Subjects by the Oral LTD4 Receptor Antagonist ICI 204,219. Am Rev Respir Dis. 1990 Apr;141(4 Pt 1):988-92.

Scientific publications referencing INV103 (ala-cpn10)

Shields A.M., et. al., 2011. Resolution-associated molecular patterns (RAMPs) in the acute inflammatory response. Clin and Exp. Immunology, 165, 292-300.

Broadley SA., et.al., 2009. Results of a Phase IIa clinical trial of an anti-inflammatory molecule, chaperonin 10, in multiple sclerosis. , Multiple Sclerosis. 15: 329-336.

Van Eden, W., 2008. Evaluation of XToll®. Current Opinion in Investigational Drugs. 9(5):523-533.

Williams B., et.al., 2008. Efficacy and Safety of Chaperonin 10 in Patients with Moderate to Severe Plaque Psoriasis: Evidence of Utility Beyond a Single Indication. Arch Dermatol. 144:683-685.

Vanags D., et.al., 2006. Therapeutic Efficacy and Safety of Cpn10 in patients with rheumatoid arthritis. The Lancet. 368: 855-63.

Johnson BJ., et.al., 2005. Hsp10 Inhibits LPS-induced Inflammatory Mediator Production. J.Biol.Chem 280: 4037-4047.

Athanasas-Platsis S., et.al., 2003. Early pregnancy factor suppresses the infiltration of lymphocytes and macrophages in the spinal cord of rats during experimental autoimmune encephalomyelitis but has no effect on apoptosis. J Neurol Sci. 214:27-36.

Harness J., et.al., 2003. A protective effect of early pregnancy factor on experimental autoimmune encephalomyelitis induced in Lewis rats by inoculation with myelin basic protein. J Neurol Sci 216:33-41.

Somodevilla-Torres M.J., et.al., 2003, Purification and characterisation of functional early pregnancy factor expressed in Sf9 insect cells and in Escherichia coli, Protein Expression and Purification, 32, 276-287.

Zhang B., et.al., 2003. Early pregnancy factor treatment suppresses the inflammatory response and adhesion molecule expression in the spinal cord of SJL/J mice with experimental autoimmune encephalomyelitis and the delayed-type hypersensitivity reaction to trinitrochlorobenzene in normal BALB/c mice. J Neurol Sci 212:37-46.

Morton H., et.al., 2000. Production of a recombinant form of early pregnancy factor that can prolong allogeneic skin graft survival time in rats. Immunol Cell Biol 78:603-607.

Zhang B., et.al., 2000. Early pregnancy factor suppresses experimental autoimmune encephalomyelitis induced in Lewis rats with myelin basic protein and in SJL/J mice with myelin proteolipid protein peptide 139-151. J Neurol Sci 182:5-15.

Cavanagh AC., et.al., 1994. The purification of early-pregnancy factor to homogeneity from human platelets and identification as chaperonin 10. Eur J Biochem 222, 551-660.

Quinn KA., et.al., 1992. Effect of monoclonal antibodies to early pregnancy factor (EPF) on the in vivo growth of transplantable murine tumours. Cancer Immunol Immunother 34, 265-271.

Quinn KA., et.al., 1990. Athanasas-Platsis S, Wong T-Y, Rolfe BE, Cavanagh AC, and Morton H. Monoclonal antibodies to early pregnancy factor perturb tumour cell growth. Clin Exp Immunol 80, 100-10

Invion Limited

Financial report

For the year ended 30 June 2014

INVION

Targeting inflammation

Contents

DIRECTORS' REPORT

Your Directors present their report of the Invion Group for the financial year ended 30 June 2014. The Invion Group ("the Group") consists of Invion Limited ("Invion" or the "Company") and its wholly owned subsidiary, Invion Inc. The names and details of the Company's Directors in office during the financial year and until the date of this report are detailed below. Directors were in office for the entire period.

Dr Ralph Craven	Non-executive Chairman
Dr Greg Collier	Managing Director & Chief Executive Officer
Dr Mitchell Glass	Executive VP R&D and Chief Medical Officer
Dr James Campbell	Non-executive Director
Mr Warren Brown	Non-executive Director
Mr Brett Heading	Non-executive Director
Mr Gregory Brown	Alternate Director for Mr Warren Brown

Ralph Craven BE PhD FAICD

Non-executive Chairman

Appointed non-executive Director, 4 November 2011. Appointed Chairman, 1 December 2011.

Dr Craven has broad experience as a company director across a range of industry sectors. A highly respected member of the international energy industry, Dr Craven's executive career included being CEO of both Ergon Energy Corporation Limited and Transpower New Zealand Limited. Previous appointments include Chair of Ergon Energy Corporation Limited, Chair of Tully Sugar Limited, and Deputy Chair of Arrow Energy Limited (ASX:AOE). Dr Craven's current roles include being non-executive director and Chair of the Audit Committee of Senex Energy (ASX:SXY) and of Mitchell Services (ASX:MSV), non-executive director of AusNet Services (ASX:AST) and Windlab Limited. Dr Craven is also a board member of the International Electrotechnical Commission, which is the leading global organisation that prepares and publishes international standards for all electrical, electronic and related technologies.

Greg Collier PhD

Managing Director & Chief Executive Officer

Appointed Managing Director, 6 May 2013

Dr Collier has more than 20 years experience spanning operational, clinical and scientific aspects of pharmaceutical research, development and commercialisation. He has led the planning and execution of multiple commercial transactions including in and out licensing deals and major M&A activities, and he has successfully taken a drug from discovery through to regulatory approval. Notably, Dr Collier steered ChemGenex Pharmaceuticals from a research-based company with a market capitalisation of $10M to a company with completed clinical trials and regulatory dossiers submitted to the FDA and EMA. In 2011, ChemGenex was sold to Cephalon for $230M. Prior to his commercial pharmaceutical career, Dr Collier had an outstanding academic career resulting in over 150 peer reviewed publications, and senior authorship on 33 patents. Dr Collier was the inaugural Alfred Deakin Professor at Deakin University, and also held positions at Melbourne University, Monash University and the University of Toronto. In 2010, Dr Collier was awarded the Roche Award of Excellence for his contribution to the biotechnology industry. During the previous three years, Dr Collier has also served as a director of Gemini Biotechnology, Vitality Devices, Barwon Biotechnology, Fusion Biosciences Pty Ltd and Photonz Corporation.

Mitchell Glass M.D.

Executive Vice President R&D and Chief Medical Officer

Appointed Executive Director, 31 August 2012

Dr Mitchell Glass is a 25 year veteran of the pharmaceutical industry. His experience is broad:- ranging from senior positions in top ten pharmaceutical companies, to investment in and management of start-ups and biotechs. After seven years of research, teaching and patient care at the University of Pennsylvania, Dr Glass joined ICI Pharmaceuticals in 1988 where he established the pulmonary therapeutics group and led

the development and submission of the antileukotriene ACCOLATE®. From 1995-6, Dr Glass was Vice President and Director at SmithKline Beecham where he was responsible for cardiovascular, respiratory, renal and metabolic drug development and commercialisation, including submission of the NDA/MAA for COREG®. From 1998 to 2003, Dr Glass was Chief Medical Officer and VP of Clinical Development and Regulatory Affairs of AtheroGenics Inc. (AGIX), where he led product development from IND to initiation of Phase 3 for AGI1067 and was a member of the IPO team. Dr Glass joined AQUMEN Biopharmaceuticals KK and NA as CEO of AQUMEN NA and a Main Board Director. Since 2008, Dr Glass has been a Director of OrphageniX Inc. (gene editing) and AVATAR Biotechnologies (biosimilars) and a consultant in R&D and fundraising to early stage therapeutics companies. Dr Glass graduated from the University of Chicago and is board certified in internal medicine, pulmonary and critical care medicine.

James Campbell PhD MBA

Non-executive Director

Appointed Non-executive Director, 26 February 2012

Dr James Campbell is a senior biotechnology executive with more than 20 years international experience in scientific research, research management, management consulting and venture capital. Dr Campbell has held research positions at the CNRS and the CSIRO. He is a principal of Gemini Biotechnology, a specialist biotechnology advisory services company advising life science companies on M&A, partnering and corporate strategy. Dr Campbell was an executive at ChemGenex Pharmaceuticals for nine years until the company was acquired in 2011, and has served on the investment committee of UniSeed, a $60 million pre-seed venture fund, and various state and local government advisory committees concerning biotechnology. During the previous three years, Dr Campbell has also served as a director of Gemini Biotechnology, Fusion Biosciences Pty Ltd and Vitality Devices.

Warren Brown B Eng

Non-executive Director

Appointed Non-executive Director, 4 November 2011

Mr Warren Brown has extensive experience in managing large projects and large labour forces. He has strong skills in negotiating contracts and corporate strategy. Mr Brown formed a consulting engineering practice in 1992 that employed 25 people at the time of sale in 2005. Prior to this Mr Brown held a management position at Major Engineering Construction where he was responsible for engineering construction projects throughout Queensland. During the past three years Mr Brown has not served as a Director of another public company.

Brett Heading BCom LLB (Hons)

Non-executive Director

Appointed Non-executive Director, 26 February 2012

Mr Brett Heading is an experienced corporate lawyer with a depth of experience across M&A, capital raising, Takeovers Panel and Government and ASX listed company board positions. Mr Heading has been a partner of the Australian law firm McCullough Robertson for 29 years, and has had significant involvement in the food and agribusiness and life sciences sectors during his career. He is currently the Chairman of ASX listed Trinity Limited and a director of Empire Oil & Gas NL (ASX:EGO).

Gregory Brown (alternate Director for Warren Brown)

Mr Gregory Brown was appointed as Alternate Director on 16 January 2012 to act for Mr Warren Brown at any meetings that Mr Warren Brown could not attend. Mr Brown holds a Bachelor of Business degree from the University of Queensland. He has spent his career in banking and presently is a Business Banking Manager with Westpac Banking Corporation.

DIRECTORS' INTERESTS IN INVION SECURITIES

In accordance with section 300(11) of the Corporations Act 2001, the interests of the Directors in the shares and options of Invion Limited, as at the date of this report were:

	Number of Ordinary Shares	Options
R Craven	1,100,000	1,500,000
G Collier	15,361,352	10,000,000
M Glass	15,658,611	10,000,000
J Campbell	1,175,000	1,500,000
B Heading	204,909	1,000,000
W Brown	11,069,640	1,000,000

COMPANY SECRETARY

Melanie Farris BComn GIA(Cert)

Ms Farris is an experienced operations, communications and governance professional with a strong track record in the planning, management and delivery of a range of corporate projects across industries including life sciences, investment and not-for-profit. Ms Farris specialities include corporate affairs, compliance, financial management and reporting, policy development, investor and public relations, stakeholder engagement, human resources, M&A due diligence and integration. She has had previous roles with HRH The Prince of Wales's Office, Global Asset Management (GAM), Imperial Cancer Research Fund and The Prince's Foundation; and has volunteered in a professional capacity for groups including NAPCAN and Sands Queensland. A certificated member of Governance Institute of Australia (GIA), Ms Farris is completing GIA's Graduate Diploma in Applied Corporate Governance. Ms Farris is appointed Secretary to the Group's subsidiary, Invion, Inc.

PRINCIPAL ACTIVITIES

Invion is a clinical-stage life sciences (drug development) group. The principal activities during the year were development associated with the Group's three drug assets INV102 (nadolol), INV103 (ala-Cpn10) and INV104 (zafirlukast). The only significant change in the nature of activities during the year relates to the in-licence of drug asset INV104 (zafirlukast). Invion Limited continues to be the parent of the Invion Group, with Invion Inc., its wholly-owned subsidiary, based in the United States.

OPERATING RESULTS AND DIVIDENDS

The loss after tax of the Group for the year ended 30 June 2014 was $6,883,937 (2013: $5,174,080 loss). A proportion of the loss at $2,362,567 (2013: $1,996,143) was non-cash in nature and comprised the expensing of options and non-cash interest expense. No dividend was proposed or paid.

EMPLOYEES

The Group employed 8 full time equivalent employees at 30 June 2014 (2013: 7 FTE).

CORPORATE STRUCTURE

Invion Limited is an entity incorporated and domiciled in Australia. Invion is listed on the Australian Securities Exchange with the code IVX.

REVIEW OF OPERATIONS

Invion is a clinical-stage life sciences group focussed on the development of treatments for major opportunities in chronic inflammatory and respiratory disease.

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). Invion Limited is a company limited by shares incorporated in Australia. Invion's shares have been publicly traded on the Australian Securities Exchange since its listing on 15 February 2011 (ASX:IVX).

Activities in the year under review have been focused on the clinical development of the Group's three drug assets INV102 (nadolol), INV103 (ala-Cpn10) and INV104 (zafirlukast).

The loss attributable to the owners of the Company for the period ended 30 June 2014 was $6,883,937 (2013: $5,174,080 loss) in line with budget expectations. At 30 June 2014 the Group has net assets of $10,159,077 (2013: $11,035,582), a decrease of $876,505. No dividend was proposed or paid during the period.

In-licence of new drug asset

On 28 October 2013, the Company announced the execution of a licence agreement with Accolade Pharma LLC for intellectual property to develop inhaled formulations of zafirlukast for the treatment of asthma and other respiratory conditions. The agreement provides Invion with 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.

Commercial collaboration

On 19 February 2014, the Company announced a collaboration with 3M Drug Delivery Systems for the development of its inhaled respiratory drug franchise. Invion's agreement with 3M is assessing 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. It will also enable manufacture for toxicology, and subsequently phase I studies, under an Invion-sponsored Investigational New Drug application, with the US Food and Drug Administration. The companies intend to develop both drug candidates through to commercialisation, if they prove – through pre-clinical, phase I and phase II clinical development stages - to be safe and effective when delivered by an inhaler.

Invion's drug assets

The Group has three drug assets in development, three FDA-regulated, phase II clinical trials and two pre-clinical feasibility studies currently underway. The drugs that the Group is developing are:

- INV102 (nadolol): a *beta blocker* (beta adrenergic biased ligand) currently used to treat high blood pressure and migraine, that is being repurposed to treat chronic inflammatory airway diseases (e.g. asthma and COPD).

- INV103 (ala-Cpn10): a *modified naturally occurring human protein* which has been proposed as a founding member of the Resolution Associated Molecular Pattern (RAMPs) family, hypothesised to maintain and restore immune homeostasis.

- INV104 (zafirlukast): a *leukotriene receptor antagonist* (LTRA) that reduces inflammation, constriction of the airways and the build-up of mucus in the lungs.

INV102 (nadolol)

Invion currently has two phase II clinical programs underway for the development of oral nadolol, as well as feasibility studies underway for the development of an inhaled version of the drug.

Invion's phase II clinical trial investigating the use of INV102 in patients with mild asthma known as 'NIMA' (for 'nadolol in mild asthma') commenced in January 2014, and is operating under an Investigational New Drug (IND) application with the US Food and Drug Administration (FDA). The US National Institutes of Health (NIH) is funding the clinical trial with a non-dilutive funding contribution in excess of USD$4 million. The study of approximately 60 patients is being conducted in partnership with Baylor University (Texas), Duke University (North Carolina), and Washington University (St Louis), is expected to run until 2015.

Invion's chronic bronchitis (smoking cessation) clinical trial is also operating under IND with the FDA. This is a phase II, double blind, randomised, placebo-controlled study of INV102 versus placebo in facilitating smoking cessation in subjects with chronic bronchitis and increased cough and sputum (mucus). The study, which re-commenced in January 2014 after a change of FDA division, is being carried out in collaboration with Washington University (St Louis), Temple University and the Department of Veterans Affairs. Clinical signals from the 130 patient study are expected during calendar year 2014.

The feasibility studies for an inhaled version of INV102 are being conducted under the collaboration with 3M Drug Delivery Systems. Stage 1 deliverables include the development and validation of analytical methods for the purposes of toxicology and clinical supply; and the presentation of solubility and gross compatibility data. Subsequent to successfully completing these steps, work on Stage 2 pMDI product screening will commence.

INV103 (ala-Cpn10)

On 18 July 2013, the Company commenced its phase II clinical trial of INV103 (ala-Cpn10) in patients with SLE/lupus. This trial, which aims to generate data on the safety, tolerability, and efficacy of INV103 as a potential new therapy in this disease area, is being conducted in collaboration with the University of Pennsylvania, Northwestern University, and Metroplex Clinical Research Centre (USA). The trial is expected to complete in calendar year 2014.

INV104 (zafirlukast)

Zafirlukast is a leukotriene receptor antagonist (LTRA) or anti-leukotriene that blocks the action of the cysteinyl leukotriene receptors to reduce inflammation, constriction of the airways, and the build-up of mucus in the lungs. The oral version of the drug, marketed as a generic and by Astra Zeneca as 'Accolate', is a first-in-class anti-leukotriene and treatment for asthma, which in clinical trials has shown an attractive safety and efficacy profile when delivered by inhalation at <1% of the oral dose.

Invion has an exclusive, worldwide licence to develop and commercialise all inhaled formulations and applications of zafirlukast. Feasibility for the development of an inhaled form of this drug, forms part of the Company's commercial collaboration with 3M Drug Delivery Systems, as detailed above.

Financial results

These Financial Statements are prepared on a going concern basis. As a clinical-stage drug development company, and as in prior years, Invion has recorded an operating loss for the period.

Similar to other companies in the biotechnology sector, the Company's operations are subject to risks and uncertainty due primarily to the nature of drug development and commercialisation, and the independent audit report is written with an emphasis of matter. In order for the Company to execute its near term and long term plans, the Board may be required to raise capital sufficient enough to meet operational and program development needs.

The primary expense areas for the Group are in R&D and corporate costs. R&D expenses consist primarily of salaries and related employee benefits for R&D staff, costs associated with clinical trials, non-clinical activities such as toxicology testing, regulatory and medical activities, the manufacture of material for clinical trials and research-related overhead expenses. The most significant costs in the period were for the manufacture of material for clinical trials, the operation of clinical trials, and patent costs.

Corporate expenses consist primarily of salaries and related employee expenses for corporate staff, professional service fees including legal and accounting, compliance-related costs, as well as general overhead including rent and occupancy.

Equity raising

On 13 August 2013, a General Meeting of Invion shareholders 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 13 August 2013.

On 21 February 2014, the Company announced the successful completion of a private placement to institutional and sophisticated investors. A total of 66,666,671 fully paid ordinary shares were issued to raise gross proceeds of approximately $5 million at $0.075 per share. This price represented 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).

As foreshadowed in the 21 February announcement, on 26 February 2014, the Company announced a 1 for 20 non-renounceable Rights Issue entitlement offer of fully paid ordinary shares in Invion to existing eligible shareholders. On 28 March 2014, the Company confirmed it had completed the Rights Issue offer and that 11,848,977 new shares were issued at $0.075 per share raising $0.89 million.

Forward strategy

The strategy for the 2015 financial year is centred on the continued development of the Group's three drug assets - INV102, INV103 and INV104 - and its respiratory drug franchise. This will involve the progression to completion of the three phase II clinical trials currently underway, and the progression of feasibility for the inhaled respiratory drug assets. Business development activities will be geared towards maximising the potential commercial opportunities arising from the drug development programs of the Company's assets.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There have been no significant events subsequent to the balance date and prior to the date of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity is recorded at the Balance Date at $10,159,077 (2013: $11,035,582) a decrease of $876,505. The movement is largely the result of an increase in issued capital associated with the Placement and Rights Issue of February 2014, offset by operating expenses for the year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The likely developments in the operations of the Group and the expected results from those operations in future financial years will be affected by the outcome of clinical trials and regulatory acceptance in the following development plans:

1. phase II clinical trials of INV102 (nadolol) in asthma and chronic bronchitis;
2. the development of inhaled versions of INV102 (nadolol) and INV104 (zafirlukast); and
3. the phase II trial of INV103 (ala-Cpn10) in lupus.

The Company has identified material risks that may impact success in the above development plans, which are considered common to companies in the life sciences/ drug development sector. These material risks and the strategies in place to seek to manage each of these risks are detailed below.

1 - Clinical development risk: clinical trials depend upon the availability of patients and regulatory approvals, and have no guarantee of returning efficacious results or proving practical or cost effective. The Company seeks to manage recruitment risk by engaging with leading clinical research groups, and maintaining constructive and open communication with them on trial progress. The Company seeks to mitigate regulatory risk maintaining an awareness of current regulatory issues and trends, and through the use of expertise in the development of clinical trial protocols.

2 - Competition: one or more competitor product candidates may be sufficiently safe and effective so as to minimise the real or perceived value of Invion product candidates, thereby negatively affecting the value placed upon our products for licensing or partnering. The Company aims to manage competition risk through ongoing market monitoring and analysis of the development pipelines and the competitor landscape.

3 - Funding risk: the development of the respiratory franchise which includes progress to phase III clinical trials for oral INV102(nadolol) in smoking cessation; plus the development of two inhaled drugs (INV102 & INV104) are the primary drivers of cash requirements in the coming 2/3 years. The Company has a structured business development program, however to the extent the Company does not find an appropriate partner for its programs, it may need to raise further funds, which may not be available when required or only available on unfavourable terms.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. Nonetheless, the Company aims to ensure high standards of environmental care. To help to ensure continued compliance, the Board and management maintain an awareness of relevant environmental legislation.

ISSUED SHARES

A total of 81,528,980 new shares were issued during the year under review comprising:

- 3,013,332 shares issued to Directors and related parties, subsequent to shareholder approval at the EGM held 13 August 2013;
- 66,666,671 shares issued in the Placement to sophisticated and institutional investors, which completed on 21 February 2014; and,
- 11,848,977 shares issued under the Rights Issue entitlement offer, which completed on 28 March 2014.

At the date of this report, Invion Limited has a total of 541,225,440 fully paid ordinary shares on issue.

UNISSUED SHARES: SHARE OPTIONS

At the date of this report there were 44,837,500 (2013: 21,050,000) unissued ordinary shares under options. During the year ended 30 June 2014, no ordinary shares of Invion Limited were issued on the exercise of share options granted.

DIRECTORS' MEETINGS

The number of meetings of Directors and committees of Directors held in the year to 30 June 2014, and the number of meetings attended by each Director, is as follows:

	Board of Directors Meetings		**Audit & Risk Management Committee Meetings**		**Nomination and Remuneration Committee Meetings**	
	Eligible to attend	**Meetings attended**	**Eligible to attend**	**Meetings attended**	**Eligible to attend**	**Meetings attended**
R Craven	15	14	2	2	2	2
G Collier	15	14	-	-	-	-
M Glass	15	13	-	-	-	-
J Campbell	15	14	-	-	2	2
B Heading	15	15	2	2	2	2
W Brown (i)	15	15	2	2	2	2

(i) On 16 January 2012, with the approval of the Board, Mr Warren Brown appointed Mr Gregory Thomas Brown to act as an alternate Director at any Board Meeting which Mr Warren Brown is unable to attend. As at the date of this report, Mr Gregory Thomas Brown has not attended any meetings of the Board.

COMMITTEE MEMBERSHIP

At the date of this report the Company has the following Committees of the Board in place:

- Audit and Risk Management Committee, the members of which are independent nNon-executive Directors Dr Ralph Craven, Mr Brett Heading, Dr James Campbell and Mr Warren Brown (chair); and
- Nomination and Remuneration Committee, the members of which are independent Non-executive Directors Dr Ralph Craven, Mr Brett Heading (chair), Dr James Campbell and Mr Warren Brown.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2014 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. This information has been audited as required by section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director, whether executive or otherwise of the parent.

For the purposes of this report, the term "Director" refers to Non-executive Directors (NEDs) only. "KMP" refers to Executive Directors and other key management personnel.

The names and details of the Directors and KMPs of the Group in office during the financial year and until the date of this report are detailed below. Directors and KMPs listed are in office at the date of the report. There were no changes to KMP after the Balance Date and before the date this financial report was authorised for issue.

(i)	<u>Non-executive Directors</u>	
	Dr Ralph Craven	Chairman
	Dr James Campbell	Director
	Mr Brett Heading	Director
	Mr Warren Brown	Director
	Mr Gregory Brown	*Alternate Director **
(ii)	<u>Executive Directors</u>	
	Dr Greg Collier	Managing Director and Chief Executive Officer
	Dr Mitchell Glass	Executive Vice President R&D and Chief Medical Officer
(iii)	<u>Other key management</u>	
	Ms Melanie Farris	Company Secretary and Head of Operations
	Mr Tom Coogan	Consultant **

* Mr Gregory Brown was appointed as an alternate Director on 16 January 2012. Mr Brown has not attended any meetings of the Board.

** Mr Tom Coogan, of Coogans Pty Limited, provides the Company with accounting services. Ms Farris and Mr Coogan together provide the chief financial officer declaration to Directors required under Section 295A of the Corporations Act.

Principles used to determine the nature and amount of remuneration

Remuneration philosophy

The key principle of Invion's remuneration policy is to ensure that remuneration is set at levels that will attract, motivate, reward and retain personnel to improve business results and thereby maximise stakeholder benefit. Remuneration is assessed by reference to employment market conditions, including benchmarking, as well as the relative size and nature of the Group's operations. The financial and non-financial objectives of the Company are also considered when assessing the remuneration of Directors and other key management personnel. The Board has established a Nomination and Remuneration Committee which is responsible for, amongst other things, determining and reviewing compensation arrangements for key management personnel. The expected outcomes of the remuneration structure are:

- attraction of high quality management to the Group;
- retention and motivation of key personnel; and
- performance incentives that allow executives to share in the success of the group.

Given the company is a clinical-stage life sciences group, and hence is not generating revenues or profits, remuneration is not currently linked to traditional financial measures. Rather remuneration incentives are discretionary, based on an individual's performance against the agreed operational targets and business outcomes in the year.

Nomination and Remuneration Committee

The objective of the Nomination and Remuneration Committee is to assist the Board of Invion Limited in fulfilling its duties and responsibilities by reviewing, advising and making recommendations to the Board on:

(a) Nomination

- making recommendations to the Board in relation to Board composition, taking into account diversity objectives and the required mix of skills and experience;
- recommending to the Board a process for succession planning;
- recommending to the Board an induction process for new Directors;
- recommending and implementing a process for evaluating the performance of the Board, taking into account diversity objectives and the required mix of skills and experience;
- evaluating the performance of the CEO and other Key Management Personnel; and
- monitoring the implementation by management of the strategic objectives and policies listed above.

(b) Remuneration

- reviewing and implementing policies for the purposes of using remuneration to foster long-term growth and success;
- monitoring the implementation by management of the Board's strategic objectives and policies;
- recommending to the Board remuneration for Non-executive Directors;
- recommending to the Board remuneration arrangements for the CEO and other Key management Personnel; and
- overseeing the implementation of any Company share plan or other incentive scheme (including the vesting and conversion to ordinary shares).

Directors' fees and Non-executive Director remuneration

In accordance with the Constitution of the Company and ASX Listing Rules, the aggregate remuneration of Non-executive Directors is determined from time to time by General Meeting. The last determination for Invion Limited was made prior to the appointment of any of the current Directors, at the General Meeting of Shareholders held on 15 July 2011. At that Meeting, Shareholders approved an aggregate annual remuneration pool for Non-executive Directors of $750,000. The total Non-executive Director remuneration of Invion Limited for the year ended 30 June 2014 utilised $262,075 of this authorised amount. The Board did not seek an increase to the aggregate remuneration pool in 2012 or 2013, and will not seek an increase at the 2014 Annual General Meeting.

Fees to Non-executive Directors reflect the obligations, responsibilities and demands which are made on Directors. Non-executive Directors' fees are reviewed periodically by the Board. In conducting these reviews the Board considers market information to seek to ensure that fees are in line with the market. Although the Chairman of the Board receives a higher fee, the remuneration of Non-executive Directors consists only of Directors fees, NEDs do not receive committee fees or retirement benefits. Non-executive

Directors are however able to participate in incentive plans, if any, under which share Options and/or Performance Rights may be issued. In consideration of market norms and managing the Company's financial position, the Directors resolved to reduce Directors' fees by approximately 30% effective 1 May 2013. This reduction was maintained for the year ended 30 June 2014.

Executive Directors and other key management personnel remuneration

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

- reward KMPs for Group and individual performance;
- align the interest of KMPs with those of shareholders; and
- ensure total remuneration is competitive by market standards.

KMP remuneration is fixed, with any bonuses being paid on an assessment by the Nomination and Remuneration Committee and approval by the Board. The Group has implemented a bonus scheme consisting of both a quantitative element based on the Group's results; and a qualitative element based on an assessment of individual performance and contribution during the year.

Current KMP remuneration packages consist of the following key elements:

- Fixed remuneration – base salary, superannuation and non-monetary benefits;
- Variable remuneration – short term incentives (STI) and long term incentives (LTI).

The proportion of fixed and variable remuneration for each KMP is set out in the remuneration tables below.

Fixed remuneration

Currently, all KMP fixed remuneration is by salary package only, with an election to apportion this between salary and superannuation in the form of salary sacrifice. It is intended that the structure be optimal for the recipient without undue cost for the Group. There are no guaranteed base salary increases fixed in the contract of any KMP.

Variable remuneration: short-term incentive (STI)

The Group operates an annual STI program and awards a discretionary cash bonus subject to a combination of Group-based financial and non-financial measures and demonstrated individual performance. Individual performance targets are set to represent the key drivers for Group success and are relevant to an individual's role in the Group. They include the cash position of the Group, achievement against published milestone targets, and general performance. The total potential STI available is set at a level so as to provide sufficient incentive to achieve operational targets but also to ensure that the cost to the Group is reasonable in the circumstances. The STI program is solely discretionary and is considered on an annual basis by the Nomination and Remuneration Committee.

In the period under review, following a recommendation of the Nomination and Remuneration Committee, the Board of Invion approved bonus payments to KMPs as recorded below.

Name	Proportion of maximum STI awarded in FY14	Proportion of maximum STI forfeited in FY14
G Collier	100%	0%
M Glass	100%	0%
M Farris	100%	0%

Variable remuneration: long-term incentive (LTI)

The objectives of the LTI plan are to reward KMPs and other employees in a manner that aligns remuneration with the creation of shareholder wealth, and rewards staff for continued loyalty. Share options are issued under the company's executive and employee share option plan (ESOP). Grants of share options to executives and staff are decided by the Nomination and Remuneration Committee. Options are typically granted to vest in equal portions over five years at a specific exercise price, the first vesting period occurring generally up to 12 months after the grant date. The terms of the options, and what happens to options in the event of cessation of employment, are at the discretion of the Board. However generally, if an option holder ceases employment prior to options vesting, the options are generally

forfeited. If the options are vested at the time of cessation of employment, the option holder generally has 30 days after the last date of employment to exercise the options, unless the cessation of employment is due to death or disability. The conditions of the company's ESOP provide that a recipient may not transfer, encumber or otherwise deal in the options.

At the date of this report there were 43,137,500 Options on issue under the ESOP. The exercise price, vesting conditions and expiry dates of these issued Options are as detailed below:

Exercise price	Vesting conditions	Expiry date
– 17,625,000 Options have an exercise price of $0.09 – 10,525,000 Options have an exercise price of $0.10 – 14,987,500 Options have an exercise price of $0.12	– 33,950,000 Options vest in equal portions over five years (20% per year) – 9,187,500 Options vest in accordance with pre-determined clinical development milestones	– 27,850,000 Options have an expiry date of 9 November 2017 – 6,662,500 Options have an expiry date of 9 November 2018 – 8,625,000 Options have an expiry date which is 10 years after the clinical development milestone vesting event
Total Options on issue = 43,137,500	Total Options on issue = 43,137,500	Total Options on issue = 43,137,500

Company performance and the link to short term and long term incentives

- Short term incentive: rewards are issued based on an individual's achievement of financial and non-financial measures and are specific to an individual's contribution to the company.

- Long term incentive: the exercise price of share options is set to be at least 150% of the ordinary share price on the day the options are issued, thereby linking the exercise of share options to the performance of the company. As at the date of this report, none of the options issued under the ESOP have vested or been exercised.

Employment contracts

All Executive Directors and KMPs have rolling contracts, not limited by term. Details of current Executive Director contracts are as follows:

Executive	Remuneration	Notice period	STI and treatment of STI on termination	LTI and treatment of LTI on termination
Dr Greg Collier	Base salary of $330,000 subject to annual review. Exclusive of superannuation paid at government-determined levels (currently 9.50%).	Resignation: six months' notice. Termination: accrued legal entitlements plus severance of up to 12 months base salary (subject to any limitations under the Corporations Act). Termination for cause: accrued legal entitlements.	Eligible to receive an annual bonus of up to 30% of base salary. Payout of any performance bonus is at the discretion of the Board. The treatment of STIs on termination is at Board discretion.	Eligible to participate in the company's Employee Share Option Plan (ESOP). Any issue of shares or options is subject to shareholder approval. The treatment of LTIs on termination is at Board discretion.
Dr Mitchell Glass	Base salary of $267,516 (USD$252,000) subject to annual review. Employee benefits in the form of a health-insurance plan contribution of up to $25,478 (USD$24,000) per annum.	Resignation: six months' notice. Termination: accrued legal entitlements plus severance of up to 12 months base salary (subject to any limitations under the Corporations Act). Termination for cause: accrued legal entitlements.	Eligible to receive an annual bonus of up to 20% of base salary. Payout of any performance bonus is at the discretion of the Board. The treatment of STIs on termination is at Board discretion.	Eligible to participate in the company's Employee Share Option Plan (ESOP). Any issue of shares or options is subject to shareholder approval. The treatment of LTIs on termination is at Board discretion.

Standard non-executive KMP termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of any STI on termination	Treatment of any LTI on termination
Resignation	In accordance with statutory provisions	In accordance with statutory provisions	Unvested awards forfeited	At the discretion of the Board, however generally, any unvested awards are forfeited.
Termination for cause	None	None	Unvested awards forfeited	Unvested awards forfeited
Termination in cases of death, disablement, redundancy or notice without cause	In accordance with statutory provisions	In accordance with statutory provisions	Board discretion	Board discretion

Details of remuneration

Details of the remuneration of the Directors and other key management personnel of Invion Limited are set out below. Directors and other key management personnel were in office for the period as described. Performance conditions associated with the remuneration disclosed in the table below is as noted.

Remuneration for the year ended 30 June 2014

				STI	LTI	Total	Bonus and Option	Bonus and Option
	Salary & Fees	Superann-uation	Other	Discretion-ary Bonus	Share-based payment (Options)			
	$	$	$	$	$	$	$	%
Non-executive Directors								
R Craven	90,000	8,325	-	-	13,222	111,547	13,222	12%
J Campbell	50,000	4,625	-	-	13,222	67,847	13,222	19%
B Heading	54,500	-	-	-	8,815	63,315	8,815	14%
W Brown	50,000	4,625	-	-	8,815	63,440	8,815	14%
G Brown	-	-	-	-	-	-	-	-
	244,500	17,575	-	-	44,074	306,149	44,074	
Executive Directors								
G Collier	304,597	28,175	-	90,000	150,137	572,909	240,137	42%
M Glass (i)	267,365	-	19,900	52,910	88,148	428,323	141,058	33%
	571,962	28,175	19,900	142,910	238,285	1,001,232	381,195	
Other KMPs								
M Farris	120,000	11,100	-	24,000	14,814	169,914	38,814	23%
T Coogan (ii)	81,203	-	-	-	-	81,203	-	-
	201,203	11,100	-	24,000	14,814	251,117	38,814	

(i) The amount under "other" reflects health insurance employee benefit.
(ii) Mr Tom Coogan, of Coogans Pty Limited, provides the Company with accounting services. Ms Farris and Mr Coogan together provide the chief financial officer declaration to Directors required under Section 295A of the Corporations Act.

Remuneration for the year ended 30 June 2013

	Short-Term			Termination Benefit	Share- Based Payment	Total	Bonus and Option
	Salary & Fees	Other	Superannuation		Value of Options		
	$	$	$	$	$	$	%
Non-executive Directors							
R Craven	123,333	-	11,100	-	11,754	146,187	8%
B Heading	72,667	-	-	-	7,836	80,503	10%
W Brown	66,667	-	6,000	-	7,836	80,503	10%
G Brown	-	-	-	-	-	-	-
	262,667	-	17,100	-	27,426	307,193	
Executive Directors							
G Collier (i)	46,739	-	4,207	-	-	50,946	-
M Glass (ii)	194,678	12,938	-	-	78,359	285,975	28%
J Campbell (iii)	127,309	-	11,458	-	11,754	150,521	6%
	368,726	12,938	15,665	-	90,113	487,442	
Other KMPs							
T Coogan (iv)	83,666	-	-	-	-	83,666	-
M Farris (v)	115,000	20,000	10,350	-	7,836	153,186	16%
W Garner (vi)	189,671	3,852	-	258,944	78,359	530,826	15%
D Vanags (vii)	162,417	-	14,618	-	11,754	188,789	5%
	550,754	23,852	24,968	258,944	97,949	956,467	

(i) Dr Collier was appointed on 6 May 2013.
(ii) Dr Glass was appointed on 31 August 2012. The amount under "other" reflects health insurance employee benefit.
(iii) Dr Campbell was appointed as Non-executive Director 26 February 2012. Dr Campbell was appointed Executive Director for the period 16 July 2012 to 14 October 2013.
(iv) Mr Coogan of Coogans Pty Ltd provides the Company with accounting services. Mr Coogan provides the declaration to Directors required under Section 295A of the Corporations Act.
(v) The amount under "other" reflects a discretionary (short-term incentive) bonus payment.
(vi) Dr Garner held the position on MD and CEO for the period 31 August 2012 to 3 May 2013. The amount under "other" reflects health insurance employee benefit. 10,000,000 options issued to Dr Garner were forfeited.
(vii) Dr Vanags held the position of Acting CEO for the period 26 February 2012 to 31 August 2012.

Equity instruments

The number of options awarded, vested, exercised, lapsed and expired during the year is as follows:

	Award date	Awarded	Fair value per option	Vesting date	Number	Exercise price	Expiry date	Vested during the year	Lapsed during the year	Exercised during the year	Eligible to exercise at 30 June
R Craven	9/11/2012	1,500,000	2.95c	9/10/2013	300,000	9c	9/11/2017	300,000	-	-	300,000
				9/10/2014	300,000			-	-	-	-
				9/10/2015	300,000			-	-	-	-
				9/10/2016	300,000			-	-	-	-
				9/10/2017	300,000			-	-	-	-
J Campbell	9/11/2012	1,500,000	2.95c	9/10/2013	300,000	9c	9/11/2017	300,000	-	-	300,000
				9/10/2014	300,000			-	-	-	-
				9/10/2015	300,000			-	-	-	-
				9/10/2016	300,000			-	-	-	-
				9/10/2017	300,000			-	-	-	-
B Heading	9/11/2012	1,000,000	2.95c	9/11/2013	200,000	9c	9/11/2017	200,000	-	-	200,000
				9/11/2014	200,000			-	-	-	-
				9/11/2015	200,000			-	-	-	-
				9/11/2016	200,000			-	-	-	-
				9/11/2017	200,000			-	-	-	-
W Brown	9/11/2012	1,000,000	2.95c	9/10/2013	200,000	9c	9/11/2017	200,000	-	-	200,000
				9/10/2014	200,000			-	-	-	-
				9/10/2015	200,000			-	-	-	-
				9/10/2016	200,000			-	-	-	-
				9/10/2017	200,000			-	-	-	-
G Collier	14/08/2013	10,000,000	2.98c	9/10/2013	2,000,000	10c	9/11/2017	2,000,000	-	-	2,000,000
				9/10/2014	2,000,000						
				9/10/2015	2,000,000						
				9/10/2016	2,000,000						
				9/10/2017	2,000,000						
M Glass	9/11/2012	10,000,000	2.95c	9/10/2013	2,000,000	9c	9/11/2017	2,000,000	-	-	2,000,000
				9/10/2014	2,000,000			-	-	-	-
				9/10/2015	2,000,000			-	-	-	-
				9/10/2016	2,000,000			-	-	-	-
				9/10/2017	2,000,000			-	-	-	-
M Farris	9/11/2012	1,000,000	2.95c	9/10/2013	200,000	9c	9/11/2017	200,000	-	-	200,000
				9/10/2014	200,000			-	-	-	-
				9/10/2015	200,000			-	-	-	-
				9/10/2016	200,000			-	-	-	-
				9/10/2017	200,000			-	-	-	-
	10/03/2014	1,000,000	4.06c	9/10/2014	200,000	12c	9/11/2018	-	-	-	-
				9/10/2015	200,000			-	-	-	-
				9/10/2016	200,000			-	-	-	-
				9/10/2017	200,000			-	-	-	-
				9/10/2018	200,000			-	-	-	-
T Coogan		-						-	-	-	-

The full value of options awarded, vested, exercised and lapsed during the period is as follows:

	Full value of options granted $	Full value of options exercised $	Full value of options lapsed $
Non-executive Directors			
R Craven	-	-	-
J Campbell	-	-	-
B Heading	-	-	-
W Brown	-	-	-
G Brown	-	-	-
Executive Directors			
G Collier	298,097	-	-
M Glass	-	-	-
Other KMPs			
M Farris	40,552	-	-
T Coogan	-	-	-
	338,649	-	-

Shareholdings of Directors, Executives and Key Management Personnel for the year ended 30 June 2014

	Balance 1 July	Shares issued from Options exercised	Net Acquired/ (Disposed)	Balance 30 June
R Craven	757,282	-	342,718	1,100,000
G Collier	14,444,686	-	916,666	15,361,352
M Glass	13,677,032	-	1,981,579	15,658,611
J Campbell	433,333	-	741,667	1,175,000
B Heading	195,151	-	9,758	204,909
W Brown	10,619,230	-	450,410	11,069,640
M Farris	100,000	-	8,000	108,000
T Coogan	241,700	-	38,300	280,000
	40,468,414	**-**	**4,489,098**	**44,957,512**

Shareholdings of Directors, Executives and Key Management Personnel for the year ended 30 June 2013

	Balance 1 July	Shares issued from Options exercised	Net Acquired/ (Disposed)	Balance 30 June
R Craven	223,949	-	533,333	757,282
G Collier (i)	-	-	14,444,686	14,444,686
M Glass (ii)	-	-	13,677,032	13,677,032
J Campbell	-	-	433,333	433,333
B Heading	-	-	195,151	195,151
W Brown (iii)	9,082,564	-	1,536,666	10,619,230
T Coogan	186,000	-	55,700	241,700
M Farris (iv)	-	100,000	-	100,000
	9,492,513	**100,000**	**30,875,901**	**40,468,414**

Shareholdings of those who were Key Management Personnel during the 2013 financial year, but who were not Key Management Personnel at 30 June 2013

	Balance 1 July	Shares issued from Options exercised	Net Acquired/ (Disposed)	Balance 30 June
W Garner (v)		-	63,060,351	63,060,351
D Vanags (vi)	-	150,000	-	150,000
	-	**150,000**	**63,060,351**	**63,210,351**

(i) Dr Collier was appointed on 6 May 2013. His holdings at the time of his appointment were 14,111,353. Dr Collier participated in the Company's Share Purchase Plan and acquired 333,333 additional shares.

(ii) Dr Glass was appointed on 31 August 2012. Dr Glass' holdings at the time of his appointment were 13,677,032.

(iii) On 16 January 2012, with the approval of the Board, Mr Gregory Thomas Brown was appointed to act as an alternate director for Mr Warren Brown. Mr Gregory Thomas Brown does not hold any securities in the Company.

(iv) Relates to exercise of Performance Rights.

(v) Dr Garner was in office for the period 31 August 2012 to 3 May 2013. At the time of his appointment Dr Garner held 62,930,193 shares in the Company. He acquired a further 130,158 shares through on market purchases.

(vi) Relates to the exercise of Performance Rights.

Option holdings of Directors, Executives and Key Management Personnel for year ended 30 June 2014

	Balance 1 July	Remuneration Options granted	Laps-ed	Exer-cised	Balance 30 June	Vested 30 June	Exercis-able 30 June	Unexercis-able 30 June
R Craven	1,500,000	-	-	-	1,500,000	300,000	300,000	1,200,000
G Collier	-	10,000,000	-	-	10,000,000	2,000,000	2,000,000	8,000,000
M Glass	10,000,000	-	-	-	10,000,000	2,000,000	2,000,000	8,000,000
J Campbell	1,500,000	-	-	-	1,500,000	300,000	300,000	1,200,000
B Heading	1,000,000	-	-	-	1,000,000	200,000	200,000	800,000
W Brown	1,000,000	-	-	-	1,000,000	200,000	200,000	800,000
M Farris	1,000,000	1,000,000	-	-	2,000,000	200,000	200,000	1,800,000
T Coogan	-	-	-	-	-	-	-	-
	16,000,000	11,000,000	-	-	27,000,000	5,200,000	5,200,000	21,800,000

Option holdings of Directors, Executives and Key Management Personnel for year ended 30 June 2013

	Balance 1 July	Remuneration Options granted	Laps-ed	Exercised	Balance 30 June	Vested 30 June	Exercis-able 30 June	Unexercis-able 30 June
R Craven(i)	40,000	1,500,000	(40,000)		1,500,000	-	-	1,500,000
G Collier	-	-	-		-	-	-	-
M Glass	-	10,000,000	-		10,000,000	-	-	10,000,000
J Campbell	-	1,500,000	-		1,500,000	-	-	1,500,000
B Heading	-	1,000,000	-		1,000,000	-	-	1,000,000
W Brown	-	1,000,000	-		1,000,000	-	-	1,000,000
T Coogan	-	-	-		-	-	-	-
M Farris (ii)	160,000	1,000,000	(60,000)	(100,000)	1,000,000	-	-	1,000,000
	200,000	16,00,000	(100,000)	(100,000)	16,000,000	-	-	16,000,000

Option holdings of those who were Key Management Personnel during the 2013 financial year, but who were not Key Management Personnel at 30 June 2013

	Balance 1 July	Remuneration Options granted	Laps-ed	Exercised	Balance 30 June	Vested 30 June	Exercis-able 30 June	Unexercis-able 30 June
W Garner	-	10,000,000	(10,000,000)			-	-	-
D Vanags (iii)	300,000	1,500,000	(150,000)	(150,000)	1,500,000	-	-	1,500,000
	300,000	11,500,000	(10,150,000)	(150,000)	1,500,000	-	-	1,500,000

(i) 40,000 options with an expiry date of 31 December 2012 lapsed, unexercised.
(ii) 100,000 Performance Rights vested as a result of the merger with Inverseon Inc., and were subsequently converted to shares. 60,000 options with an expiry date of 31 December 2012 lapsed, unexercised.
(iii) 150,000 Performance Rights vested as a result of the merger with Inverseon Inc., and were subsequently converted to shares. 150,000 options with an expiry date of 31 December 2012 lapsed, unexercised.

The disclosure of shares and options held by Key Management Personnel (KMP) are determined in accordance with the requirements of AASB 124, which requires that KMP holdings also include the holdings of 'close family members'. Disclosure of 'close family member' holdings is not required by the Corporations Act 2001 and therefore the figures shown at Note 19 (above) may differ from those holdings reported in the Directors' Report.

Invion Limited Performance and Shareholder Wealth

Relative movements in Basic Earnings per share, Net tangible assets per share and Dividend per share (cents per share) for the last four years are as follows. Period end share price has been included as one measure of shareholder wealth:

	2011	2012	2013	2014
Earnings/(Loss) Per Share (i)	(11.32)	(2.59)	(0.96)	(1.41)
Net tangible assets per share	(0.01)	0.02	0.02	0.02
Dividend per share	-	-	-	-
Share Price	$0.63	$0.06	$0.03	$0.07

(i) The basic/diluted earnings per share for FY2013 has been restated following the Rights Issue that occurred in FY2014.

INDEMNITY

Subject to the Corporations Act and rule 26.2 of the Constitution of Invion Limited, the Company must indemnify each Director, Secretary and Executive Officer to the maximum extent permitted by law against any liability incurred by them by virtue of their holding office as, and acting in the capacity of, Director, Secretary or Executive Officer of the Company, other than:

a) a liability owed to the Company or a related body corporate of the Company;

b) a liability for a pecuniary penalty order under section 1317G Corporation Act or a compensation order under section 1317H Corporations Act;

c) a liability owed to a person other than the Company that did not arise out of conduct in good faith.

The Company has paid premiums in respect of a contract insuring its Directors, the Company Secretary and Executive Officers for the financial year ended 30 June 2014. Under the Company's Directors and Officers Liability Insurance Policy, the Company cannot release the nature of the liabilities insured by the policy or the amount of the premium.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial year.

PROCEEDINGS ON BEHALF OF THE COMPANY

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. Invion alleged that the termination payments were in breach of the defendants' fiduciary duties to the Company, and contravened the statutory duties imposed on them by sections 180, 181 and 182 Corporations Act 2001 (Cth).

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.

On 4 June 2014, the Company advised that the Supreme Court of Queensland delivered judgment for the Company in its case against the remaining defendants. Invion sought orders requiring the repayment of termination payments that were made to the defendants. The Court determined that the defendants be required to repay the sum of $1,071,482. The Court also dismissed the counterclaim by the defendants in which they sought damages from Invion for allegedly breaching an agreement pursuant to which bonus payments should have been paid after their resignations.

On 23 June 2014, the Company advised that subsequent judgement had been delivered in relation to interest and costs, which were awarded to the Company on an indemnity basis. On 2 July 2014, the Company advised that the defendants had lodged a notice of appeal.

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.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

A statement of independence has been provided by the Company's auditor, Ernst & Young, and is included in the attached financial report.

NON-AUDIT SERVICES

During the year the Company's auditor performed non-audit services. The provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001,* and the Directors are satisfied that the nature and scope of the non-audit services provided did not compromise auditor independence. The details of the services provided and their costs are as follows:

	$
Taxation, taxation advisory, including R&D and acquisition tax advisory	29,191
	29,191

Signed in accordance with a resolution of Directors

Dr Ralph Craven

Chairman

28 August 2014

Invion Limited is an Australian company listed on the Australian Securities Exchange (ASX).

As at the date of this Report, the Board of Invion consists of four independent Non-executive Directors, being Dr Ralph Craven (Chairman), Mr Brett Heading, Dr James Campbell and Mr Warren Brown; and two Executive Directors, being Dr Greg Collier (Managing Director and CEO) and Dr Mitchell Glass (Executive Vice President of R&D and CMO).

The Board of Invion Limited uses the guidance provided by the ASX Corporate Governance Council (ASX CGC) as a focus for the development and continuous improvement of the Group's governance framework, policies and practices.

SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Invion has established and disclosed the respective roles and responsibilities of the Board and management (ASX CGC Principle 1).

As detailed in the Company's corporate governance charter, the Board's broad functions are:

- to chart strategy and set financial targets for the Group;
- to monitor the implementation and execution of strategy and performance against financial targets;
- to appoint and oversee the performance of executive management; and
- to take an effective leadership role in relation to the Group.

The Board's responsibilities include:

- determining the Board's composition, including appointment and retirement or removal of Directors;
- oversight of the Group, including its control and accountability systems;
- appointing and removing the CEO;
- where appropriate, ratifying the appointment and the removal of senior executives;
- reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct, and legal compliance;
- approving and formulating Group strategy and policy;
- monitoring senior executive's implementation of strategy;
- approving and monitoring the progress of material acquisitions and sales, capital expenditure and capital management;
- approving and monitoring financial and other reporting;
- monitoring the performance of any investment and treasury functions;
- monitoring industry developments relevant to the Group and its business;
- developing suitable key indicators of financial performance for the Group and its business;
- having input in, and granting final approval of, corporate strategy and performance objectives developed by management;
- the overall corporate governance of the Group, including its strategic direction and goals for management, and monitoring the achievement of these goals; and
- oversight of Committees.

Day-to-day management of the Company's affairs and the implementation of strategy and policy initiatives are formally delegated by the Board to the CEO and senior executives.

The Nomination and Remuneration Committee assists the Board in fulfilling its duties and responsibilities by reviewing, advising and making recommendations to the Board on, amongst other things, the performance of the CEO and other Key Management Personnel, and monitoring the implementation by management of the strategic objectives and policies of the Board.

THE BOARD

Invion has a Board of effective composition, size and commitment to adequately discharge its responsibilities and duties (ASX CGC Principle 2).

The Board considers that its membership should comprise Directors with an appropriate mix of skills, experience and personal attributes that allow the Directors individually and the Board collectively to:

- discharge their responsibilities and duties under the law effectively and efficiently;
- understand the Invion business and the environment in which Invion operates so as to be able to agree with management on the objectives, goals and strategic direction which will maximize shareholder value; and
- assess the performance of management in meeting those objectives and goals.

The Board strives to achieve diversity in its composition. The current Directors collectively bring to the Board a broad range of experience, expertise, skills, diversity and contacts relevant to Invion and its business.

The Board keeps the balance of skills and experience of its members, as well as their independence, under review. The Board considers the following to be independent Directors: Dr Ralph Craven, Mr Brett Heading, Dr James Campbell and Mr Warren Brown. Dr Greg Collier and Dr Mitchell Glass are executive Directors and as such are not deemed to be independent by the definition detailed in the Company's corporate governance charter.

In accordance with the corporate governance charter, the Chairman is an independent Director, appointed from the Board's membership. The Chairman provides leadership to ensure that a high standard of values, processes and constructive interaction is maintained. The Chairman is not the CEO of the Company, and the distinction in roles and responsibilities is set out in the Corporate Governance Charter.

Board Committees

To assist the Board in carrying out its functions effectively and efficiently, the Board has established an Audit and Risk Management Committee, and a Nomination and Remuneration Committee. It is the Board's policy that each committee of the Board will consist of at least three members, and a majority of independent, non-executive Directors. Each committee has a charter which includes a more detailed description of its duties and responsibilities. The charter of each committee is available in the Corporate Governance Charter on the Company's website.

Training and advice for Directors and access to information

It is the policy of the Board that, both before accepting appointment and continuously thereafter, Directors are provided with information about the Group appropriate for them to discharge their responsibilities. To help Directors maintain their understanding of the business, Directors have access to the members of the management team and also to employees at all levels. Directors are given access to continuing education in relation to the Company's business and industry, and other information required by them to discharge their responsibilities. With approval from the Chairman, which will not be unreasonably withheld or delayed, each Director may seek independent legal or other professional advice at the Company's expense.

Company Secretary

The Board appoints and removes the Company Secretary. All Directors have access to the Company Secretary who is accountable to the Board, through the Chairman, on all governance matters.

Board evaluation

The Board of Invion seeks to promote transparency and accountability. Evaluation of performance is a key element of these goals, and the performance of the Board and senior executives is to be reviewed on an annual basis. The Board will follow an informal process of self assessment of both its collective

performance and that of individual Directors, and will seek feedback from management on performance issues. The Chairman's performance will be reviewed by the other Directors. A Director whose performance is unsatisfactory may be asked to retire. Given the size and nature of operations, the Board has not yet undertaken an external assessment of its policies, procedures and effectiveness. The Board is satisfied that its performance is effective and efficient.

ETHICAL AND RESPONSIBLE DECISION MAKING

Invion promotes ethical and responsible decision making (ASX CGC Principle 3)

The underlying principle of the Board's code of conduct is that ethical behaviour is required of Directors, executives and employees of the Group, as well as of advisors and consultants to the Group.

The Board has adopted specific policies in key areas, including diversity, continuous disclosure and dealing with price sensitive information, dealing in the securities of Invion, and whistleblower protection. The Board has also adopted a Corporate Governance Charter. Each of these documents is available on Invion's website. The Group's employees are required to sign in confirmation that they agree to adhere to the Group's conduct policy. Invion employees are encouraged to report breaches of conduct on a confidential basis. The Group's whistleblower protection policy provides that an employee will not be subject to retaliation by the Group for reporting in good faith a possible violation of the code of conduct.

Diversity

The Board of Invion recognises that improving diversity is important to improving and sustaining a workforce that is capable of achieving the strategic and business goals of the Group. The Board also recognises the challenges of achieving prescribed levels of diversity in a Group with a relatively small workforce.

Invion is committed to creating a profitable, clinical-stage life sciences group. The Board is committed to identifying and attracting employees, including management, with relevant experience, and its overriding principle is to treat people equally and with respect. By focusing on identifying and employing the best people for the tasks required, Invion has created a workforce that reflects its diversity principles. The Group is committed to employee advancement based on skills and experience regardless of gender, race, ethnicity, religion, orientation or disability. The Board considers the diversity achieved to date to be a favourable endorsement of the Group's policies.

At the date of this report, the ratio of male to female employees is 55% : 45%. The Board expects that female representation across the Company will continue in the 40-50% range for the next five years. The Board has targeted that female representation in senior management and Non-executive Director appointments to exceed 25% within four years.

Diversity will continue to be encouraged by a commitment by the Board and senior managers to model the code of conduct in all aspects of the business, by ensuring managers tasked with recruiting or advancement understand the rule and spirit of the code of conduct and diversity policy, through employee training and development, and through the continued flexible approach to work conditions.

INTEGRITY IN FINANCIAL REPORTING

Invion has a structure to independently verify and safeguard the integrity of the Group's financial reporting (ASX CGC Principle 4)

Invion has established an Audit and Risk Management Committee that consists of three members each of whom are non-executive Directors. The committee consists entirely of independent Directors, and the chair of the committee is not the chair of the Board. Its members are Mr Warren Brown (chair), Mr Brett Heading and Dr Ralph Craven.

The objectives of the Audit and Risk Management Committee are to assist the Board in fulfilling its corporate governance responsibilities in regard to financial reporting, audit and risk management, including ensuring the integrity of Invion's financial reporting; compliance with legal and regulatory obligations; ensuring the effectiveness of Invion's risk management and internal control framework; and, oversight of the independence of the external auditors. The charter of the Audit and Risk Management Committee is incorporated in the Corporate Governance Charter which is available on Invion's

website. The external audit firm Partner in charge of the Group's audit attends committee meetings by invitation, together with relevant executives.

Financial Report Accountability

The CEO and the persons performing the CFO function sign a statement to the yearly and half-yearly accounts to the effect that the Group's financial reports have been properly maintained, present a true and fair view, in all material respects, of the Group's financial conditions and operational results, are in accordance with relevant accounting standards; and are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

TIMELY AND BALANCED DISCLOSURE

Invion promotes timely and balanced disclosure of all material matters concerning the Company (ASX CGC Principle 5)

Invion believes that all stakeholders should be informed of all major business events and risks that influence the Group, in a factual and timely manner. Invion's practice of providing relevant and timely information is supported by its Continuous Disclosure Policy which details comprehensive processes to ensure compliance with obligations under the Corporations Act and ASX Listing Rules. Under this policy all price-sensitive material for public announcement will be lodged with ASX and subsequently posted on Invion's website. The Company Secretary is responsible for communications with the ASX.

Invion provides a review of operations and financial performance in its Annual Report, which includes the Company's financial report. Announcements to the ASX, investor presentations and the full text of the Chairman and CEO's address to the AGM are made available on Invion's website.

RESPECT THE RIGHTS OF SHAREHOLDERS

Invion respects the rights of shareholders and facilitates the effective exercise of those rights (ASX CGC Principle 6).

The Board is committed to communicating effectively and transparently with shareholders about the Group's performance and results. Where practical, the Group utilises technology to facilitate open and continual communications with shareholders and the market in general. Shareholders and other interested parties can elect to receive emails with the latest investor announcements, investor presentations and webcasts, the annual report, as well as General Meeting information. Proxies for meetings can be lodged electronically. Invion keeps summary records for internal use of issues discussed at group and one-on-one briefings for investors and analysts.

Auditor attendance at the annual general meeting

The external audit firm partner in charge of the Group's audit is available to answer shareholder questions at Invion's AGM.

RECOGNISE AND MANAGE RISK

Invion has a sound system of risk oversight and management and internal control (ASX CGC Principle 7)

There are many risks in the market in which Invion operates. A range of factors, some of which are beyond Invion's control, can influence performance and the achievement of results. The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Board has mechanisms in place to ensure that management's objectives and activities are aligned with identified risks. These include Board review of business strategy, the implementation of Board-approved operating plans and budgets, and Board monitoring of progress against these budgets.

The Audit and Risk Management Committee assists the Board in fulfilling its responsibilities in regard to financial reporting, audit and risk management. The senior management team manages and reports to the Board on business and financial risks and overall compliance.

In accordance with section 295A of the Corporations Act, the CEO is required to state in writing to the Board that the Group's reporting is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

REMUNERATE FAIRLY AND RESPONSIBLY

Invion seeks to ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear (ASX CGC Principle 8).

The Board has established a Nomination and Remuneration Committee to assist the Board in fulfilling its duties and responsibilities by reviewing, advising and making recommendations to the Board on issues of nomination and remuneration. The Committee currently consists of three Non-executive Directors: Mr Brett Heading, Mr Warren Brown and Dr Ralph Craven.

The remuneration report (audited) contains details on remuneration policy and remuneration of the Group's Key Management Personnel and its relationship to performance in the year under review. The remuneration report clearly distinguishes the structure of Non-executive Directors' remuneration from that of Executive Directors and other KMPs. Shareholders are invited to vote on the adoption of the report at Invion's AGM.

Corporate Governance and Disclosure

The Board of Invion Limited considers that the above corporate governance practices comply with the ASX CGC's Principles and Recommendations. The Board is committed to the continuous improvement of its corporate governance framework.

CEO and CFO certification

In accordance with section 295A of the Corporations Act, the CEO and the persons performing the CFO function have provided a written statement to the Board that:

- their view provided on the Group's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- the Group's risk management and internal compliance and control system is operating effectively in all material respects in relation to reporting financial risks.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2014

	Note	2014 $	2013 $
Continuing Operations			
Grant received		**207,337**	**-**
Interest received		**92,918**	**111,014**
Total revenue		**300,255**	**111,014**
Other income	6a	**629,265**	**1,744,365**
Employee benefits expense	6d	**(1,682,771)**	**(1,697,033)**
Depreciation, amortisation and loss on sale/ disposal of PPE	6c	**(1,954,646)**	**(1,633,069)**
Finance costs	6f	**(19,413)**	**(801)**
Administration & corporate expense	6b	**(1,837,592)**	**(1,902,930)**
Rent and occupancy expense		**(49,154)**	**(116,423)**
Share based payment expense	20a	**(434,345)**	**(235,006)**
Research and development costs	6e	**(1,850,781)**	**(1,529,838)**
Patent costs		**(438,233)**	**(327,383)**
Business development		**(309,495)**	**(210,186)**
Loss before income tax from continuing operations		**(7,646,911)**	**(5,797,290)**
Income tax benefit	7	**762,974**	**623,210**
Loss from continuing operations after income tax		**(6,883,937)**	**(5,174,080)**
Other comprehensive income			
Items may be reclassified subsequently to profit or loss:			
Unrealised exchange differences on translation of foreign subsidiary		**39,550**	**(128,068)**
Total comprehensive loss for the year		**(6,844,387)**	**(5,302,148)**
Basic/diluted earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the parent			
Earnings / (loss) per share (cents)	17	**(1.41)**	**(0.96)**

The basic/diluted earnings per share for FY2013 has been restated following the Rights Issue that occurred in FY2014.

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the Financial Statements.

Consolidated Statement of Financial Position

as at 30 June 2014

	Notes	2014 $	2013 $
Current Assets			
Cash and cash equivalents	18a	**3,952,538**	**3,050,948**
Trade and other receivables	8a	**662,249**	**1,611,282**
Other current assets	9	**141,774**	**103,830**
Total Current Assets		**4,756,561**	**4,766,060**
Non-Current Assets			
Trade and other receivables	8b	**67,400**	**143,378**
Property, plant and equipment	10	**28,971**	**16,959**
Intangible assets	11	**9,877,686**	**11,323,474**
Total Non-Current Assets		**9,974,057**	**11,483,811**
Total Assets		**14,730,618**	**16,249,871**
Current Liabilities			
Trade and other payables	12	**668,747**	**577,101**
Financial liabilities	12	**15,924**	**16,173**
Short-term provisions	13	**107,520**	**62,258**
Total Current Liabilities		**792,191**	**655,532**
Non-Current Liabilities			
Deferred tax liabilities	7b	**3,764,259**	**4,529,390**
Long-term provisions	13	**15,091**	**29,367**
Total Non-Current Liabilities		**3,779,350**	**4,558,757**
Total Liabilities		**4,571,541**	**5,214,289**
Net Assets		**10,159,077**	**11,035,582**
Equity			
Issued Capital	14	**112,941,342**	**107,407,805**
Reserves	16	**20,664,497**	**20,190,602**
Accumulated Losses		**(123,446,762)**	**(116,562,825)**
Total Equity		**10,159,077**	**11,035,582**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2014

	Issued capital $	Options reserve $	Foreign currency translation reserve $	Convertible Note Reserve $	Accumulated losses $	Total equity $
As at 1 July 2013	107,407,805	17,831,956	(128,068)	2,486,714	(116,562,825)	11,035,582
Loss for the period	-	-	-	-	(6,883,937)	(6,883,937)
Other comprehensive income	-	-	39,550	-	-	39,550
Total comprehensive income	**-**	**-**	**39,550**	**-**	**(6,819,042)**	**(6,844,387)**
Shares issued to directors and related parties	114,280	-	-	-	-	114,280
Issue of share capital	5,888,675	-	-	-	-	5,888,675
Transaction costs	(469,418)	-	-	-	-	(469,418)
Share based payment	-	434,345	-	-	-	434,345
As at 30 June 2014	112,941,342	18,266,301	(88,518)	2,486,714	(123,446,762)	10,159,077

	Issued capital $	Options reserve $	Foreign currency translation reserve $	Convertible Note Reserve $	Accumulated losses $	Total equity $
As at 1 July 2012	97,318,321	17,596,950	-	2,486,714	(111,388,745)	6,103,240
Loss for the period	-	-	-	-	(5,174,080)	(5,174,080)
Other comprehensive income	-	-	(128,068)	-	-	(128,068)
Total comprehensive income	**-**	**-**	**(128,068)**	**-**	**(5,174,080)**	**(5,302,148)**
Issue of share capital	10,204,803	-	-	-	-	10,204,803
Transaction costs	(115,319)	-	-	-	-	(115,319)
Share based payment	-	235,006	-	-	-	235,016
As at 30 June 2013	107,407,805	17,831,966	(128,068)	2,486,714	(116,562,825)	11,035,582

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the Financial Statements.

Consolidated Statement of Cash Flows
for the year ended 30 June 2014

	Notes	2014 $	2013 $
Cash flows from/(used in) operating activities			
Payments to suppliers and employees		**(6,231,665)**	**(5,948,325)**
Cash received in the course of operations		**316,294**	**152,051**
R&D tax rebate		**1,477,985**	**2,227,501**
Interest received		**85,184**	**111,014**
Interest paid		**-**	**(801)**
Taxes relating to US subsidiary (non-income)		**(1,721)**	**-**
Net cash used in operating activities	18b	**(4,353,923)**	**(3,458,560)**
Cash flows from/(used in) investing activities			
Costs relating to acquisition		**-**	**(459,069)**
Purchase of plant & equipment		**(20,869)**	**(5,492)**
Proceeds from plant & equipment		**-**	**44,040**
Purchase of bank guarantee		**(42,720)**	**(29,821)**
Proceeds from bank guarantee		**104,603**	**-**
Intellectual property in-licence		**(262,496)**	**-**
Cash acquired with subsidiary		**-**	**7,128**
Net cash (used in)/provided by investing activities		**(221,482)**	**(443,214)**
Cash flows from/(used in) financing activities			
Proceeds from issue of shares		**6,002,955**	**3,030,453**
Repayment of notes acquired on acquisition		**-**	**(19,545)**
Costs of capital raising		**(469,418)**	**(115,319)**
Net cash provided by financing activities		**5,533,537**	**2,895,589**
Net increase/(decrease) in cash held		**958,132**	**(1,006,185)**
Net foreign exchange differences		**(56,542)**	**(128,068)**
Cash and equivalents at beginning of the financial period		**3,050,948**	**4,185,201**
Cash and equivalents at the end of the financial period	18a	**3,952,538**	**3,050,948**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the Financial Statements.

1. CORPORATE INFORMATION

Invion Limited is a for profit 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 drug assets in development, and three phase II clinical trials, regulated by the Food & Drug Administration (FDA), currently underway in the United States. INV102 (nadolol), a beta blocker (beta adrenergic biased ligand) currently used to treat high blood pressure and migraine, is being repurposed to treat chronic inflammatory airway diseases, including asthma and chronic obstructive pulmonary disease (COPD). INV104 (zafirlukast) is a leukotriene receptor antagonist (LTRA) that reduces inflammation, constriction of the airways and the build-up of mucus in the lungs. INV103 (ala-Cpn10) is a modified, naturally occurring human protein which has been proposed as a founding member of the Resolution Associated Molecular Pattern (RAMPs) family hypothesised to maintain and restore immune homeostasis.

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).

This consolidated financial report of Invion Limited for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 23 August 2014.

2. BUSINESS COMBINATIONS

Acquisition of Inverseon Inc. (renamed Invion Inc.) which occurred during the Financial Year ending 30 June 2013.

On 31 August 2012, the Company acquired and merged with Inverseon Inc., a private company incorporated in Delaware, USA. The Company's decision to acquire Inverseon Inc., was based on the Board's view that a number of strategic benefits would be provided which may in turn deliver value to the Company's Shareholders through the development of the intellectual property of both groups. The perceived strategic benefits included the opportunity to trigger a paradigm shift in the treatment of obstructive lung diseases by progressing the technologies patented by Inverseon; the ability to benefit from the NIH grant of US$4.4 million which had been granted to conduct the INV102 clinical trial in asthma patients; the ability to leverage the extensive industry experience of Inverseon's executive; and the ability to leverage the pre-existing competencies within both groups to create a broad-based company focussed on the development and commercialisation of compounds targeting a wide range of inflammatory-based diseases.

The Company acquired 100% of the issued securities of Inverseon in consideration for the issue, allotment and transfer of 143,486,978 fully paid ordinary shares in the Company, representing 37.5% of the issued share capital of the merged entity. The purchase price consideration of the acquisition is $7,174,349 reflecting the total shares issued in consideration of the acquisition at the market price of ordinary shares ($0.05) on the date of completion (31 August 2012).

The fair value of the trade receivables amounted to $72,808. This amount was received in full post-acquisition.

Directors assigned the full value of consideration paid in excess of net tangible assets/ liabilities to intellectual property.

The adjusted fair value of the identifiable assets and liabilities of Inverseon, Inc. as at the date of acquisition was:

	Fair value recognised on acquisition AUD$
Assets	
Property, plant and equipment	-
Cash	7,128
Trade receivables	72,808
Funding right	2,012,000
Patents / intellectual property	10,869,500
	12,961,436
Liabilities	
Trade payables	595,301
Notes payable and accrued interest	39,186
Deferred tax liability	5,152,600
	5,787,087
Total identifiable net assets	7,174,349
Purchase price consideration	7,174,349
Analysis of cashflow on acquisition:	
Net cash acquired with the subsidiary	7,128
Cash paid	-
Net cash inflow	**7,128**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards as issued by the Australian Accounting Standards Board and International Accounting Standards Board. The financial report is presented in Australian dollars.

New accounting standards and interpretations
(a) Changes in accounting policy and disclosures
The accounting policies adopted are consistent with those of the previous financial year, except as follows:

Reference	Title	Application date of standard	Impact on the Group financial report	Application date for Group
AASB 10	**Consolidated Financial Statements:** AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation - Special Purpose Entities.*	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013

Reference	Title	Application date of standard	Impact on the Group financial report	Application date for Group
AASB 11	**Joint Arrangements:** AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly-controlled Entities - Non-monetary Contributions by Ventures*.	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 12	**Disclosure of Interests in Other Entities:** AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 13	**Fair Value Measurement:** AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities.	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 119	**Employee Benefits:** The main change introduced by this standard is to revise the accounting for defined benefit plans.	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 2012-2	**Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities**	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 2012-5	**Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle**	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 2012-9	**Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039**	1 January 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 1053	**Application of Tiers of Australian Accounting Standards:** This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.	1 July 2013	The adoption has not had a material impact on the Group	1 July 2013
AASB 2011-4	**Amendments to Australian Accounting Standards to *Remove Individual Key Management Personnel Disclosure Requirements* [AASB 124]:** This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.	1 July 2013	The adoption has not had a material impact on the Group	1 July 2013

(b) Accounting standards and interpretations issued but not yet effective

Australian accounting standards and interpretations that have recently been issued but not yet effective and had not been adopted by the Group for the annual reporting period ending 30 June 2014, are outlined in the table below:

Reference	Summary	Application date of standard	Impact on the Group financial report	Application date for Group
AASB 9	**Financial Instruments:** AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.	1 January 2018	We do not expect material impact to performance and position of the Group.	1 July 2018
AASB 2012-3	**Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities* AASB 2012-3** adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132.	1 January 2014	We do not expect material impact to performance and position of the Group.	1 July 2014
AASB 2013-3	**Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets:** AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	We do not expect material impact to performance and position of the Group.	1 July 2014
Annual Improvements 2010–2012 Cycle	**Annual Improvements to IFRSs 2010–2012 Cycle:** This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process.	1 July 2014	We do not expect material impact to performance and position of the Group.	1 July 2014
Annual Improvements 2011–2013 Cycle	**Annual Improvements to IFRSs 2011–2013 Cycle:** This standard sets out amendments to International Financial Reporting.	1 July 2014	We do not expect material impact to performance and position of the Group.	1 July 2014
AASB 1031	**Materiality:** The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.	1 January 2014	We do not expect material impact to performance and position of the Group.	1 July 2014
AASB 2013-9	**Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments:** The Standard contains three main parts and makes amendments to a number Standards and Interpretations.	1 January 2014	We do not expect material impact to performance and position of the Group.	1 July 2014
Amendments to IAS 16 and IAS 38	**Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38):** IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.	1 January 2016	We do not expect material impact to performance and position of the Group.	1 July 2016

Reference	Summary	Application date of standard	Impact on the Group financial report	Application date for Group
IFRS 15	**Revenue from Contracts with Customers:** IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	1 January 2017	We do not expect material impact to performance and position of the Group.	1 July 2017

3.2. Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis. New accounting standards and interpretations, including those issued but not yet effective, are detailed in Note 3.1. The effect of adopting new standards and interpretations effective this year are also disclosed at Note 3.1.

3.3. Going concern

The report has been prepared on a going concern basis. The Group incurred an operating loss after income tax of $6,883,937 (2013: $5,174,080 loss) for the year ended 30 June 2014. At 30 June 2014 the Group has net assets of $10,159,077 (2013: net assets of $11,035,582). In common with other companies in the biotechnology sector, the Group's operations are subject to risks and uncertainty due primarily to the nature of the drug development and commercialisation. In order for the Group to execute its near term and longer term plans, the Board may be required to raise capital sufficient enough to meet operational and program development needs. The Board considers it likely that it may be necessary to raise additional capital in the future. These conditions of uncertainty and the need to raise further capital give rise to significant uncertainty as to whether the Group will be able to continue as a going concern and be able to pay its debts as and when they fall due. The Directors cannot be certain that sufficient capital can be raised in future in order to complete the programs as outlined in the Directors' Report. In the event that such arrangements are not entered into or are not successful, there is uncertainty whether Invion will continue as a going concern and the Group 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 classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should Invion not be able to continue as a going concern.

3.4. Basis of consolidation

The consolidated financial statements comprise the financial statements of Invion Limited and its wholly-owned subsidiary Invion Inc., as at 30 June 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if and only if the Group has:

- Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary);
- Exposure, or rights, to variable returns from its involvement with the subsidiary, and
- The ability to use its power over the subsidiary to affect its returns.

The Group re-assesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see Note 2).

The difference between the above items and the fair value of the consideration (including the fair-value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary it:

- derecognises the assets including goodwill and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

3.5. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate AASB. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the

combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3.6. Property, plant and equipment (PPE)

Plant and equipment is stated at cost less depreciation and impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

	2014	2013
Plant and equipment	10%-50%	10%-50%
Computer equipment	20%-50%	20%-50%
Furniture and fittings	10%-20%	10%-20%

An item of property, plant and equipment and any significant part initially recognised is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

3.7. Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. Any gains or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amounts of the item) is included in the statement of comprehensive income in the period the item is derecognised.

3.8. Acquisition of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market prices at the date of acquisition are used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value.

3.9. Recoverable amount of assets

At each Balance Date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell, and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

3.10. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Terms of receivables are between 30 and 45 days. Interest is taken up as income on an accrual basis.

3.11. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit and loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Comprehensive Income when the asset is derecognised.

Funding right

The Funding Right was acquired by the Group on the purchase of the subsidiary and relates to the US NIH grant (USD$4.4 million) which is funding the Group's phase II clinical trial in asthma patients. The grant is being amortised over two years, which is the period over which the benefit is received.

Patents – Intellectual Property

The Group made upfront payments to purchase patents. The patents have been granted for periods of up to 20 years by the relevant authority, often with the option of renewal at the end of this period.

Research and development

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of the expected future benefit. Amortisation is recorded in the Consolidated Statement of Comprehensive Income. During the development, the asset is tested for impairment annually.

A summary of the policies applied to the Group's intangible assets is as follows:

	Funding Right	Patents	Development Costs
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised on a straight-line basis over the period of the grant	Amortised on a straight-line basis over the period of the patent	Amortised on a straight-line basis over the expected period of development of the project
Internally generated or acquired	Acquired	Acquired	Internally generated

3.12. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group reviews and analyses any movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.13. Research and development expenditure

Amounts incurred on research and development activities are expensed as incurred, except to the extent that such development costs are expected beyond any reasonable doubt to be recoverable.

3.14. Income taxes

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; or
- where differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognised for all taxable temporary differences except where the timing of the reversal of the temporary differences has been recognised during the year.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward or unused tax assets an unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax asset and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the Balance Date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the Consolidated Statement of Comprehensive Income.

3.15. Other taxes

Revenues, expenses and assets and liabilities are recognised net of the amount of goods and services tax (GST) except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense as applicable; or
- Where receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

3.16. Cash and short term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. Bank overdrafts are carried at the principal amount. Interest is charged as an expense on an accrual basis.

3.17. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

- Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

- Fee income derived from research & development contracts which is dependent on the satisfaction of certain contractual conditions will be treated as unearned income and be recorded as a liability until any conditions are met, at which time the income will be recognised.
- Contract research income is recognised as and when the relevant research expenditure is incurred. If the Company receives income in advance of incurring the relevant expenditure, it is treated as deferred income as the Company does not control the income until the relevant expenditure has been incurred.
- R&D tax rebate income is accrued following management's determination of anticipated R&D tax rebate income, and is based on an assessment of R&D expenditure in the period and advice received from R&D tax advisors.

3.18. Foreign currency

The Group's consolidated financial statements are presented in Australian Dollars, which is also the Parent's functional currency. For each entity the Group determines the functional currency, and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit and loss with the exception of monetary items that are designed as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit and loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit and loss.

3.19. Trade and other payables

Liabilities for trade creditors and other amounts are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

3.20. Issued capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

3.21. Leased assets
Leases under which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Payments made under operating leases are expensed on a straight line basis over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

3.22. Superannuation
Contributions are made to approved employee superannuation funds at the rate as directed by the Superannuation Guarantee Legislation. For the period ending 30 June 2014, this was 9.25% of employees' gross salaries. Contributions are recognised as an expense against income as they are made.

3.23. Employee provisions
Provisions are recognised when Invion has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When Invion expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Balance Date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Wages, Salaries and Annual Leave
Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to Balance Date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at Balance Date, including related on-costs, such as workers compensation insurance and payroll tax.

Long Service Leave
The amount provided for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made in connection with employees' services provided up to Balance Date. The provision is calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at Balance Date, including related on-costs, such as workers compensation insurance and payroll tax.

3.24. Government grants
Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

3.25. Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the statement of comprehensive income when the liabilities are de-recognised and as well as through the amortisation process.

3.26. Borrowing Costs
Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement for borrowings, finance charges in respect of finance leases and foreign exchange differences. Interest payments in respect of financial instruments

classified as liabilities are included in borrowing costs. Ancillary costs incurred in connection with the arrangement of borrowings are netted against the relevant borrowings and amortised over their life. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which necessarily take a substantial period of time to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for acquisition, construction or production of a qualifying asset, the capitalised amount of the borrowing costs include costs incurred in relation to that borrowing net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

3.27. Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing the net profit / (loss) attributable to members for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company outstanding during the year. Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the year. As the Company incurred a loss for the current and previous year, potential ordinary shares, being options to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

3.28. Share-Based Payment Transactions

The Group provides benefits to employees, including Directors, of the Group and to selected contractors in the form of share based payment transactions, whereby participants render services in exchange for shares or rights over shares (equity-settled transactions). The costs of the equity settled transactions with participants are measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes option-pricing model. In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Invion Limited. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity settled transactions at each Balance Date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Company will ultimately vest. This opinion is based on the best available information at Balance Date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest. Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award is treated as if it were a modification of the original award, as described in this paragraph.

3.29. Significant accounting judgements, estimates and assumptions

Management bases its judgements and estimates on historical experience and on other factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Impairment
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If any such indication exists, the Group will estimate the recoverable amount of the asset. In assessing whether there is any indication that an asset may be impaired, the Group considers external and internal sources of information including market forces, the Group's market capitalisation, evidence of obsolescence, significant changes with an adverse effect on the Group or its assets, and any financial projections.

Taxes
Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with using a Black Scholes standard model, with the assumptions detailed in Note 20(b). The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

R&D Tax rebate income
R&D tax rebate income is accrued following management's determination of anticipated R&D tax rebate income, and is based on an assessment of R&D expenditure in the period and advice received from R&D tax advisors.

4. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and making assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, and liquidity risk is monitored through the development of future rolling cash flow forecasts. Financial assets and liabilities have contractual maturities of less than twelve months.

4.1. Interest rate risk

The Group's exposure to market interest rates relates primarily to its cash holdings. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to a mix of fixed and variable interest arrangements. The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at Balance Date. This sensitivity analysis demonstrates the effect on the current year results which could result from a change in these risks. As at 30 June 2014, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows. The table below shows the impact on cash to exposure to variable interest rates:

Change in profit/(loss) and equity	2014 $	2013 $
Increase in interest rate by 2%	**71,991**	**67,108**
Decrease in interest rate by 2%	**(71,991)**	**(67,108)**

4.2. Foreign currency risk

The major foreign currency exposure is in US Dollars (USD). This is as a result of cash funds held and both receivable and payable contracts entered into in this currency. The Group maintains foreign currency bank accounts denominated in USD in order to minimise foreign currency risk exposure. The Group had a deficit of foreign currency receivables over payables of $253,295 at 30 June 2014 (2013: $319,023 deficit). Cash held in USD and the investment in the US subsidiary, Invion, Inc., are the only assets exposed to foreign currency risk at the Balance Date. Trade creditors are the only liability exposed to foreign currency risk at the Balance Date. As at 30 June 2014, the effect on profit and equity as a result of changes in the value of the Australian Dollar to USD, with all other variables remaining constant, would be as follows:

Change in profit/(loss) and equity	2014 $	2013 $
Improvement in AUD by 15%	**9,389**	**39,005**
Decline in AUD by 15%	**(6,940)**	**(52,773)**

4.3. Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to standardised financial assets, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to and forming part of the financial report. The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments.

4.4. Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources will be available as and when required, as well as ensuring capital raising initiatives are conducted in a timely manner as required.

2014	1-6 months $	6-12 months $	1-5 years $	>5 years $	Total $
Financial Liabilities					
Trade and other payables	668,747	-	-	-	668,747
Note payable (i)	-	15,924	-	-	15,924
Total Financial Liabilities	668,747	15,924	-	-	684,671

(i) Note Payable liabilities assumed on acquisition of Inverseon, Inc.

2013	1-6 months $	6-12 months $	1-5 years $	>5 years $	Total $
Financial Liabilities					
Trade and other payables	577,101	-	-	-	577,101
Note payable (i)	-	16,173	-	-	16,173
Total Financial Liabilities	577,101	16,173	-	-	593,274

(i) Note Payable liabilities assumed on acquisition of Inverseon, Inc.

4.5. Equity risk

As at the Balance Date, there are no equity agreements in place.

4.6. Net fair values

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. The following methods and assumptions were used to estimate the fair values: cash and short-term deposits,

receivables and other assets, trade and other current liabilities approximate their carrying value largely due to the short-term maturities of these instruments. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of Consolidated Statement of Financial Position and in the notes to and forming part of the financial report.

5. SEGMENT REPORTING

The Invion Group operates as a clinical-stage life sciences (drug development) group with operations in Australia and the United States. The Group does not currently consider that the risks and returns of the Group 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 operates as one segment. Group performance is evaluated based on operating profit or loss and is measured consistently with profit or loss in the consolidated financial statements. Group financing (including finance costs and finance income) and income taxes are managed on a Group basis.

6. INCOME & EXPENSES

	2014 $	2013 $
(a) Other Income		
Unrealised/realised foreign exchange gain	**-**	**80,844**
Other income	**1,459**	**186,856**
R&D tax rebate	**627,806**	**1,476,665**
	629,265	**1,744,365**
(b) Administration & corporate expenses:		
Legal fees	**373,580**	**566,075**
Costs associated with the acquisition of Inverseon, Inc.	**-**	**459,069**
Compliance costs	**207,789**	**200,636**
Consulting fees incl. accounting, business development	**430,730**	**412,760**
Insurance	**138,709**	**144,233**
Unrealised/realised foreign exchange loss	**95,408**	**-**
Other	**591,377**	**329,807**
	1,837,592	**1,902,930**

	2014 $	2013 $
(c) Depreciation, amortisation and loss on scrapping		
Amortisation:		
- Funding right	**1,023,744**	**833,856**
- Intellectual property	**889,080**	**724,170**
- Licence fee	**32,964**	**-**
Depreciation of non-current assets:		
- Leasehold improvements	**-**	**17,938**
- Plant and equipment	**8,858**	**18,599**
Loss on sale/ disposal of property, plant & equipment:		
- Gain on disposal of assets	**-**	**(56,676)**
- Leasehold Improvements	**-**	**90,309**
- Plant and equipment	**-**	**4,873**
	1,954,646	**1,633,069**
(d) Employee benefits expense		
Salaries, wages & fees	**1,355,895**	**1,128,060**
Superannuation	**71,658**	**78,917**
Payroll tax	**11,432**	**2,785**
Employee entitlements	**102,783**	**40,479**
Termination payments to former executives	**-**	**258,944**
Redundancy and eligible termination payments to non-executive employees	**67,500**	**116,077**
Other staff costs	**73,503**	**71,771**
	1,682,771	**1,697,033**
(e) Research and development		
Clinical trial costs	**1,072,013**	**520,275**
Drug production and supply	**594,587**	**817,317**
Other research and development costs	**184,181**	**192,246**
	1,850,781	**1,529,838**
(f) Finance costs		
Interest on convertible notes (assumed in acquisition)	**-**	**801**
Other fees to advisors	**19,413**	**-**
	19,413	**801**

	2014 $	2013 $
7. INCOME TAX		
(a) Statement of comprehensive income		
Current income tax		
Current income tax benefit	**1,779,827**	**1,959,499**
Deferred income tax		
Future income tax benefit arising from the reversal of the deferred tax liability recognised on acquisition of the subsidiary	**762,974**	**623,210**
Income tax losses not recognised as a deferred tax asset	**(1,779,827)**	**(1,959,499)**
Income tax benefit reported on the statement of comprehensive income	**762,974**	**623,210**

(b) A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting Loss before income tax	**7,646,911**	**5,797,290**
At the Company's statutory income tax rate of 30%:	**2,294,073**	**1,739,187**
Non tax deductible items – permanent differences	**(815,900)**	**(908,581)**
Tax benefit arising on amortisation of deferred tax liability acquired on acquisition	**762,974**	**623,210**
Effect of higher tax rate in US	**76,146**	**34,189**
Income tax losses not recognised as a deferred tax asset	**(1,554,319)**	**(796,417)**
Future income tax benefit resulting from the reversal of the deferred tax liability recognised on acquisition of the subsidiary	**762,974**	**623,210**
Tax assets (At 30%)		
Domestic tax losses	**33,262,656**	**31,667,451**
Temporary differences – including balances in equity	**1,160,922**	**1,612,231**
Subsidiary foreign tax losses (at 40%)	**916,005**	**513,949**
Total unrecorded tax assets	**35,339,583**	**33,793,331**
Deferred tax liability		
Recognised on acquisition of subsidiary	**5,152,600**	**5,152,600**
Effect of amortisation of intellectual property	**(645,300)**	**(289,668)**
Effect of amortisation of funding right	**(743,041)**	**(333,542)**
	3,764,259	**4,529,390**

At 30 June 2014 Invion had significant estimated, unconfirmed and un-recouped losses as disclosed above. No future income tax benefit for the tax losses incurred by the Group has been recognised as an asset. Due to the complexity of Invion's changing shareholder base and operations, combined with income tax legislation, the amount of the Company's available tax losses as at 30 June 2014 which are available for carry forward use cannot be determined with a sufficient degree of probability. Management will undertake a detailed review of the ability to carry forward and use these losses on a needs basis. As a result of this the losses disclosed as available may not be available in full.

The Deferred Tax Liability represents the notional tax payable on the value of the Intellectual Property and Funding Right at the time of acquisition of the subsidiary at the US tax rate of 40%. This liability reduces as the intellectual property and funding right are amortised.

	2014	2013
	$	$
(c) Temporary differences (not recognised)		
Capital raising costs	**447,503**	**772,763**
Patent costs	**226,031**	**337,361**
Research licence	**270,000**	**315,000**
Other expenses	**172,835**	**152,918**
Unrealised foreign exchange loss /(gain)	**6,223**	**-**
Provisions and accruals	**38,330**	**34,189**
	1,160,922	**1,612,231**

The losses disclosed as at 30 June 2014 will only be obtained in future periods if future assessable income of a nature and of an amount sufficient to enable the benefit to be realised; the conditions for deductibility imposed by tax legislation continue to be complied with; and, no changes in tax legislation adversely affect Invion in realising the benefit.

	2014 $	2013 $
8. TRADE & OTHER RECEIVABLES		
(a) Current		
Trade debtors	**-**	**9,524**
Bank guarantee deposit(i)	**-**	**104,603**
R&D tax rebate	**626,486**	**1,476,665**
Interest receivable	**7,733**	**-**
Other – unsecured	**18,799**	**-**
GST refundable	**9,231**	**20,490**
	662,249	**1,611,282**

Terms and conditions
All receivables are non-interest bearing and are usually settled on terms of between 30 and 45 days. Credit risk is assessed as low on all receivables.

(i) Guarantee deposit lodged with Invion's bank as support for the lease of premises which was tenanted by the Company in May 2013.

(b) Non-current		
Bank Guarantee Deposit	**67,400**	**24,680**
Other – unsecured	**-**	**118,698**
	67,400	**143,378**

	2014 $	2013 $
9. OTHER ASSETS		
Current – Prepayments	**141,774**	**103,830**
	141,774	**103,830**

	2014 $	2013 $
10. PROPERTY, PLANT & EQUIPMENT		
Total property, plant and equipment		
- At Cost	**70,336**	**49,593**
- Accumulated Depreciation and Amortisation	**(41,365)**	**(32,634)**
Total written down value	**28,971**	**16,959**

11. INTANGIBLE ASSETS

	2014 $	2013 $
Intellectual property	**15,494,500**	**14,994,500**
Less: impairment (i)	**(4,125,000)**	**(4,125,000)**
Less: Accumulated amortisation	**(1,646,214)**	**(724,170)**
Net carrying value	**9,723,286**	**10,145,330**
Funding Right	**2,012,000**	**2,012,000**
Less: Accumulated amortisation	**(1,857,600)**	**(833,856)**
Net carrying value	**154,400**	**1,178,144**
	9,877,686	**11,323,474**
Reconciliation of intellectual property (at cost)		
Balance at beginning of year	**10,145,330**	
Additions through acquisition of subsidiary	**-**	**10,869,500**
INV104 in-licence (ii)	**500,000**	**-**
Amortisation charge	**(922,044)**	**(724,170)**
Closing carrying value at 30 June 2014	**9,723,286**	**10,145,330**
Reconciliation of funding right (at cost)		
Balance at beginning of year	**1,178,144**	**-**
Additions through acquisition of subsidiary	**-**	**2,012,000**
Amortisation charge	**(1,023,744)**	**(833,856)**
Closing carrying value at 30 June 2014	**154,400**	**1,178,144**
	9,877,686	**11,323,474**

Description of intangible assets

The Group owns intellectual property on two drug assets INV102 (acquired in merger with Inverseon, Inc in August 2012), and, INV103 (purchased in prior years). The INV102 patents owned by Invion are being amortised over the life of the patent, which is 13 years from acquisition. The Funding Right relates to the US NIH grant (USD$4.4 million) which is funding the Group's phase II clinical trial in asthma patients. The grant is being amortised over two years, which is the period over which the benefit is received.

(i) Consideration of impairment

The Directors do not consider there have been any indicators of impairment of the acquired intangible asset (INV102) up until the current date.

The Directors have continued to provide against the notional book value (i.e. fully impair) the INV103 intellectual property given the risks and uncertainties associated with the continued research and development and ultimate commercialisation of this asset.

(ii) In-licence of IP
On 28 October 2013, 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 Consolidated Statement of Financial Position. The in-licenced intellectual property is reflected as an intangible asset and is being amortised over the term of the licence agreement, to 1 January 2024.

	2014 $	2013 $
12. TRADE & OTHER PAYABLES		
Trade creditors	**527,427**	**466,045**
Accrued expenses	**110,880**	**91,923**
Director related payables	**30,440**	**19,133**
	668,747	**577,101**
Financial liabilities	**15,924**	**16,173**
	15,924	**16,173**

Director related payables reflect the balance of fees outstanding to McCullough Robertson Lawyers (see Note 23, Other Transactions), and expense reimbursements due to Executive Directors at 30 June 2014.

Trade creditors are non-interest bearing and are normally settled on 30-day terms. Related party payables are non-interest bearing and are payable for services provided in the ordinary course of operations. Details of payments made to Directors are set out in the Directors Report. Details of payments made to related parties are set out in Note 22 - Related Party Transactions.

Financial liabilities relates to Notes Payable assumed in the acquisition on Inverseon Inc.

	2014 $	2013 $
13. PROVISIONS		
Current		
- Short-term employment provisions (i)	**107,520**	**62,258**
Non-current		
- Long-term employment provisions (ii)	**15,091**	**29,367**
- Make good provisions (iii)	**-**	**-**
	15,091	**29,367**
	122,611	**91,625**

	2014 $	2013 $
Employment provisions		
Movement in carrying value		
At 1 July	**91,625**	**132,901**
Accrued in the period	**102,783**	**40,481**
Used in the period	**(71,797)**	**(81,757)**
At 30 June	**122,611**	**91,625**
Make good provision		
Movement in carrying value		
At 1 July	**-**	**78,846**
Accrued in the period	**-**	**-**
Used in the period	**-**	**(78,846)**
At 30 June	**-**	**-**
Movement in carrying value		
At 1 July	**91,625**	**211,747**
Accrued in the period	**102,783**	**40,481**
Used in the period	**(71,797)**	**(81,757)**
Reversal of make good	**-**	**(78,846)**
At 30 June	**122,611**	**91,625**

(i) Short-term employment provisions represent the estimated costs in respect of current employment benefits payable to Group employees. The provision for current employment benefits includes accrued annual and long-service leave and related on-costs payable on the accrued entitlements. It is expected these costs will be settled by 30 June 2015.

(ii) Long-term employment provisions represent the estimated costs in respect of non-current employment benefits payable to Group employees. The provision for non-current employment benefits includes accrued long-service leave and related on-costs payable on the accrued entitlements. Due to the nature of the provision, the Group is unable to determine a date by which these costs will be settled.

(iii) In May 2012 the Company entered into a four year lease for new premises. In March 2013 the Company assigned its lease to a 3rd party and subsequently entered into a sub-lease. Further to the Assignment of the primary lease, the Company no longer has a "make good" obligation at the expiration of the lease term.

	2014 Number	2014 $	2013 Number	2013 $
14. ISSUED CAPITAL				
Ordinary shares fully paid	**541,225,440**	**112,941,342**	**459,696,460**	**107,407,805**
Movements in shares on issue				
As at 1 July	**459,696,460**	**107,407,805**	**239,144,963**	**97,318,321**
Shares issued in consideration of acquisition of Inverseon, Inc.	**-**	**-**	**143,486,978**	**7,174,349**
Shares issued on conversion of Performance Rights	**-**	**-**	**1,900,000**	**-**
Shares issued in Share Purchase Plan	**-**	**-**	**24,885,736**	**1,119,860**
Private placement	**-**	**-**	**50,278,783**	**1,910,594**
Shares issued to related parties (i)	**3,013,332**	**114,280**	**-**	**-**
Shares issued in Placement (ii)	**66,666,671**	**5,000,000**	**-**	**-**
Shares issued in Rights Issue (iii)	**11,848,977**	**888,675**	**-**	**-**
Transaction costs	**-**	**(469,418)**	**-**	**(115,319)**
As at 30 June	**541,225,440**	**112,941,342**	**459,696,460**	**107,407,805**

(i) On 11 June 2013, the Company announced the completion of a private placement of shares to sophisticated and professional investors. The Company reported that, subject to shareholder approval being received at an Extraordinary General Meeting held on 13 August 2013, 3,013,332 shares would be issued to participating directors and other related parties who subscribed to the placement, at 3.8 cents to raise approximately $100,000.

(ii) On 21 February 2014, the Company announced the successful completion of a private placement to institutional and sophisticated investors. A total of 66,666,671 fully paid ordinary shares were issued to raise gross proceeds of approximately $5 million at $0.075 per share. This price represented 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).

(iii) As foreshadowed in the 21 February announcement, on 26 February 2014, the Company announced a 1 for 20 non-renounceable Rights Issue entitlement offer of fully paid ordinary shares in Invion to existing eligible shareholders. On 28 March 2014, the Company confirmed it had completed the Rights Issue offer and that 11,848,977 new shares were issued at $0.075 per share raising $0.89 million.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holders to one vote per share, either in person or by proxy, at a meeting of the Company.

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 31 December 2014.

15. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the Parent. The primary objectives of the Group's capital management are to ensure adequate capital is maintained to support the continuance of the Group as a going concern, and to maintain optimal returns to shareholders and benefits to other stakeholders. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders (if any), return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2014 and 2013. The gearing ratios for the year ended 30 June 2014 and 30 June 2013 are as follows:

	2014 $	2013 $
Total borrowings (at face value)	**15,924**	**16,173**
Trade and other payables	**668,747**	**577,101**
Less cash and cash equivalents	**(3,952,538)**	**(3,050,948)**
Net debt / (cash)	**(3,267,867)**	**(2,457,674)**
Total equity (including liabilities at face value)	**10,159,077**	**11,035,582**
Total net debt plus equity	**6,891,210**	**8,577,908**
Gearing ratio	**(32%)**	**(22%)**

16. RESERVES

Equity reserve		
Balance at 1 July	**20,190,602**	**20,083,664**
Share based payment (directors and employees)	**434,345**	**232,276**
Share based payment (consultants)	**-**	**2,730**
Translation of subsidiary	**39,550**	**(128,068)**
Balance at 30 June	**20,664,497**	**20,190,602**

Nature and purpose of equity reserve

The equity reserve records:

(i) Items recognised as an expense with respect to share-based consideration;

(ii) The equity component of convertible notes. No new convertible notes were issued in the period and there are no longer any convertible notes on issue; and

(iii) Foreign currency translation reserve.

	2014 $	2013 $
17. EARNINGS PER SHARE		
Basic (loss) per share from continuing operations (cents per share)	**(1.41)**	**(0.96)**
Note: The basic/diluted earnings / (loss) per share for FY2013 has been restated following the Rights Issue that occurred in FY2014.		
Income and share data used in the calculation of basic & diluted earnings per share:		
Loss from continuing operations after income tax expense	**(6,883,937)**	**(5,174,080)**
Weighted average number of ordinary shares outstanding during the year used in calculation of basic & diluted EPS	**487,900,098**	**365,093,247**
Effect of dilutive securities:		
- Share options (i)	-	-
Adjusted weighted average number of ordinary shares outstanding during the year used in calculation of basic & diluted EPS	**487,900,098**	**365,093,247**

(i) As the Company incurred a loss for the current year, potential ordinary shares - being options to acquire ordinary shares - are considered non-dilutive.

18. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2014 $	2013 $
Cash at bank	**951,477**	**3,050,948**
Term deposit	**3,000,000**	**-**
Petty cash	**1,061**	**-**
	3,952,538	**3,050,948**
(b) Reconciliation of net cash flows from operating activities to operating loss after income tax		
Operating loss after taxation	**(6,883,937)**	**(5,174,080)**
Non cash items		
Depreciation, Amortisation	**1,954,646**	**1,594,562**
Equity based compensation	**434,345**	**235,006**
Net foreign exchange	**95,408**	**80,844**
Loss/ (gain) on disposal	**-**	**41,776**
Income Tax Benefit	**(764,695)**	**(623,210)**
Change in assets and liabilities		
(Increase)/decrease in receivables and prepayments	**913,923**	**651,158**
Increase/(decrease) in payables	**(134,600)**	**(223,337)**
Increase/(decrease) in provisions	**30,987**	**(41,279)**
Net cash flows used in operating activities	**(4,353,923)**	**(3,458,560)**

19. KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel	2014 $	2013 $
Short-term employee benefits	**1,204,476**	**1,218,937**
Post-employment benefits	**56,850**	**57,733**
Termination payments	**-**	**258,944**
Share based payments	**297,173**	**215,488**
	1,558,499	**1,751,102**

	2014 $	2013 $
20. SHARE-BASED PAYMENTS		
(a) Recognised share-based payment expense		
Expenses arising from equity-settled share-based payment transactions	**434,345**	**235,006**
	434,345	**235,006**

(b) Types of share-based payment plans

Executive and Employee Share Option Plan

On 14 August 2013, subsequent to shareholder approval, 10,000,000 Options were issued to Dr Greg Collier. 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 2014 to 9 October 2017.

On 10 March 2014, 14,987,500 Options were issued to employees and consultants to the Company under the Company's Executive and Employee Share Option Plan (ESOP). The Options have an exercise price of $0.09 and an expiry of 9 November 2017. Subject to certain terms, 20% of the total options will vest every 12 months from 9 October 2014 to 9 October 2017. There is no cash settlement alternative to shares issued to Directors, executives and employees under the ESOP.

During the year ended 30 June 2014, no ordinary shares of Invion Limited were issued on the exercise of share options granted. The fair value of options granted during the 12 months ended 30 June 2014 was estimated on the date of grant using the Black-Scholes option pricing model applying the following assumptions:

Options issued 13 August 2013	
Dividend yield (%)	0.00
Expected volatility (%)	90
Average risk-free interest rate over life (%)	3.04
Expected life (months)	51
Weighted average share price ($)	$0.061
Options issued 10 March 2014	
Dividend yield (%)	0.00
Expected volatility (%)	90
Average risk-free interest rate over life (%)	3.00
Expected life (months)	56
Weighted average share price ($)	$0.076

Options have no voting or dividend rights, and there are no cash settlement alternatives. The share options outstanding at 30 June 2014 had a weighted average exercise price of $0.1186 and a weighted average contractual life of 58 months.

"Other" Options

1,700,000 share options remain on issue to SpringTree Opportunities Fund in relation to the Convertible Note Agreement signed in May 2010 and terminated in August 2011. These options have an exercise price of $0.52 and an expiry date of 16 May 2015. Those options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

Summary of Above: Options on issue at the date of this Report

Directors	Employees	Consultants	Other	Total
25,000,000	6,750,000	11,387,500	1,700,000	44,837,500

Share Based Transactions

For the 12 months ended 30 June 2014, the Group has recognized $434,345 of share-based payment transactions expense in the statement of Consolidated Statement of Comprehensive Income (2013: $235,006).

(c) Summary of options granted during the year ending 30 June 2014

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options issued during the year:

	Number 2014	WAEP 2014	Number 2013	WAEP 2013
Outstanding at the beginning of year	21,050,000	$0.1246	40,784,849	$0.98
Options issued during the year	25,287,500	$0.1119	29,350,000	$0.0901
Options lapsed during the year	(1,500,000)	$0.0900	(47,184,849)	$0.7914
Options exercised during year	-	-	-	-
Performance Rights issued during the year	-	-	(1,900,000)	-
Performance Rights lapsed during the year	-	-	-	-
Outstanding at the end of the year	**44,837,500**	**$0.1182**	**21,050,000**	**$0.1246**

The following average inputs were applied to the option pricing model:

Weighted average exercise price	$0.11
Weighted average life of the option	80 months
Underlying share price	$0.07
Expected share price volatility	90%
Risk free interest rate	3.02%

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value. As at 30 June 2014 there were a total of 44,837,500 unissued ordinary shares for which 44,837,500 options were outstanding (2013: 21,050,000).

21. 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. The Company has no "make good" obligation at the expiration of the lease term. The Company has current leasing commitments in connection with telephone, broadband and photocopying/printing

totalling approximately $25,000 over the next three years.

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 current leasing commitments in connection with telephone, broadband and photocopying/printing totalling approximately $2,000 over the next three years.

At the Balance Date, the Company had contractual commitments relating to R&D development activities totalling approximately $2 million (30 June 2013: $2.3 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	31,513	20,667
Telephone, broadband, photocopying, printing	25,712	521
	57,225	21,188
R&D Commitments		
Clinical trial costs	1,896,648	-
Other	7,500	82,500
	1,904,148	82,500

22. 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.

		% equity interest	
Name	**Country of incorporation**	**2014**	**2013**
Invion Inc.	USA	**100%**	**100%**

23. OTHER TRANSACTIONS

McCullough Robertson Lawyers has provided legal advisory services to the Company since 2004. 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 $354,340 were paid or were payable to McCullough Robertson in connection with the provision of legal advisory services to the Company, and for disbursements in the sum of $137,432 which were payable for items including court fees and fees payable to Counsel engaged on the Company's behalf.

24. PARENT NOTE

Information relating to Invion Limited (the Parent)

	2014 $	2013 $
Current assets	**6,382,634**	**5,457,611**
Total assets	**14,031,921**	**12,763,522**
Current liabilities	**626,802**	**378,552**
Total liabilities	**641,893**	**407,918**
Issued capital	**112,941,342**	**107,407,805**
Retained earnings / (losses)	**(121,154,392)**	**(115,370,869)**
Reserves	**20,753,015**	**20,318,670**
Profit / (loss) of the Parent entity	**(4,943,960)**	**(3,982,125)**
Total comprehensive profit / (loss) of the Parent entity	**(4,943,960)**	**(3,982,125)**

25. SUBSEQUENT EVENTS

There are no subsequent events post the balance date and prior to the date of this report.

	2014 $	2013 $
26. AUDITORS REMUNERATION		
Amounts received or due and receivable by the auditors of the Company for:		
- an audit of the financial report	**77,250**	**75,000**
- taxation services and taxation advisory	**29,191**	**64,517**
	106,441	**139,517**

Directors' Declaration

In the opinion of the Directors:

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

i. giving a true and fair view of the Group's financial position as at 30 June 2014 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;*

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 3.1; and

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

(d) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2014.

Signed in Brisbane on 28 August 2014
On behalf of the Board

Dr Ralph Craven
Chairman

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

Auditor's Independence Declaration to the Directors of Invion Limited

In relation to our audit of the financial report of Invion Limited for the financial year ended 30 June 2014, 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
28 August 2014

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

Building a better working world

Independent auditor's report to the members of Invion Limited

Report on the financial report

We have audited the accompanying financial report of Invion Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, 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 controls 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 controls. 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*. 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.

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Opinion

In our opinion:

a. the financial report of Invion 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 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 3.

Report on the remuneration report

We have audited the Remuneration Report included in pages 10 to 19 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Invion Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 3.3 in the financial report which indicates that the consolidated entity incurred a loss from continuing operations after income tax of $6,883,937 in the year ended 30 June 2014 (2013: $5,174,080) and is dependent on the raising of additional funds to continue activities. As a result of this matter, there is significant uncertainty whether the company and consolidated entity will continue as a going concern, and therefore whether they will realise their assets and extinguish their 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 company or the consolidated entity not continue as a going concern.

Ernst & Young

Ric Roach
Partner
Brisbane
28 August 2014

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Invion Limited ACN 094 730 417

Registered Office
c/- McCullough Robertson Lawyers
Level 11, 66 Eagle Street
Brisbane, QLD, 4000
Australia
Tel: (07) 3295 0500
Fax: (07) 3295 0599
www.inviongroup.com

Share Registry
Shareholder information in relation to shareholding or share transfer can be obtained by contacting the Company's share registry:
Link Market Services, Locked Bag A14,
Sydney South, NSW, 1235
Tel: 1300 554 474
Fax: (02) 9287 0303
Email: registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

For all correspondence to the share registry, please provide your Security-holder Reference Number (SRN) or Holder Identification Number (HIN).

Change of address
Changes to your address can be updated online at www.linkmarketservices.com.au or by obtaining a Change of Address Form from the Company's share registry. CHESS sponsored investors must change their address details via their broker.

Annual General Meeting
The Annual General Meeting will be held at 10.00am, Friday 21 November 2014 at the offices of McCullough Robertson Lawyers, Level 11, 66 Eagle Street, Brisbane.

Annual report mailing list
All shareholders are entitled to receive the Annual Report. In addition, shareholders may nominate not to receive an annual report by advising the share registry in writing, by fax, or by email, quoting their SRN/HIN.

Securities exchange listing
Invion's shares are listed on the Australian Securities Exchange and trade under the ASX code IVX. The securities of the Company are traded on the ASX under CHESS (Clearing House Electronic Sub-register System)

ASX Shareholder Disclosures
The following additional information is required by the Australian Securities Exchange in respect of listed public companies. The information is current as at 31 July 2014.

1. Total securities on issue

Security Code	Description	Expiry	Listed	Unlisted
IVX	Ordinary shares	-	541,225,440	
IVX27	Options ($0.517)	16.05.15		1,700,000
IVXAI	Options ($0.09)	09.11.17		17,625,000
IVX36	Options ($0.10)	09.11.17		225,000
IVX37	Options ($0.10)	09.11.17		10,300,000
IVX38	Options ($0.12)	09.11.18		14,987,500
			541,225,440	**44,837,500**

Distribution of equity securities – ordinary shares

The number of security investors holding less than a marketable parcel at 22 July 2014 was 977 and they held 3,011,633 securities.

	Number of holders	Number of shares	% Issued Capital
100,000 and over	653	474,877,362	87.84
50,001 to 100,000	442	33,764,256	6.24
10,001 to 50,000	1050	27,099,937	5.01
5,001 to 10,000	494	3,970,685	0.73
1,001 to 5,000	447	1,405,109	0.26
1 to 1,000	298	108,091	0.02
	3,384	541,225,440	100

2. *Voting rights*

Shareholders in Invion Limited have a right to attend and vote at general meetings. At a general meeting, individual shareholder may vote in person or by proxy. All quoted and unquoted share options, and convertible notes, have no voting rights.

3. *Substantial shareholders*

The following shareholders have notified the Company as being substantial holders in the Company.

Name	Shares	
	Number	Percentage
Dr William Garner	57,005,779	10.53%

4. *Share buy-back*

There is no current or planned buy-back of the Company's shares.

5. *Statement in accordance with ASX Listing Rule 4.10.19*

The Company confirms that is has used the cash and assets in a form readily convertible to cash at the time of admission in a way consistent with its business objectives.

6. *Twenty largest shareholders- ordinary shares*

Rank	Name	22 Jul 14	%IC
1	DR WILLIAM GARNER	57,005,779	10.53%
2	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	22,639,450	4.18%
3	HIMSTEDT & CO PTY LTD	15,200,060	2.81%
4	BARWON BIOTECHNOLOGY PTY LTD	14,711,352	2.72%
5	DR MITCHELL GLASS	13,677,032	2.53%
6	CARLOS ADOLFO MUNOZ	13,157,895	2.43%
6	JEAN-LUC TETARD	13,157,895	2.43%
7	BNP PARIBAS NOMS PTY LTD	10,500,000	1.94%
8	BASILDENE PTY LTD	9,458,597	1.75%
9	M P A M M PTY LTD	8,752,074	1.62%
10	CITICORP NOMINEES PTY LIMITED	8,549,266	1.58%
11	DR AMIE FRANKLIN	6,943,623	1.28%
12	KTEC HOLDINGS	6,627,348	1.22%
13	MR WARWICK JOHN SPILLER & MRS CAROL ANN SPILLER	6,115,982	1.13%
14	HIMSTEDT SUPERANNUATION PTY LTD	5,000,000	0.92%
14	ACE PROPERTY HOLDINGS PTY LTD	5,000,000	0.92%

15	RETIREWELL COMMERCIAL SERVICES PTY LTD	4,800,646	0.89%
16	ELMAR SCHNEE	3,500,000	0.65%
17	MR MARTIN SHMAGIN	3,000,000	0.55%
18	SURFLODGE PTY LTD	2,830,188	0.52%
19	KENG CHUEN THAM	2,800,000	0.52%
20	DR MICHAEL FLASHNER	2,574,655	0.48%
	TOTAL	**236,001,842**	**43.61%**
	Balance of Register	**305,223,598**	**56.39%**
	Grand TOTAL	**541,225,440**	**100.00%**

7. Twenty largest shareholders - quoted share options
No options are quoted.

8. Holders of greater than 20% unquoted securities
The following shareholders hold greater than 20% or more of the following unquoted equity securities (by class) of the Company:

Class of unquoted equity security	**Holders with >20% of the equities securities in each class**	**Number of equity securities held**
Share options exercisable at $0.10 each on or before 9 November 2017	Dr Greg Collier	10,000,000
Share options exercisable at $0.09 each on or before 9 November 2017	Dr Mitchell Glass	10,000,000

Corporate Directory

Directors
Dr Ralph Craven, Chairman
Dr Greg Collier, Managing Director & CEO
Dr Mitchell Glass, Executive VP R&D and CMO
Dr James Campbell, 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
c/- McCullough Robertson Lawyers
Level 11, 66 Eagle Street
Brisbane, QLD, 4001
P: (07) 3295 0500
F: (07) 3295 0599
E: investor@inviongroup.com
W: www.inviongroup.com

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
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia
P: 1300 554 474
F: (02) 9287 0303
W: www.linkmarketservices.com.au