

# PATRY'S: REVOLUTIONARY TREATMENTS FOR CANCER

ANNUAL REPORT 2010



**PATRY'S**  
LIMITED

# HIGHLIGHTS

## Enhanced financial strength

- Successful rights issue raises \$5 million
- Additional funding facility for up to \$15 million over three years

## Advances in clinical development

- Commenced clinical trial of PAT-SM6 in melanoma patients at the Royal Adelaide Hospital
- First trial of product produced using proprietary human antibody production platform

## Pipeline expansion

- Acquisition of human antibody PAT-SC1; product benefited gastric cancer patients in Phase I/II trial
- Acquisition of therapeutic candidate PAT-PA1 from international drug development company
- New in-house candidates PAT-SM3, PAT-SM4 and PAT-SM5 added to pipeline; now includes 13 antibodies

## Commercial collaborations

- CSL Limited acquires rights to early-stage Patrys products in broad commercial agreement
- First technology goal in CSL collaboration met, prompting milestone payment to Patrys
- Patrys has retained 100% of rights to clinical candidates (PAT-SM6, PAT-SC1 and PAT-LM1), representing future partnering opportunities

## Patents granted

- Stronger competitive positioning
- Patent for product PAT-CM1 granted by the Australian patent office
- US patent granted for product PAT-PM1
- Direct evidence of ability to protect product franchises

## Expansion of executive team

- Dr. Marie Roskrow appointed Chief Medical Officer and President; extensive clinical development and international healthcare investment banking experience

## PREFACE

There is a major problem in the cancer field.

The survival rates for many cancers have not changed over the past decade.

This is due in part to a focus on making incremental improvements to existing treatments like chemotherapy and radiation that continue to be largely ineffective and unsafe.

Patrys intends to break the current paradigm by developing a completely new type of product for the treatment of cancer – natural human antibodies.

The human body makes these anti-cancer antibodies regularly, and these antibodies protect most people from developing cancer.

Because the human immune system has evolved over millions of years to generate antibodies that kill cancer but do not harm healthy cells, Patrys' products offer the promise of increased potency coupled with greater safety.

Patrys is the first in the industry with the ability to identify the best of those naturally-occurring anti-cancer antibodies and produce them at large scale. This proprietary ability is being leveraged to commercialise these products.

Importantly, the manner/mechanism by which these antibodies kill cancer is completely different to how other products on the market target cancer.

Company progress over the reporting period has occurred on several fronts. We have commenced a human clinical trial for the first natural human antibody produced using our proprietary manufacturing platform; increased funding for clinical development; expanded our pipeline through in-house discovery and the acquisition of validated lead products; and we have established a commercial collaboration with industry leader CSL Limited.

This 2010 Annual Report sets out details regarding these and other Patrys activities, all of which are aimed at attaining the Company's goal of revolutionising the treatment of cancer.

Looking ahead, Patrys will continue to prudently and efficiently dedicate

its financial and other resources to furthering the Company's evolution, with the aim of achieving the following goals in 2010–2011:

- Results from PAT-SM6 clinical trial in melanoma.
- Establishment of PAT-SC1 in Patrys' proprietary natural human antibody production system.
- CSL collaboration activities and milestones.
- Additions to product pipeline.
- Issuance of patents on lead products and filing of additional patents to cover new discoveries.
- Lead product development and intensified business development and partnering activities.



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# WHAT WE DO

Patrys is a publicly-listed company on the Australian Securities Exchange (ASX:PAB) that is developing a completely new type of product for the treatment of cancer - natural human antibodies.

Humans naturally make these anti-cancer antibodies, and our Company is unique in its ability to identify the best of those naturally-occurring anti-cancer antibodies and produce them at large scale.

These natural human antibodies offer the promise of increased potency coupled with greater safety as compared to existing cancer treatments.

More broadly, Patrys' business strategy is to develop several of our products, internally and through collaborations, in a way that will maximise and diversify the number of opportunities for a successful commercial outcome.

To achieve the internal development element of our strategy, Patrys has recently commenced a human clinical trial for PAT-SM6 in melanoma. This is the first trial supported by our proprietary natural human antibody

production technologies, so it represents a significant value inflection point for our complete pipeline.

To maximise our opportunities for commercial success, we will also support our collaboration with CSL Limited, which covers a number of early stage products. While the R&D work done under this collaboration is performed by CSL, Patrys will ensure that we support that relationship to enhance the chances for success.

To support our strategy of having multiple internal and partnered programs, our R&D team is dedicated to adding new products to our pipeline every year. In the past eight months alone, we identified three new products from our library of over 200 anti-cancer natural human antibodies.

Longer term, as Patrys operates in a competitive industry, often against much larger companies, it is absolutely critical to protect our inventions via an aggressive and comprehensive patenting strategy that levels the playing field. That activity will continue going forward.

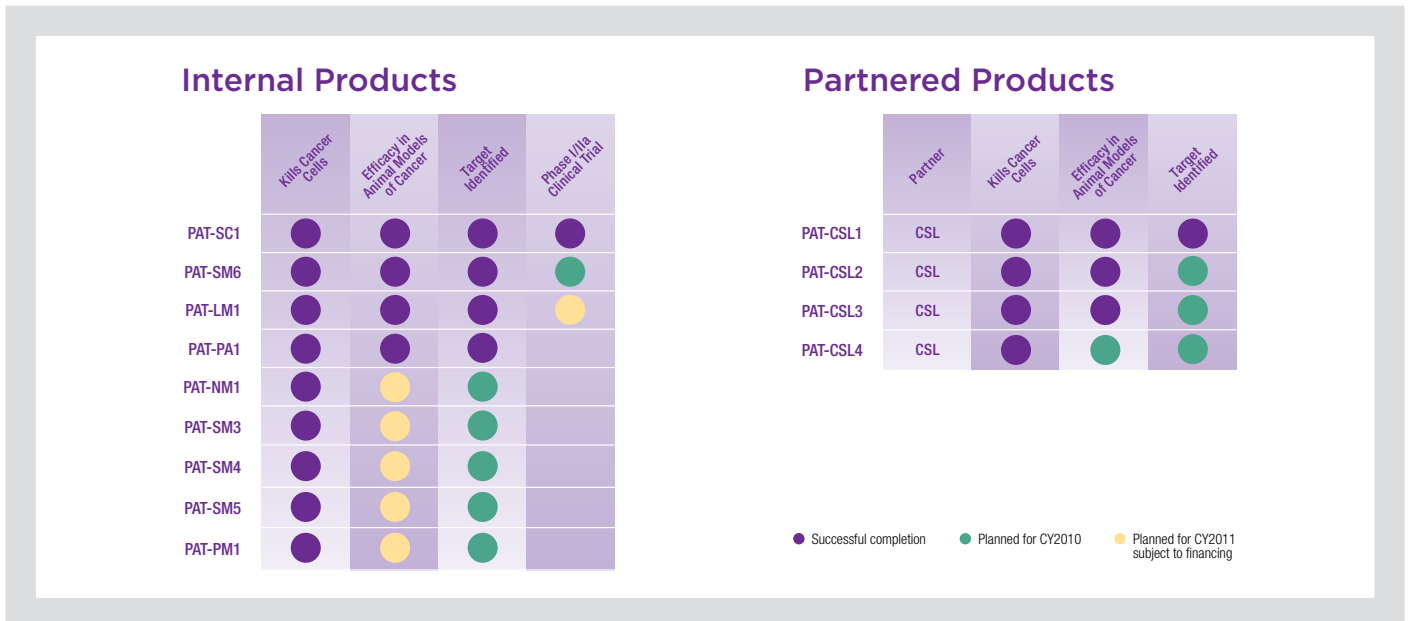
## What we offer - revolutionary new cancer treatments

Compared to existing cancer treatments, Patrys' products offer differentiating and potentially valuable product features, including:

- 100% human composition, reducing the risk of immune rejection and potentially offering greater potency.
- Attacking cancer cells while leaving healthy tissue unharmed, in turn offering a safer treatment profile.
- Killing cancer cells via different mechanisms to currently marketed and largely ineffective treatments.
- Being potentially effective across the spectrum of patients, regardless of age, gender or stage of disease.
- Being applicable to many different deadly cancers, including melanoma, gastric cancer and pancreatic cancer.

## Product Pipeline

Patrys has a deep pipeline of nine internal products and four products subject to the CSL Limited commercial arrangement.



# CHAIRMAN'S REPORT

The past year has been pivotal for Patrys with its transformation from a pre-clinical to clinical-stage company.

Since my last report of less than 12 months ago, the Company has matured significantly advancing two products to clinical development and enhancing its broad and deep pipeline of emerging clinical candidates.

The entry of PAT-SM6 into a Phase I human clinical trial in melanoma is an important milestone, representing the first internal clinical trial program for the Patrys team.

Patrys also acquired PAT-SC1, a product that has been shown to be safe and efficacious in a prior Phase I/IIa clinical trial in patients with gastric cancer.

In addition to our internal efforts, Patrys announced an important commercial collaboration with CSL Limited that covered multiple early stage products and is indicative of the novelty of our technology, the robustness of our products and the growing recognition of our partnering capabilities.

Success on both the clinical and partnering fronts during the year under review supported our strategy of simultaneously advancing multiple products to and through the clinic and in parallel accelerating in and out licensing opportunities through partnered programs. The objective of this strategy is not to rely solely on one outcome but to develop multiple parallel commercialisation pathways with multiple inflection points for uplift in shareholder value.

Our product development and partnering activities are supported by a detailed financial management plan. The Patrys' Board and management team understands that it is imperative that the Company manages its cash reserves responsibly and with a view to channelling its funds to the areas that will have the biggest impact on shareholder value. Our closing of

a successful \$5 million rights issue during the reporting period, coupled with the recent announcement of an additional funding facility of up to \$15 million support this aim.

Underpinning all of our activities is the knowledge that Patrys' natural human antibodies represent a novel technology platform when compared to existing treatments for cancers where survival rates remain alarmingly low.

Building on our tangible achievements of the past year, we view the forthcoming twelve months with confidence as we move decisively towards PAT-SM6 clinical trial results, CSL collaboration milestones, lead product development and intensified business development and partnering activities.

In recognition of Patrys' status as a clinical stage company we have strengthened our senior management team with the appointment of Dr. Marie Roskrow to drive our clinical and business development programs.

On behalf of the Patrys Board, I acknowledge the dedication and relentless effort of the entire Patrys team without whom the achievements of the past 12 months would not have been possible.

As an innovative high growth company, Patrys relies on your continued interest and support as shareholders. The year ahead will deliver advances in our clinical and partnering programs, the outcomes of which we look forward to sharing with you.



**John Read**  
Chairman



John Read, Chairman

# CEO'S OPERATIONAL REPORT

Dear Shareholders,

Revolutionary products advancing toward commercialisation, collaborations with industry leaders, strong patent positions, expansion of product pipeline, experienced management and sound financial resources.

These are the key elements in the evolution of a successful drug development company – and Patrys has made significant advances in each of these areas over the past year:

**Advancing products to human clinical trials** – with the recent entry of PAT-SM6 into a clinical trial for melanoma, Patrys has firmly established itself as a clinical-stage drug development company. This is also significant because it represents the first product advanced to the clinic by the Patrys team using our recently developed and proprietary natural human antibody production technologies. In addition to PAT-SM6, Patrys also completed preclinical toxicology studies for lead product PAT-LM1, and established regulatory-compliant large-scale manufacturing processes for PAT-LM1 using the same manufacturing platform as PAT-SM6.

**Establishing valuable commercial collaborations** – a new collaboration with CSL Limited will benefit Patrys through the advancement of early stage products by CSL while the Patrys team focuses on internal clinical programs.

**Acquisition of synergistic and mature product candidates** – during the period, Patrys acquired all the rights to PAT-SC1. In a human clinical trial, gastric cancer patients treated with PAT-SC1 survived significantly longer than untreated patients. The Company also acquired PAT-PA1, a promising preclinical natural human antibody that kills cancer in a manner different than other products in our pipeline, adding further diversity and depth to our pipeline.

**Expanded pipeline through internal R&D** – based on new R&D data, three products have been promoted to our pipeline from our back-up library of natural human antibodies.



Dan Devine, CEO with Marie Roskrow, Chief Medical Officer and President.

**Patent portfolio expands and matures** – two lead product patents were issued during the reporting period, evidencing the sound and effective patenting strategy of the Company. Our patent portfolio was also expanded by the filing of three new patent families covering new inventions.

**Strengthened financial position** – underlying all of these activities is a prudent and sound financial strategy that included a successful \$5 million rights issue and a recently-announced up to \$15 million funding facility.

Details with respect to each of the above activities are detailed later in this operational report.

## **PAT-SM6 human clinical trial for patients with melanoma**

The receipt of Human Research Ethics Committee approval in July 2010 for a first-in-human trial of PAT-SM6 was a significant milestone for Patrys in a number of ways.

From a treatment perspective, the trial represents a significant opportunity for melanoma patients as PAT-SM6 is a novel antibody that kills cancer in a completely different way to any other treatment available today, such as chemotherapy, which are often ineffective and unsafe. More specifically, PAT-SM6 kills cancer by binding to a protein called GRP78 that is found on the surface of cancer cells but not on the surface of healthy tissues. At least 30 published scientific articles have reported that high levels of GRP78 have been detected in lung, gastric, colonic, oesophageal and liver cancers and melanoma. GRP78 has been shown by independent researchers to play a key role in promoting tumour progression, metastasis and drug resistance to a variety of therapies.

Given the importance of GRP78 in cancer, a product that interrupts the normal functioning of that protein offers real promise to cancer patients. Considering that no other products are in the clinic that target GRP78, this promise is only offered by Patrys' PAT-SM6.

The outcome of the PAT-SM6 trial has broader significance for Patrys as all of the Company's anti-cancer products come from the same natural human antibody platform. A successful clinical result for PAT-SM6 is therefore

indicative of the potential value of Patrys' overall pipeline.

From a technology perspective, PAT-SM6 is the first product advanced to the clinic that has been manufactured using our proprietary natural human antibody production technologies. As these technologies are applicable to all of Patrys' products, this too has broader value-creating implications for the Company.

Patrys' business model is based on partnering our products with larger companies for advanced clinical development. What this trial allows us to communicate to those potential partners is that we can indeed manufacture and advance our products to the clinic under mandated regulatory guidelines, and that we can gain clinician/oncologist support for the clinical development of our products. That validation is critical to our evolution as a company.

Assuming PAT-SM6 proves safe and well-tolerated in the melanoma trial, we will be ready to progress to a larger trial of patients with melanoma or other solid tumours, such as pancreatic and colon cancers. The current clinical trial for PAT-SM6 is expected to be completed by June 2011.

## PAT-LM1 advanced toward clinic by successful completion of toxicology studies and large-scale manufacturing process development

In 2009, Patrys developed regulatory-compliant production processes for PAT-LM1, and successfully completed a formal preclinical toxicology/safety study for the product.

PAT-LM1 has shown great promise as a potential treatment for patients with various cancers, including pancreatic and lung cancers.

Like other Patrys products, PAT-LM1 kills cancer through a newly-discovered mechanism - namely by binding to and interfering with the function of a protein called NONO, which is expressed in tumour tissues but not in healthy tissues.

NONO has been identified by independent researchers as being critical to the activity of a wide range of cancers.

Over the next six months the Company will finalise a decision to either partner PAT-LM1 with an industry-leading company or advance it to a first-in-human clinical trial as an internal program.



**“THIS COLLABORATION HAS MANY ELEMENTS NECESSARY FOR SUCCESS. CSL IS A GLOBAL BIOTECH COMPANY WITH THE NECESSARY EXPERIENCE TO DEVELOP AND COMMERCIALISE ANTIBODIES.”**

**DAN DEVINE, CEO, PATRYS**

## CEO'S OPERATIONAL REPORT (CONT.)

### Commercial collaboration with CSL

Early in 2010, Patrys announced the terms of a collaboration agreement with CSL Limited (ASX:CSL). The agreement granted CSL exclusive rights to research and develop products based on two nominated early-stage antibodies from the Patrys pipeline, and the option to select two more at a later stage. In exchange, CSL will pay Patrys an undisclosed upfront amount and undertake the research and development of the antibodies at its own cost.

Patrys achieved its first milestone in May 2010.

The Company will continue to receive milestone payments over the first 30 months of the agreement, and possibly beyond if development goals are met.

Patrys is also entitled to royalties on sales when products reach the market.

While the details of the CSL products remain confidential, the agreement does not cover Patrys' most advanced lead products PAT-SM6, PAT-SC1, PAT-LM1 and PAT-PA1.

### Expansion and maturation of pipeline through acquisition of all rights to PAT-SC1 and PAT-PA1

Before Patrys acquired all of the natural human antibody technologies and pipeline from a predecessor company, OncoMab GmbH, two promising products - PAT-SC1 and PAT-PA1 - were sold to other drug companies in order to provide funding for OncoMab's operations.

Despite the promise shown by those products while in our internal scientists' hands (who joined Patrys from OncoMab) the third parties developing the two products had technical problems getting enough high-quality product for advanced development. This isn't too surprising given that the production and purification process for natural human antibodies is very different than for antibodies that are currently on the market, all of which are not naturally derived.

In contrast, Patrys has recently finalised the development of a proprietary and high-yielding manufacturing platform for natural human antibodies. Without that platform, and our internal expertise, development of these products would be at best significantly delayed without Patrys' involvement.

Given these circumstances, Patrys was in a very solid position to negotiate financial terms that were very favourable to Patrys.

### PAT-SC1: a very promising product with positive efficacy and safety data from a human clinical trial

PAT-SC1 is the first natural human antibody from Patrys' technology platform to be advanced into a human clinical trial.

Thirty-five patients with gastric cancer received treatment with PAT-SC1 before surgical removal of the tumours. These treated patients were then monitored for three years. The PAT-SC1-treated group was then compared to an historic control group of patients from the same hospital who received the same surgical treatment but who did not receive PAT-SC1 treatment.

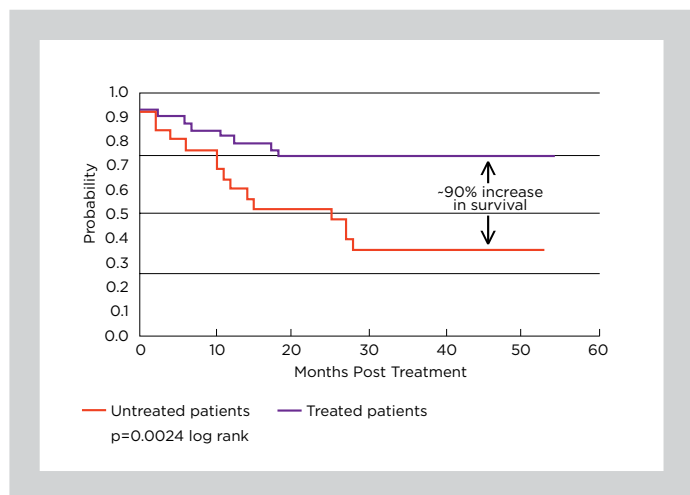
Remarkably, given the small dose of PAT-SC1, the treated patients had a 90% higher chance of surviving 36 months after surgery compared to the control group.

Like all of Patrys' products, PAT-SC1 kills cancer via a different mechanism as compared to products on the market or in development. More specifically, PAT-SC1 binds to a form

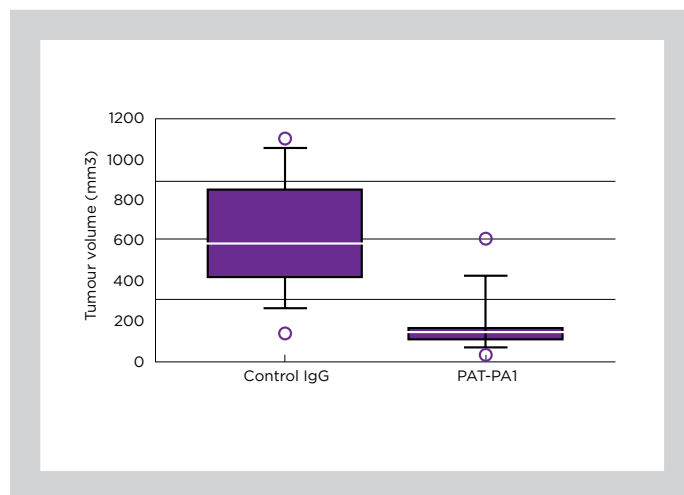


**"PATRYS HAS DEVELOPED A NOVEL APPROACH TO THE IDENTIFICATION OF POTENTIAL THERAPEUTIC ANTIBODIES AND TARGETS FOR THE TREATMENT OF CANCER. WE LOOK FORWARD TO WORKING WITH THEM TO IDENTIFY CANDIDATES SUITABLE FOR FURTHER DEVELOPMENT."**

**DR ANDREW NASH, SENIOR VICE PRESIDENT, RESEARCH, CSL LIMITED**



Data from clinical trial of PAT-SC1 showing increased survival when patients were treated before surgery.



PAT-PA1 is able to reduce tumour volume compared to control treated animal.

of a protein called CD55, which is expressed on the surface of gastric cancer cells but not expressed on the surface of healthy tissues. CD55 has been shown by independent researchers to be associated with increased cancer cell survival. Given the expression of this CD55 target in cancer tissues and its reported roles in cancer, a product such as PAT-SC1 that attacks and interferes with this protein's function offers therapeutic promise to gastric cancer patients.

The efficacy and safety shown by PAT-SC1 in this trial provides an indication of the significant promise offered by Patrys' overall natural human antibody pipeline. The results of the trial clearly warrant moving PAT-SC1 into a larger trial. To get to that trial, we need to convert PAT-SC1 to our new production technology platform, which will take approximately six months. During this time, Patrys' management will evaluate whether to advance it as an internal clinical program or to seek a strategic partner for PAT-SC1.

From a market perspective, gastric or stomach cancer is a very deadly cancer, as evidenced by a five-year survival rate below 15%. As gastric cancer spreads in as many as 80% of all cases, it is believed that the low survival rate is attributable to the presence of metastatic gastric cancer cells in the blood and bone marrow. PAT-SC1's ability to find and destroy those

spreading cells – as shown in a human clinical trial – adds additional support for advancing its clinical development.

### PAT-PA1: adding depth, diversity and maturity to pipeline

PAT-PA1 is a late-stage preclinical natural human antibody that targets a protein on the surface of cancer cells called CFR-1, which is different to the cancer proteins targeted by our other antibodies.

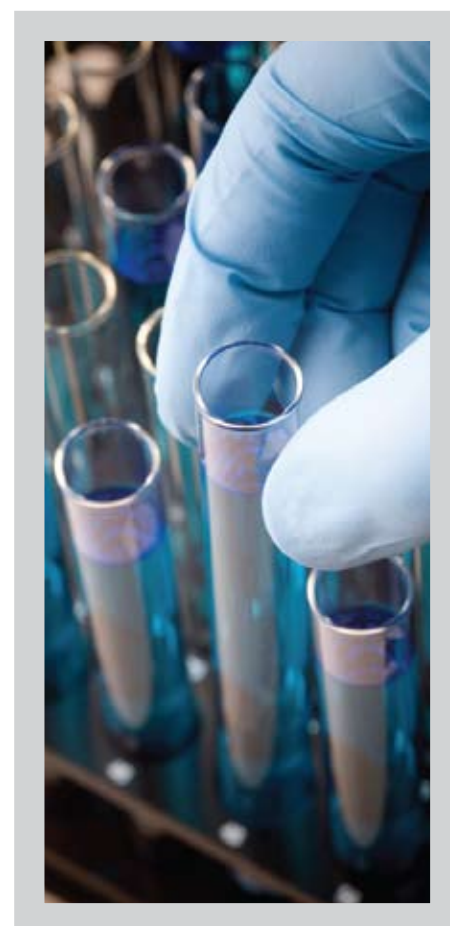
In addition to having a unique mechanism for killing cancer, PAT-PA1 is an "IgG" type antibody. Our other lead products are of the IgM class of antibody, so PAT-PA1 adds diversity to our pipeline from a molecule-type perspective.

PAT-PA1 will be converted to Patrys' natural human antibody production technology over the coming twelve months.

### Internal R&D adds three new natural human antibody products to pipeline

Patrys' researchers have screened more than 40,000 natural human antibodies to identify those most effective in assisting the body to fight cancer, and/or in preventing cancerous or precancerous cells from progressing to tumours.

The antibodies are first tested for their ability to bind to cancer tissues but not healthy tissues. This critical screen has yielded approximately 250 antibodies from the 40,000 tested to date.



## CEO'S OPERATIONAL REPORT (CONT.)

Of the 250, about 50 antibodies have been subject to further screens to yield the 13 products in Patrys' pipeline. Patrys' R&D team will continue to evaluate the remaining 200 natural human antibodies to identify new lead product candidates.

A very productive internal effort this year has seen the addition of three new products, PAT-SM3, PAT-SM4 and -SM5, to lead status in the pipeline.

PAT-SM3 binds to 94% of 91 different tumours obtained from patients and kills kidney, lung, colon and pancreatic cancer cells. PAT-SM3 will undergo additional testing to characterise in detail its anti-cancer activity and disease target.

PAT-SM4 and PAT-SM5 bind to 97% and 79% respectively of 91 different tumours obtained from patients. Both products have been shown to be able to slow the growth of a variety of cancer cells, including pancreatic, colon and lung cancer cells, in the laboratory situation.

### Strengthening competitive position/patent protection of intellectual property

Protecting the intellectual property associated with Patrys' pipeline of natural human antibodies and the protein targets they bind to, resulting in the killing of cancer cells, is critical to Patrys' business strategy. The process of preparing patent applications is time-consuming and expensive, and the granting of patents is not guaranteed. The applicant must present a convincing case to patent examiners that the invention is novel and would not be obvious to a person of ordinary skill working in the field of the invention.

Patrys is in a strong competitive position to take advantage of a growing market. The company owns exclusive rights to multiple patent families covering 13 products and five disease targets. The competitive advantages associated with Patrys'

combined antibody and target discovery approach are significant; this approach means that Patrys can potentially block others from developing antibodies that are similar to our lead products and from developing any products that bind to the same cancer disease targets.

In contrast, most companies with antibody products on the market are limited in their ability to block others, with competitors able to attack the same disease target as their antibody.

During the period, Patrys was issued two patents. Antibody PAT-PM1, which has shown activity against a range of tumours, including those associated with pancreatic, lung, breast, colon and gastric cancers, was issued a patent by the United States Patent and Trademark Office, providing protection until the year 2023. Similar applications have been filed in Europe and other major markets. Patrys sees this U.S. granting as a sign that patents pending for other products will be similarly successful.



**“THERE ARE THREE PATHS TO HOW PATRYS WILL ADD VALUE.**

- **THE FIRST IS THE ADVANCEMENT OF LEAD PRODUCTS TO AND THROUGH CLINICAL DEVELOPMENT.**
- **THE SECOND IS THE DEVELOPMENT OF MANY DIVERSE PRODUCTS, BOTH AS INTERNAL PROGRAMS AND THROUGH COLLABORATIONS WITH LARGER COMPANIES.**
- **THE THIRD IS THE DILIGENT PROTECTION OF OUR INTELLECTUAL PROPERTY.”**

**DAN DEVINE, CEO, PATRYS**

The Australian Patent Office issued a patent for lead product PAT-CM1, which had similar anti-cancer action to PAT-PM1, but acts against a different protein on the cancer cells. The patent covers the PAT-CM1 antibody itself and, importantly for Patrys, any potentially competitive antibodies with similar structures and functions. As for PAT-PM1, similar patent applications are pending in all major markets.

To date, Patrys' patent activities have created the following valuable patent portfolio:

Patent Family – Antibody Covered	Priority Date
PAT-SC1 Target	December 1998
PAT-SM6 Uses	November 2003
PAT-SM6 Uses CVD	November 2003
PAT-SM6 Target	November 2006
PAT-SM6 Derivatives	February 2009
PAT-LM1 Uses	March 2003
PAT-LM1 Uses, Target, Metastases	June 2008
PAT-PA1 Uses	July 2001
PAT-PM1 Uses	Jan 2004
PAT-NM1, -NM2 Uses	November 2003
PAT-CM1 Uses	March 2002
PAT-CM2,-PM1,-PM2 Uses	July 2002
PAT-CM2,-PM1,-PM2 Uses	August 2005
PAT-PM2 Metastases	December 2007
PAT-BA4 Target	January 2008
PAT-SM3 Uses	July 2010
PAT-SM4 Uses	July 2010
PAT-SM5 Uses	July 2010

### Successful capital raising

The Company raised slightly more than \$5 million before costs from a Rights Issue and Share Top-Up Offer which closed on 17 August 2009.

Under a funding facility negotiated with Advance Opportunities Fund, Patrys will receive a minimum of \$4 million during the first twelve months of the facility and up to \$15 million over the three-year lifetime of the arrangement.

Timing was a critical factor in attracting us to the facility offered by Advance Opportunities Fund. Having recently

commenced a clinical trial of PAT-SM6 and having begun planning for the commencement of two clinical trials in 2011, we needed additional funding. We sought a funding vehicle that was either priced at a premium to the current share price or based on future share prices. Advance achieved the latter.

The Advance facility also offered flexibility, being structured in three tranches of \$5 million each, which did not commit Patrys, or our investors, beyond the first \$5 million. After we receive that first \$5 million, we will determine – both independently and in consultation with Advance – whether both parties elect the second tranche of \$5 million, and later, the third tranche.

The funding facility was also attractive as it placed no limitations on future capital raising through other funding means, and the fees incurred were only those normally associated with equity financings – that is, cash fees based on money actually received.

### Future outlook

During the upcoming twelve months, the Company has targeted the following outcomes, each of which has the potential to significantly enhance the value of Patrys:

- Results from PAT-SM6 clinical trial in melanoma.
- Establish PAT-SC1 in Patrys' proprietary natural human antibody production system.
- CSL collaboration milestones and activities.
- Add to product pipeline through internal R&D efforts.
- Issuance of patents on lead products and filing of additional patents to cover new discoveries.
- Lead product development and intensified business development and partnering activities.



**Dan Devine**  
CEO



**Challenge**  
supporting kids with cancer

### Patrys in the community

In 2009, Patrys reported on its first initiative with Challenge, a not-for-profit organisation that provides support for children living with cancer and their families.

During 2010 Challenge has not only maintained the level of support needed by children and families seeking their services, but expanded activities even during the recent period of financial uncertainty. These activities, in part, have been made available by the generous ongoing support from Patrys and its supporters through its first Patrys-Challenge Cycling Jersey initiative.



The diagnosis of cancer in a child has a major effect on every member of a family and Challenge strives to deliver real and tangible services. Challenge have continued to identify other avenues of support that are needed to alleviate some of the stresses faced, both immediately and long-term by children with cancer and their families.

We look forward to continuing to explore opportunities to support Challenge.

**Dan Devine**, Patrys CEO

# SENIOR MANAGEMENT TEAM



**Daniel Devine** *B.Sc, MBA(Hons), JD(Hons)*

**Executive Director and Chief Executive Officer**

Mr. Devine founded Acceptys Inc., in 2002 and Patrys in 2006. Before 2002 he managed the international business development team for Pfizer Pharmaceuticals and was responsible for the identification of licensing candidates for key and emerging markets; identifying potential acquisition targets; the divestment of mature products; and the acquisition of several pharmaceutical businesses in Latin America. Mr. Devine was also integral to the negotiation of relationships with third party collaboration and/or license partners. Prior to joining Pfizer, Mr. Devine was responsible for substantial changes in the licensing, manufacturing and treasury functions for the Warner-Lambert/Parke-Davis organisation. Mr. Devine previously spent seven years as an attorney focusing on large corporate matters including mergers and acquisitions, divestments and financings.



**Frank Hensel** *Ph.D*

**Vice President, Research & Development**

Dr. Hensel joined Patrys from OncoMab GmbH, which he co-founded, and held the position of Chief Executive Officer since 2002. Dr. Hensel obtained his Ph.D from, and later worked in, the laboratory of Dr. Vollmers at the University of Wurzburg. He was closely involved in the discovery and successful development of Patrys' antibody pipeline and underlying technologies. Dr. Hensel is the Managing Director of wholly owned subsidiary Patrys GmbH, and is responsible for the early stages of development of the Patrys pipeline - target discovery, and antibody production and purification.



**Marie Roskrow** *MBBS, Ph.D*

**Chief Medical Officer and President**

Dr. Roskrow is a haematologist and oncologist trained at the University of London. She has held many high level clinical and research positions, most recently as a leader in translational research at the GSF - National Research Centre for Environment and Health in Munich, Germany. She has extensive experience related to the early and later-stage clinical development of novel anti-cancer compounds and has earned many awards and honours for her work. Complementing her clinical research experience, Dr. Roskrow has worked for several years in healthcare investment banking, most recently at Lazard Ltd. She participated in many public and private biotechnology and pharmaceutical merger and acquisition deals, company financings and product in/out-licensing deals. In addition, Dr. Roskrow has an extensive network of relationships with executives and board members of pharmaceutical and biotechnology companies and leading clinical centres.



**Roger McPherson** *CPA, GAICD*

**Chief Financial Officer and Company Secretary**

Mr. McPherson has more than 20 years' experience in senior finance roles in various industries. His early career included working with a chartered accounting practice and two years with the Australian Taxation Office. Before joining Patrys, Mr. McPherson was Chief Financial Officer and Company Secretary at eChoice Home Loans where he was responsible for financial affairs and corporate administration. Mr. McPherson has over 10 years' biotechnology and pharmaceutical experience, including four years with Cerylid Biosciences Limited as Chief Financial Officer and Company Secretary, in which capacity he provided strategic direction and information reporting and supported research and development activities. Mr. McPherson spent six years at Amrad Corporation Ltd in various senior finance roles.



### **Michael Conner** *B.A*

#### **Vice President, Manufacturing**

Mr. Conner has more than 20 years' experience in the biotech industry covering cGMP manufacturing, process development, and tech transfer activities. He was most recently Director of Clinical Manufacturing at ImClone Systems and was responsible for the manufacture of Phase I and II monoclonal antibody clinical products. He joined ImClone from Baxter Healthcare where he managed the manufacture of two licensed vaccine products, Cephalon where he supervised the production of IGF-1, and the University of Maryland Engineering Research Center where he managed a fermentation and cell culture pilot facility.



### **Leodevico (Vic) Ilag** *Ph.D*

#### **Chief Operating Officer**

Dr. Ilag came to Patrys from HealthLinx Ltd (ASX:HTX) (formerly Cryptome Pharmaceuticals) where, as Chief Scientific Officer, he focused on discovering drug leads and diagnostic markers in cancer and inflammatory diseases. He has more than 14 years' experience in antibody drug discovery. In 1998 Dr. Ilag co-founded the German-based biotechnology company Xerion Pharmaceuticals AG where he held varying executive roles including Managing Director and Chief Scientific/Technology Officer responsible for R&D, business development and operations. Dr. Ilag was also a member of the R&D Directorate at Germany's Morphosys AG (FSE:MOR), and part of the team that developed the proprietary human antibody library, HuCAL®.



### **Amos Hedt** *B.A, PGradDip*

#### **Senior Director Clinical Operations**

Mr. Hedt has over 10 years' experience in clinical trial management. He was most recently Clinical Study Manager at CSL where he was responsible for managing local and international trials from first-in-human to post-marketing epidemiological studies. He has been involved in trials across a range of indications, including oncology, infectious diseases, and neurology. At Patrys he has responsibility for the local coordination and management of human clinical trials.

# ADVISORY BOARD

## Clinical advisors

### John Zalcborg *MBBS, Ph.D, FRACP, MRACMA, GAICD*

Prof. Zalcborg has been the Director of the Division of Haematology and Medical Oncology at the Peter MacCallum Cancer Centre since 1997 and was appointed Chief Medical Officer in 2007. He is a practising clinician specializing in gastrointestinal cancer and is interested in translational research and new drug development. Prof. Zalcborg is a founding member and current Chair of the Board of the Australasian Gastrointestinal Trials Group. He has advised a number of national and multinational pharmaceutical companies, served on the CSIRO Pharmaceuticals & Human Health Sector Advisory Committee. Previously, he was Director of Medical Oncology at the Heidelberg Repatriation Hospital, Director for Cancer Services at the Austin and Repatriation Medical Centre and Board member of Progen Pharmaceuticals Ltd (ASX:PCL).

### Christopher J. Sweeney *MBBS*

Dr. Sweeney was an Internal Medicine resident at Gundersen Lutheran Medical Center, USA from 1994 to 1997 and a Fellow in Hematology/Oncology at Indiana University Medical Center, USA from 1997 to 2000. He is certified by the American Board in Medical Oncology and has held faculty appointments at Indiana University and Royal Adelaide Hospital. He joined the Lank Center for Genitourinary Oncology at the Dana Farber Cancer Institute in 2009 and is a member of several American organisations in the area of clinical cancer research. Dr. Sweeney has served on the Program Committee and the Cancer Education Committee of the American Society of Clinical Oncology and has been on the Editorial Board for its publication *Journal of Clinical Oncology*. He has received peer reviewed funding from the National Institutes of Health and the Department of Defense, Lance Armstrong Foundation, and PhRMA and served on the Scientific Advisory Boards of biotech companies in Australia and the USA.

### Bertram Illert *MD*

Dr. Bertram Illert is Head of Department for General, Visceral and Pediatric Surgery at the Sana Kliniken Ostholstein in Germany, before which he held an appointment at the University Hospital and Medical School/Department of Surgery in Würzburg Germany. He is a specialist in visceral, abdominal and cancer surgery, particularly of the upper gastrointestinal (GI) tract. His scientific work and research activities focus on disseminated tumour cells in solid tumors of the GI tract, gastric cancer and antibody treatment, for which he has developed an animal model for preclinical studies. Dr Illert was principal investigator in the first study of gastric cancer patients with the human monoclonal antibody PAT-SC1. He is a member of various medical and scientific societies including the German Surgical Society, German Society of General and Visceral Surgery and the German Cancer Society.

## Manufacturing advisors

### Kent Iverson *B.Sc*

Mr. Iverson is a consultant on the development and writing of manufacturing sections for IND applications to the FDA including for at least 10 approved biologics, and several antibody-based products. Mr. Iverson previously held senior positions at Corixa Corporation (Vice President, Process Development); Coulter Pharmaceutical (Vice President, Manufacturing during development of Bexxar); Immunex (Director of Operational Project Management, responsible for Enbrel); and Genentech, Inc. (Senior Technical Operator, Fermentation, with main responsibility for the establishment of cell culture facilities).

### Pete Gagnon

Mr. Gagnon is one of the leading experts in protein and virus purification, best known as author of the book *Purification Tools for Monoclonal Antibodies*. Mr. Gagnon has contributed chapters to many other books, and more than 50 articles and presentations addressing various aspects of protein and virus purification. He is a member of editorial advisory boards for *Genetic Engineering News*, *BioProcess International*, and *Bioprocessing Journal*, and scientific advisory boards for the International Conference on Hydroxyapatite and the International Monolith Symposia, among others. In the laboratory, Mr. Gagnon evaluates new chromatography materials, develops purification procedures, and pursues other scientific interests.

# FINANCIAL REPORT

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# DIRECTORS' REPORT

The Board of Directors of Patrys Limited ("Patrys" or the "Company") has resolved to submit the following report together with the financial statements of the Company and its wholly owned subsidiaries ("economic entity") for the year ended 30 June 2010.

## Directors

The Directors of the Company in office at any time during or since the end of the year are:

**Mr. John Read** (Non Executive Chairman)

**Mr. Daniel Devine** (Executive Director and Chief Executive Officer)

**Mr. Michael Stork** (Non Executive Director and Deputy Chairman)

**Dr. Alan Robertson** (Non Executive Director)

All Directors held their position as a Director throughout the entire year and up to the date of this report.

Details of each Director's qualifications, special responsibilities, together with meetings attended, are set forth in other parts of this report.

## Company Secretary

Mr. Roger McPherson

## Principal activities

The principal activities of Patrys relate to the commercialisation of the Company's proprietary technologies to develop natural human antibody based therapeutic products for the treatment of cancer and other major diseases.

## Review of operations

During the year ending 30 June 2010, Patrys focused on the following key areas of operations:

- Advancing products to human clinical trials with the entry of PAT-SM6 into a clinical trial for melanoma occurring in July 2010.
- Establishing valuable commercial collaborations including the establishment of a collaboration with Australian based drug developer CSL Limited.
- Acquisition of mature and synergistic product candidates.
- Expansion of its pipeline through internal R&D resulting in the promotion of three new products from its back-up library.
- Expansion of its patent portfolio which included issuance of

patents and the filing of three new provisional patent families covering new inventions.

- Enhancing the financial strength of the Company.

## PAT-SM6 human clinical trial for patients with melanoma

During the financial year Patrys made significant progress towards the start of the first internal clinical trial for the Patrys team. This effort was rewarded with the receipt of Human Research Ethics Committee approval in July 2010 for a first-in-human trial of PAT-SM6 which was a significant milestone for Patrys in a number of ways.

From a treatment perspective, the trial represents a significant opportunity for melanoma patients as PAT-SM6 is a novel antibody that has been shown in animal studies to kill cancer cells in a completely different way to any other treatments available today. The outcome of the PAT-SM6 trial has broader significance for Patrys as all of the Company's anti-cancer products come from the same natural human antibody platform, and a successful clinical result for PAT-SM6 is therefore indicative of the potential value of Patrys' overall pipeline. In November 2009, Patrys also announced that scientific collaborators at The University of Melbourne had been awarded a \$300,000 grant to support the development of Patrys' lead clinical candidate PAT-SM6. The grant, which was awarded by the Australian Government's Australian Research Council, will provide funding to further evaluate the mechanism by which PAT-SM6 kills cancer cells, which in turn can lead to improved opportunities for successful clinical development of this product.

From a technology perspective, PAT-SM6 is the first product advanced to the clinic that has been manufactured using Patrys' proprietary natural human antibody production technologies. As these technologies are applicable to all of Patrys' products, this too has broader value-creating implications for the Company.

Assuming PAT-SM6 proves safe and well tolerated in the melanoma trial, it will be ready to progress to a larger trial of patients with melanoma or other solid tumours, such as pancreatic and colon cancers. The current clinical trial for PAT-SM6 is expected to be completed by June 2011.

## Advancement of PAT-LM1 toward human clinical trials

In August 2009, Patrys developed regulatory compliant production processes for PAT-LM1, and successfully completed a formal preclinical toxicology/safety study for the product.

PAT-LM1 has shown great promise as a potential treatment for patients with various cancers, including pancreatic and lung cancers. Over the next six months the Company will finalise a decision to either partner PAT-LM1 with an industry-leading company or advance it to a first-in-human clinical trial as an internal program.

## Strategic collaborations

Patrys has received strong interest from potential partners and a number of discussions are ongoing around its technologies and products.

On 28 January 2010, Patrys announced that it had entered into an agreement with CSL Limited (ASX:CSL) that is focused on several Patrys antibody therapeutic candidates.

Under the agreement, Patrys has granted CSL an exclusive right to research and develop products based on two early stage antibodies from Patrys' pipeline. CSL has paid Patrys an upfront amount and will undertake the research and development of antibodies at its own cost.

In addition to the upfront payment, Patrys will also receive a number of milestone payments in the first 30 months of the agreement, and beyond, if development goals are met. Patrys is also entitled to royalties on sales once resulting products reach the market.

As part of the agreement, CSL has the right to select up to two additional early stage antibodies from Patrys' pipeline for research and development at CSL's cost. The exercise of this right, which has a defined expiration period, would also trigger upfront payments, contingent development milestone payments and royalties.

Specific financial and other commercial terms of the agreement are confidential.

## Acquisition of PAT-SC1

In October 2009, Patrys announced that it had acquired the exclusive rights to commercialise gastric cancer antibody product SC-1. Patrys has renamed the product PAT-SC1. PAT-SC1 has been shown to

provide a significant survival benefit to gastric cancer patients treated with the product in a human clinical trial conducted at the University of Würzburg Medical Centre in Germany.

Patrys will now apply its FDA compliant natural human antibody production technologies to PAT-SC1. The Company expects that it will take approximately 12 months to reach large scale production levels of PAT-SC1. During this time, Patrys' management will evaluate whether to advance it as an internal clinical program or to seek a strategic partner for PAT-SC1.

### Extend depth and diversity of product pipeline and intellectual property portfolio

During the year, Patrys continued to leverage its internal R&D capabilities to expand on its pipeline. PAM-1 (renamed PAT-PA1) is a late-stage preclinical natural human antibody that targets a protein on the surface of cancer cells. PAT-PA1 was acquired from Debiopharm in July 2010. PAT-PA1 will be converted to Patrys' natural human antibody production technology over the coming twelve months and represents a unique opportunity for Patrys due to the products' mechanism for killing cancer and the properties of this "IgG" type antibody.

Patrys was also pleased with its efforts to enhance the product portfolio by development of its internal pipeline, which resulted in the filing of new patent applications covering three new products.

In addition Patrys announced the granting of an Australian patent for lead product PAT-CM1 and a U.S. patent for lead product PAT-PM1. Additional patent applications for these two lead products are currently pending in other jurisdictions.

The issuance of these patents is further validation of the novelty of Patrys products and reinforces the therapeutic promise its products offer to cancer patients where existing treatments have failed. The claims granted for PAT-CM1 and PAT-PM1 are similar in breadth and scope to the types of claims present in patent applications for other Patrys products. As a result, the issuance of these patents sets a precedent for pursuing similar patent coverage in all major markets for the Company's complete pipeline.

### Enhance financial strength of the group

In August 2009, Patrys raised in excess of \$5 million from a rights issue, which was partially underwritten by a major shareholder, PNK Holdings Limited. Subsequent to the end of the reporting period, Patrys also announced closing of a funding facility negotiated with the Advance Opportunities Fund. Patrys will receive a minimum of \$4 million during the first twelve months of the facility and up to \$15 million over the three-year lifetime of the arrangement.

### Financial and treasury activities

The financial results of the Group for the year ended 30 June 2010 are summarised as follows:

- The Group produced a loss from ordinary activities before income tax of \$7,513,339 (2009: \$8,639,746). The net loss after tax was \$7,535,123 (2009: \$8,662,339). Before interest, tax, depreciation and amortisation, the net loss for the same period was \$6,424,854 (2009: \$7,978,128).
- Revenue was generated from licensing \$500,000 (2009: \$NIL), interest of \$417,898 (2009: \$591,892), government grants \$19,110 (2009: \$149,825), a R&D Tax Concession of \$NIL (2009: \$681,348) and other income from foreign exchange gains \$587,158 (2009: \$1,217,795).
- Direct research and development costs of \$6,976,925 (2009: \$9,103,320) have been expensed in the year in which they have been incurred. The decrease in research and development costs over the previous year is primarily due to the timing of expenditure. In the past twelve months the Company has been focussed on the advancement of PAT-SM6 towards the clinic, majority of the expenditure on manufacturing for the clinical trial was incurred in the prior year. Management and administration costs contributed a further \$2,062,541 (2009: \$2,143,307) to expenses from continuing operations. A majority of these management and administration costs were associated with the oversight of research and development activities of the Group.
- Patrys has converted funds at favourable exchange rates into U.S.

dollars and Euro to minimise the impact that any fluctuations in the exchange rate may have on internal and third party contract operations in the U.S. and Germany.

- Basic and diluted net loss per share decreased to 4.15¢ (2009: 5.44¢) predominantly due to the decrease in expenditure.

The Group's spending over the past year has continued to be associated with building Group value through the advancement and expansion of the product pipeline and technologies. Equally important, even with a broad array of value adding activities, as a result of a well measured financial approach and the closing of one financing transaction during the period, as of 30 June 2010 the Group's cash and term deposits remain strong at \$6,783,233 (2009: \$9,595,669). The Directors are of the belief that these funds combined with the funding facility that was announced on 3 August 2010 are adequate to fund in part the scientific and operational requirements.

## Financial summary

### Operating results

The net consolidated loss for the year was \$7,535,123 (2009: \$8,662,339).

### Income

Consolidated revenue including other income during the period was \$1,528,820 (2009: \$2,644,595) by way of licensing revenue, interest, government grants, the R&D Tax Concession and foreign exchange gains.

### Expenditure

Total consolidated operating expenses for the period were \$9,042,159 (2009: \$11,284,341) being:

	2010	2009
Direct Research & Development	5,048,517	6,761,732
Management & Administration	1,224,316	1,137,997
Employee Benefits	2,766,633	3,346,898
Interest Expense	2,693	4,061
Share of Losses of Equity Accounted Associates	-	33,653
<b>Total</b>	<b>9,042,159</b>	<b>11,284,341</b>

# DIRECTORS' REPORT (CONT.)

## Financial summary (cont.)

### Statement of cash flows

Net cash consolidated outflow from operations was \$7,054,679 (2009: \$7,258,356).

During the year under review the Company has raised capital in the amount of \$5,036,687 (2009: \$3,096,200).

### Statement of financial position

At 30 June 2010 the consolidated entity's cash position was \$6,783,233 (2009: \$9,595,669).

The Company's policy is to hold its cash and cash equivalent deposits in "A" rated or better deposits.

The Company's strategy is to outsource product development including manufacturing, regulatory and clinical trial expenses, to specialist, best of breed partner organisations. As a consequence the Company has not incurred any major capital expenditure for the period and does not intend to incur substantial commitments for capital expenditure in the immediate future.

## Dividends

No dividends were paid or declared during the course of the financial year and no dividends are recommended in respect to the financial year ended 30 June 2010.

## Earnings per share

Earnings Per Share	2010 Cents	2009 Cents
Basic earnings per share from continuing operations	(4.15)	(5.44)
Basic diluted earnings per shares from continuing operations	(4.15)	(5.44)

## Changes in state of affairs

Other than detailed below there were no significant changes to state of affairs of Patrys Limited and its controlled entities during the year.

## Rights Issue and Share Top Up Offer

On 17 August 2009, Patrys closed its Rights Issue and Share Top Up Offer and raised a total of \$5,036,687 by issuing 20,146,746 shares at \$0.25 per share. The Rights Issue was underwritten in part by a major shareholder in the Company, PNK Holdings Limited, a company associated with Mr. Michael Stork who is an existing Patrys Non Executive Director. The total number of shares on issue after completion of the Rights Issue was 184,298,221 fully paid ordinary shares.

## Subsequent events

On 1 July 2010, following approval of the Directors a total of 616,311 ordinary shares and 525,011 unlisted options were issued under the Loan Share Plan and the Executive Share Option Plan respectively. These issues were made to confirm entitlements arising under existing employment/consultancy agreements.

On 28 July 2010 the Company announced that it had acquired a promising human antibody therapeutic candidate (PAT-PA1) which has shown significant potency against pancreatic and gastric cancers, which it plans to advance toward human clinical development.

On 2 August 2010 Patrys announced that the Human Research Ethics Committee at the Royal Adelaide Hospital had granted approval for it to commence a human clinical trial to evaluate PAT-SM6 as a treatment for melanoma. The clinical trial will be conducted at the Royal Adelaide Hospital in Australia and enrol approximately 10 patients. The primary endpoint for the trial is to measure the safety of PAT-SM6. Multiple secondary endpoints are aimed at measuring the anti-tumour activity of PAT-SM6. First patient data from the trial is expected to be available in the 2HCY2010. The trial is expected to take approximately twelve months to complete.

On 3 August 2010 the Company announced that it had secured up to \$15 million in funding to support the advancement of clinical products. The funding facility has a term of up to three years and is divided into three "tranches" of \$5 million. Patrys will receive a minimum of \$4 million

during the first twelve months of the facility. The investor, Advance Opportunities Fund (Advance) has the option to provide an additional \$1 million of funding to complete the first tranche of the facility. Two additional tranches of \$5 million each may be provided during the three-year term of the facility, subject to the consent of both parties. On 3 August 2010, in accordance with the agreement with Advance, Patrys issued it 3,000,000 ordinary shares as collateral for the facility. On 16 August 2010 the Company received the first payment under the facility of \$500,000 and issued Notes to Advance. On 17 August 2010 the Company issued Advance 355,998 ordinary shares following partial conversion of these Notes.

On 12 August 2010 the Company announced that it had appointed Dr. Marie Roskrow to the position of Chief Medical Officer and President. In this role Dr. Roskrow will assume responsibility for the Company's clinical development programs as well as working closely with the CEO Daniel Devine on corporate strategy and business development activities. On 18 August 2010, following approval of the Directors, 150,000 ordinary shares were issued to Dr. Roskrow under the Loan Share Plan.

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

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

## Additional future developments and results

Disclosure of information, in addition to that provided in this report, regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Information on Directors and senior management personnel in office during or since the end of the financial year

Director and Executives	Qualifications and Experience	Particulars of Directors' interests in shares and options of Patrys Limited		
		Shares	LSP Shares	Options
<b>Non Executive Chairman</b> John Read B.Sc (Hons), MBA, FAICD	Mr. Read is an experienced Chairman and Director in public, private and government organisations. Through his extensive career in venture capital, private equity and commercialisation he has gained a depth of experience in the formation and growth of emerging companies with an emphasis on commercial entities that provide broad societal benefits. He is currently the Chairman of The Environmental Group Limited (ASX: EGL) and a Director of CVC Limited (ASX: CVC), CVC Private Equity Limited and CVC Sustainable Investments Limited and was the Chairman of Pro-Pac Packaging Limited (ASX: PPG) from 2005 to 2010. Director of Patrys Limited since 29 May 2007. Other Directorships of listed companies over the past three years: Pro-Pac Packaging Ltd (from 2005 to 2010); The Environmental Group Ltd (since 2001); and CVC Ltd (since 1989).	291,670	150,052	1,100,000
<b>Executive Director and Chief Executive Officer</b> Daniel Devine B.Sc, MBA (Hons), JD (Hons)	Mr. Devine founded Acceptys, Inc. in 2002 and in 2006 formed Patrys. Prior to Acceptys, Mr. Devine managed the international business development team for Pfizer Pharmaceuticals and was responsible for the identification of licensing candidates for key and emerging markets; identifying potential acquisition targets; the divestment of mature products; and the acquisition of several pharmaceutical businesses. Mr. Devine was also integral in the negotiation of relationships with third party collaboration and/or license partners. Prior to joining Pfizer, Mr. Devine was responsible for substantial changes in the licensing, manufacturing and treasury functions for the Warner-Lambert/ Parke-Davis organisation. Mr. Devine previously spent seven years as an attorney focusing on large corporate matters including mergers and acquisitions, divestments and financings. Director of Patrys Limited since 19 February 2007. Other Directorships of listed companies over the past three years: None	14,407,272	403,873	Nil
<b>Non Executive Director</b> Michael Stork, BBA	Mr. Stork is the Managing Director of F.J. Stork Holdings Ltd., the parent entity for PNK Holdings Ltd, an original investor in Acceptys, Inc. and Patrys. Mr. Stork was until 2004 Chairman of the Board for Dspfactory Ltd, a leading edge developer of digital signal processing (DSP) technology for various applications including hearing aids, headsets and personal digital audio players. Mr. Stork has also played key roles in the management team and the Board of Directors for Unitron Industries Ltd., a hearing aid manufacturing Company that was voted one of the 50 Best Managed Private Companies in Canada for 2000. Unitron was sold to Phonak Holdings AG, a publicly traded Swiss Company, in 2002. Director of Patrys Limited since 19 February 2007. Other Directorships of listed companies over the past three years: None. *These shares are held by PNK Holdings Ltd. (46,325,000) and Acceptys, Inc. (11,300,000). PNK Holdings Ltd. has a controlling interest in Acceptys, Inc. The shares of PNK Holdings Ltd. are held by a related trust which Michael Stork in his own right does not control.	57,625,000*	Nil	300,000
<b>Non Executive Director</b> Alan Robertson B.Sc, Ph.D	Dr. Robertson has more than 20 years' experience in drug discovery and product development with leading pharmaceutical companies. In his current role as Chief Executive Officer and Managing Director of Pharmaxis Ltd (ASX: PXS), a position he has held since its founding in 1999, Dr. Robertson has been responsible for leading Pharmaxis Ltd through successful clinical trials, product development, regulatory approval and marketing of its products. Previously, Dr. Robertson spent eight years with Wellcome plc in London and with Australian companies Faulding Ltd and Amrad Ltd. The co-inventor of 18 patents and author of more than 35 scientific papers, Dr. Robertson has a PhD in synthetic organic chemistry from the University of Glasgow and has extensive practical understanding of both the clinical and management aspects of the pharmaceutical industry. He has been actively involved in the discovery, development and marketing of various compounds, including new treatments for migraine and cardiovascular disease. Dr. Robertson is also the inventor of the migraine therapeutic Zomig, which is marketed worldwide by AstraZeneca. Director of Patrys Limited since 29 May 2007. Other Directorships of listed companies over the past three years: Pharmaxis Ltd (since 2000).	Nil	75,026	550,000

# DIRECTORS' REPORT (CONT.)

## Information on Directors and senior management personnel in office during or since the end of the financial year (cont.)

Director and Executives	Qualifications and Experience	Particulars of Directors' interests in shares and options of Patrys Limited		
		Shares	LSP Shares	Options
<b>VP, Research &amp; Development</b> Frank Hensel, Ph.D	Dr. Hensel joined Patrys from OncoMab GmbH, where he was co-founder and CEO since 2002. Before founding OncoMab GmbH, Dr. Hensel obtained his Ph.D from and worked in the laboratory of Dr. Vollmers at the University of Würzburg, where he was intimately involved in the discovery and successful development of the Company's pipeline and underlying technologies. Dr. Hensel is the Managing Director of Patrys GmbH, a wholly owned subsidiary of the Company, and is responsible for the early development of the Patrys pipeline, target discovery, and antibody production and purification. * Dr Hensel has a non-controlling interest in OncoMab GmbH which holds 20,250,000 shares in the Company.	Nil*	Nil	1,254,435
<b>Chief Medical Officer and President</b> Marie Roskrow MBBS, Ph.D	Dr. Roskrow, a University of London-trained haematologist / oncologist, has held many high level clinical and research positions, most recently as a leader in translational research at the GSF in Munich, Germany. She has extensive experience related to the early and later-stage clinical development of novel anti-cancer compounds and has earned many awards and honours for her work. To complement her clinical research experience, Dr. Roskrow worked for several years in healthcare investment banking, most recently at Lazard Ltd. She participated in many public and private biotechnology and pharmaceutical merger and acquisition deals, as well as company financings and product in/out-licensing deals. In addition, Dr. Roskrow has an extensive network of relationships with executives and board members of both pharmaceutical and biotechnology companies as well as with leading clinical centres worldwide.	Nil	150,000	Nil
<b>Chief Financial Officer and Company Secretary</b> Roger McPherson CPA, GAICD	Mr. McPherson has more than twenty years experience in senior finance roles in a wide variety of industries. His early career included working with a Chartered Accounting practice and two years with the Australian Taxation Office. Before Patrys, Mr. McPherson was Chief Financial Officer and Company Secretary at eChoice Home Loans and was responsible for financial affairs and corporate administration. Mr. McPherson has over 10 years biotechnology and pharmaceutical experience, encompassing four years with Cerylid Biosciences Limited as Chief Financial Officer and Company Secretary, in which capacity he provided strategic direction and information reporting as well as support for research and development activities. In addition, Mr. McPherson was part of Amrad Corporation Ltd. for 6 years in varying senior finance roles.	250,000	654,435	250,000
<b>VP, Manufacturing</b> Michael Conner BA	Mr. Conner joined the Patrys team as Vice President, Manufacturing and is responsible for the production of our products for clinical and eventual commercial purposes. Mr. Conner has extensive antibody production experience, and was most recently the Director of Clinical Manufacturing at antibody sector leader ImClone Systems. Mike was responsible for Phase I and II production of a number of antibodies in the clinic. He also participated in the process development of Erbitux®, a blockbuster antibody for the treatment of cancer.	Nil	Nil	825,110
<b>Chief Operating Officer</b> Vic Ilag Ph.D	Dr. Ilag formerly served as Chief Scientific Officer of HealthLinX Ltd (ASX:HTX) (formerly Cryptome Pharmaceuticals). He oversaw the discovery of peptide drug leads in cancer, metabolic and inflammatory diseases and the early development of the company's ovarian cancer diagnostic, OvPlex™. He has more than 16 years experience in antibody drug discovery. In 1998 Dr. Ilag co-founded the German biotechnology Company Xerion Pharmaceuticals AG and until 2004 held varying executive roles such as Managing Director and Chief Scientific/Technology Officer responsible for R&D, business development and operations. Dr. Ilag was also a member of the R&D Directorate at Germany's Morphosys AG (FSE:MOR), and part of the team that developed the proprietary human antibody library, HuCAL®.	32,667	225,055	400,000
<b>Senior Director, Clinical Operations</b> Amos Hedt BA, PGradDip	Mr. Hedt was most recently Clinical Study Manager at CSL and was responsible for managing local and international trials across all phases of development, from first-in-human to post-marketing epidemiological studies. He has been involved in trials across a range of indications, including oncology, infectious diseases, and neurology. He has over 10 years experience in clinical trial management and is responsible at Patrys for the local coordination and management of Phase I/II trials for lead products.	40,000	300,073	130,000

## Meetings of Directors

The number of meetings of the Company's Directors (including committee meetings of Directors) held during the year ended 30 June 2010 and the numbers of meetings attended by each Director were:

Director	Board of Directors		Nominations & Remuneration Committee		Audit and Risk Committee	
	Held	Attended	Held	Attended	Held	Attended
John Read	13	13	1	1	3	3
Daniel Devine	13	13	1	1	3	3
Michael Stork	13	13	1	1	3	3
Alan Robertson	13	13	1	1	3	3

Note that while Daniel Devine is not a member of the Nominations & Remuneration Committee or the Audit & Risk Committee he is invited to attend these meetings in his capacity as an executive of the Company.

## Remuneration Report (Audited)

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

- A Key management personnel
- B Principals used to determine the nature and amount of remuneration
- C Details of remuneration
- D Service Agreements
- E Share-based compensation
- F Additional information

### A) Key management personnel

The key management personnel include the following:

#### (a) Directors

##### (i) Non Executive Chairman

John Read

##### (ii) Executive Director and Chief Executive Officer

Daniel Devine

##### (iii) Non Executive Directors

Michael Stork

Alan Robertson

#### (b) Executives

The following people were the executives with the greatest authority for the strategic direction and management of the group ("other key management personnel") during the financial period:

Name	Position	Employer
Daniel Devine	Chief Executive Officer	Patrys Limited
Frank Hensel	Vice President, Research & Development	Patrys GmbH
Roger McPherson	Chief Financial Officer and Company Secretary	Patrys Limited
Vic Ilag	Chief Operating Officer	Patrys Limited
Michael Conner	Vice President, Manufacturing	Patrys Inc.
Amos Hedt	Senior Director, Clinical Operations	Patrys Limited

On 9 August 2010 Dr. Marie Roskrow was employed by Patrys Limited in the role of Chief Medical Officer and President. No other changes have occurred after the reporting date and prior to the date of the Directors' Declaration.

### B) Principals used to determine the nature and amount of remuneration

The Company's goal is to engage and promote excellence at Board level, in staff members and partner organisations. The Company looks to engage the services of individuals and organisations with the experience necessary to assist the Company in meeting its strategic objectives. The Board of Directors has determined that recurring costs associated with full time employment should be held to a minimum wherever possible whilst maintaining a high level of competency in core skills in clinical and regulatory management.

The Board seeks to ensure that executive reward complies with good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage
- Transparency
- Capital management

The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

The Company's remuneration framework seeks alignment with shareholders' interests and is in particular aligned to the rapid commercialisation of the Company's intellectual property and in achieving its milestones in a highly ethical and professional manner.

The executive remuneration framework provides a mix of fixed and variable pay and performance incentive rewards.

#### Non Executive Directors' fees

Directors' fees were originally determined as at the date of the Company's public listing on 13 July 2007 and by reference to industry standard and were reviewed effective 1 December 2009. Components of the remuneration package include a cash element together with medium term equity instruments.

# DIRECTORS' REPORT (CONT.)

## Remuneration Report (Audited) (cont.)

### B) Principals used to determine the nature and amount of remuneration (cont.)

#### Non Executive Directors' fees (cont.)

At the 2009 Annual General Meeting a Non Executive Directors' Fee Pool of \$250,000 was approved by shareholders. Directors' fees are currently set at \$75,000 for the Chairman and \$55,000 per Non Executive Director and reflect the demands which are made on and the responsibilities of the Directors. However, one Non Executive Director, Mr. Michael Stork, does not receive monetary Director fees.

#### Executive pay

The executive pay and reward framework has four components:

- Base pay and benefits;
- Short term performance incentives;
- Long term incentives;
- Other remuneration such as superannuation and relocation expenses.

The combination of these comprises the executive's total remuneration.

#### Base pay and benefits

A total employment cost package may include a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no ongoing guaranteed base pay increases included in any executive contracts.

#### Short term incentives (STI)

Incentives are payable to executives based upon the attainment of agreed corporate and individual milestones and are reviewed and approved by the Board of Directors. The Board of Directors have determined that given the current economic climate, no cash incentives will be paid for the year ending 30 June 2010.

#### Long term incentives (LTI)

Executives and Directors are issued with equity instruments as LTIs in a manner that aligns this element of remuneration with the creation of shareholder wealth. LTI grants are made to executives and Directors who are able to influence the generation of shareholder wealth and thus have a direct impact on the creation of shareholder wealth.

#### Relationship between remuneration policy and company performance

Equity instruments are issued to new employees, and upon performance review based on performance of the

individual and the Company both in absolute terms and relative to competitors in the biotechnology sector. Equity instruments that are issued for performance are subject to performance targets set and approved by the Nominations and Remuneration Committee.

The Company's remuneration policy seeks to reward staff members for their contribution to achieving significant operational, strategic, partnering, preclinical, clinical and regulatory milestones. These milestones build sustainable and long term shareholder value. Increases in remuneration since reflect the milestones achieved by the Company during the period covered.

The Directors do note that the stock market has corrected significantly over the period from the date of listing to 30 June 2010. The stock price for Patrys has similarly corrected in line with a difficult market. It is in this respect that we work diligently to ensure that our shareholders and other stakeholders are regularly informed of our progress and the exciting opportunity that is associated with our natural human antibody technology.

	13 July 2007 (Date of listing)	30 June 2008	30 June 2009	30 June 2010
Closing share price (IPO price)	\$0.40	\$0.30	\$0.13	\$0.10
Price increase/(decrease) \$	-	(0.10)	(0.17)	(0.03)
Price increase/(decrease) %	-	(25)	(57)	(23)
Total key management personnel remuneration	-	\$1,852,758	\$2,057,063	\$1,748,370

## C) Details of remuneration

Year ending 30 June 2010

### Directors

Details of the remuneration of each Director of Patrys and the key management personnel of the Company are set out in the following tables for the year ended 30 June 2010. As indicated above incentives are dependent upon the attainment of agreed corporate and individual milestones and all incentives related to the year have been expensed in full.

2010 Name	Short-term employee benefits			Post employment benefits		Equity-based payments		Total \$
	Cash salary & fees \$	Cash Bonus \$	Non-monetary benefits* \$	Super-annuation \$	Retirement benefits \$	Shares & Options \$	% of Total Remuneration	
<b>Executive Directors</b>								
Daniel Devine	277,843	-	145,096	-	-	14,060	3	436,999
<i>Sub-total Executive Directors</i>	<i>277,843</i>	<i>-</i>	<i>145,096</i>	<i>-</i>	<i>-</i>	<i>14,060</i>	<i>-</i>	<i>436,999</i>
<b>Non Executive Directors</b>								
John Read	70,834	-	-	-	-	15,012	17	85,846
Michael Stork	-	-	-	-	-	4,894	100	4,894
Alan Robertson	48,548	-	-	4,369	-	7,506	12	60,423
<b>Total</b>	<b>397,225</b>	<b>-</b>	<b>145,096</b>	<b>4,369</b>	<b>-</b>	<b>41,472</b>	<b>-</b>	<b>588,162</b>

\*Non-monetary benefits related to accommodation and travel associated with Mr. Devine and his family's relocation from the U.S. to Melbourne, Australia, and medical and disability insurance premiums and related fringe benefit taxes.

### Other key management personnel

2010 Name	Short-term employee benefits			Post employment benefits		Equity-based payments		Total \$
	Cash salary & fees \$	Cash Bonus \$	Non-monetary benefits* \$	Super-annuation \$	Retirement benefits \$	Shares & Options \$	% of Total Remuneration	
Frank Hensel	246,080	-	-	-	-	32,971	12	279,051
Roger McPherson	211,250	-	-	25,000	-	16,012	6	252,262
Vic Ilag	164,450	-	-	24,231	-	13,329	7	202,010
Michael Conner	247,482	-	13,546	8,578	-	23,955	8	293,561
Amos Hedt	115,927	-	-	10,433	-	6,965	5	133,325
<b>Total</b>	<b>985,189</b>	<b>-</b>	<b>13,546</b>	<b>68,242</b>	<b>-</b>	<b>93,232</b>	<b>-</b>	<b>1,160,209</b>

\*Non-monetary benefits relate to disability and life insurances which it is customary to provide in the U.S.

### Cash bonuses as compensation for year ending 30 June 2010

During the year ended 30 June 2010 (2009: NIL) no cash bonuses were paid due to the current economic conditions.

# DIRECTORS' REPORT (CONT.)

## Remuneration Report (Audited) (cont.)

### C) Details of remuneration (cont.)

Year ending 30 June 2009

#### Directors

Details of the remuneration of each Director of Patrys and the key management personnel of the Company are set out in the following tables for the year ended 30 June 2009. As indicated above incentives are dependent upon the attainment of agreed corporate and individual milestones and all incentives related to the year have been expensed in full.

2009 Name	Short-term employee benefits			Post employment benefits		Equity-based payments		Total
	Cash salary & fees \$	Cash Bonus \$	Non-monetary benefits* \$	Super-annuation \$	Retirement benefits \$	Shares & Options \$	% of Total Remuneration	
<b>Executive Directors</b>								
Daniel Devine	324,248	-	226,048	-	21,958	-	-	572,254
<i>Sub-total Executive Directors</i>	<i>324,248</i>	<i>-</i>	<i>226,048</i>	<i>-</i>	<i>21,958</i>	<i>-</i>	<i>-</i>	<i>572,254</i>
<b>Non Executive Directors</b>								
John Read	65,000	-	-	-	-	41,782	39	106,782
Michael Stork	-	-	-	-	-	8,012	100	8,012
Alan Robertson	47,248	-	-	4,252	-	12,054	19	63,554
<b>Total</b>	<b>436,496</b>	<b>-</b>	<b>226,048</b>	<b>4,252</b>	<b>21,958</b>	<b>61,848</b>	<b>-</b>	<b>750,602</b>

\*Non-monetary benefits related to accommodation and travel associated with Mr. Devine and his family's relocation from the U.S. to Melbourne, Australia, and medical, disability and life insurance premiums and related fringe benefit taxes.

#### Other key management personnel

2009 Name	Short-term employee benefits			Post employment benefits		Equity-based payments		Total
	Cash salary & fees \$	Cash Bonus \$	Non-monetary benefits* \$	Super-annuation \$	Retirement benefits \$	Shares & Options \$	% of Total Remuneration	
Frank Hensel	267,006	-	-	-	-	56,476	17	323,482
Roger McPherson <sup>#</sup>	141,024	-	-	17,628	-	10,976	6	169,628
Vic Ilag	166,000	-	-	23,000	-	33,958	15	222,958
Michael Conner	271,347	-	24,482	9,731	6,821	27,994	8	340,375
Amos Hedt	108,793	-	-	10,061	-	21,495	15	140,349
Mary Sanderson <sup>#</sup>	27,383	-	-	5,727	7,765	-	-	40,875
Paul Andrews <sup>#</sup>	40,569	-	3,431	-	10,699	558	1	55,257
Kevin Hollingsworth <sup>#</sup>	11,193	-	-	-	-	2,344	17	13,537
<b>Total</b>	<b>1,033,315</b>	<b>-</b>	<b>27,913</b>	<b>66,147</b>	<b>25,285</b>	<b>153,801</b>	<b>-</b>	<b>1,306,461</b>

\*Non-monetary benefits relate to medical, disability and life insurances which it is customary to provide in the US.

<sup>#</sup>Roger McPherson joined the Company in October 2008. Paul Andrews left the Company in August 2008, Mary Sanderson left the Company in November 2008 and Kevin Hollingsworth ceased acting as Company Secretary in December 2008.

## D) Service agreements

Remuneration and other terms of employment for the Non Executive Chairman, Chief Executive Officer and other key management personnel are formalised in service agreements. These agreements may provide for the provision of performance related cash bonuses and the award of options.

Other major provisions of the agreements relating to remuneration are set out below:

### John Read, *Non Executive Chairman*

- **Term of Agreement** – Commencing from May 2007. A new agreement became effective 1 December 2009.
- **Director's fee** – \$75,000 per annum to be reviewed independently and annually by the Board of Directors.
- **Termination** – No terms have been agreed.
- **Bonus** – Nil.
- **Equity** – The Chairman shall be entitled to participate in the Loan Share Plan and the Executive Share Option Plan of the Company.

### Daniel Devine, *Executive Director and Chief Executive Officer*

- **Term of Agreement** – Mr. Devine's original employment agreement commenced on 1 March 2007. A new agreement became effective 1 July 2009 and has a term of two years.
- **Base Remuneration** – Commencing from 1 July 2009 \$410,000 per annum to be reviewed annually by the Nominations and Remuneration Committee.
- **Bonus** – At the discretion of the Board of Directors and subject to Company performance.
- **Equity** – Mr Devine is eligible to participate in the Loan Share Plan and the Executive Share Option Plan of the Company.

### Alan Robertson, *Non Executive Director*

- **Term of Agreement** – Commencing from May 2007. A new agreement became effective 1 December 2009.
- **Director Fees** – \$55,000 per annum to be reviewed independently and annually by the Board of Directors.
- **Termination** – No terms have been agreed.
- **Bonus** – Nil.
- **Equity** – Dr Robertson shall be entitled to participate in the Loan Share Plan and the Executive Share Option Plan of the Company.

### Frank Hensel, *Vice President, Research & Development (Managing Director, Patrys GmbH)*

- **Term of Agreement** – Commencing from 1 May 2007 and ongoing

unless terminated in accordance with the terms of agreement.

- **Base Remuneration** – Commenced on a base of €121,000 per annum, subject to increases per annum to February 2009 under agreement and then at the discretion of the Board of Directors.
- **Termination** – By six months' notice from either side.
- **Bonus** – At the discretion of the Board of Directors.
- **Equity** – The Executive shall be entitled to participate in the Executive Share Option Plan of the Parent.

### Marie Roskrow, *Chief Medical Officer and President*

- **Term of Agreement** – Commencing from 9 August 2010 and ongoing unless terminated in accordance with its terms.
- **Base Remuneration** – Commenced on a base of \$218,000 per annum, subject to annual increases at the discretion of the Board of Directors.
- **Termination** – By two months' notice from either side unless due to redundancy following merger or similar in which case six months by the company.
- **Bonus** – At the discretion of the Board of Directors.
- **Equity** – The Executive shall be entitled to participate in the Loan Share Plan and the Executive Share Option Plan of the Company.

### Roger McPherson, *Chief Financial Officer and Company Secretary*

- **Term of Agreement** – Commencing from 20 October 2008 and ongoing unless terminated in accordance with its terms.
- **Base Remuneration** – Commenced on a base of \$225,000 per annum, subject to annual increases at the discretion of the Board of Directors.
- **Termination** – By two months' notice from either side.
- **Bonus** – At the discretion of the Board of Directors.
- **Equity** – The Executive shall be entitled to participate in the Loan Share Plan and the Executive Share Option Plan of the Company.

### Vic Ilag, *Chief Operating Officer*

- **Term of Agreement** – Commencing from 19 June 2007 and ongoing unless terminated in accordance with the terms of agreement.
- **Base Remuneration** – Commenced on a base of \$165,000 per annum, with annual raises at the discretion of the Board of Directors.

- **Termination** – By two months' notice from either side.
- **Bonus** – At the discretion of the Board of Directors.
- **Equity** – The Executive shall be entitled to participate in the Loan Share Plan and the Executive Share Option Plan of the Company.

### Michael Conner, *Vice President, Manufacturing*

- **Term of Agreement** – Commencing from 15 October 2007 and ongoing unless terminated in accordance with the terms of the agreement.
- **Base Salary** – Commenced on a base of US\$170,000 per annum; subject to annual increases at the discretion of the Board of Directors.
- **Termination** – By two months notice from either side.
- **Bonus** – At the discretion of the Board of Directors.
- **Other Benefits** – Medical, disability and life insurance coverage.
- **Equity** – The Executive shall be entitled to participate in the Executive Share Option Plan of the Parent.

### Amos Hedt, *Senior Director, Clinical Operations*

- **Term of Agreement** – Commencing from 7 April 2008 and ongoing unless terminated in accordance with the terms of the agreement.
- **Base Remuneration** – Commenced on a base of \$120,000 per annum; subject to annual increases at the discretion of the Board of Directors.
- **Termination** – By four weeks' notice from either side.
- **Bonus** – At the discretion of the Board of Directors.
- **Equity** – The Executive shall be entitled to participate in the Loan Share Plan and the Executive Share Option Plan of the Company.

## E) Share-based compensation to Directors and key management personnel

### General overview

The Company issues equity to Directors, Patrys (including subsidiaries Patrys Inc. and Patrys GmbH) staff and key consultants under either the Loan Share Plan (LSP) or the Executive Share Option Plan (ESOP). Under the plans, participants are issued with equity to foster an ownership culture within the Group to motivate Directors, employees and consultants to achieve performance targets of the Company and the Group. Participation in the plans is at the Board's discretion and no individual has a contractual right to participate in the plan, or to receive any guaranteed benefits.

# DIRECTORS' REPORT (CONT.)

## Remuneration Report (Audited) (cont.)

### E) Share-based compensation to directors and key management personnel (cont.)

#### General overview (cont.)

The Company introduced the LSP in December 2009 following approval of the plan at the 2009 Annual General Meeting. Only Australian residents are eligible to participate in the plan. The plan allows non-recourse, interest free loans to be provided to eligible participants to acquire shares under the plan. If and when an issue is made it will be treated as an in-substance grant of options and expensed over the vesting period because of the limited recourse nature of the loans. Generally shares issued under the plan will vest over a three year period. The shares are acquired in the name of the participant and each

participant authorises and appoints the Company Secretary to act on their behalf. Any dividends paid on the shares are used to repay the loan. In all other respects the shares issued under the LSP carry the same rights as other ordinary shares on issue. If the participant leaves the Company, any shares that have not vested will be brought back by the Company and cancelled along with the loan. In respect of shares that have vested the loan balance must be paid in full within six months of termination or the shares will be sold and the proceeds applied to settle the loan balance. The issue price of the shares in the Company held under LSP is not included in equity until the loan has been repaid.

Options are granted under the ESOP. Following the introduction of the LSP issues under the ESOP are generally only made to non-Australian residents. Under the ESOP each option granted converts into one ordinary share of Patrys

Limited. Options are granted under the plan for no consideration and carry no dividend or voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

If a participant ceases to be appointed as a Director or employed by any member of the group (other than due to his/her death) then options that have vested at the date of cessation will lapse if not exercised within six months of the cessation date. In the case of death of the participant then the exercise period is extended to twelve months. All unvested options will generally lapse on cessation.

The valuations of shares issued under the LSP and options issued under the ESOP are determined by using an industry standard option pricing model taking into account the terms and conditions upon which the instruments were issued.

The terms and conditions of each issue of equity affecting remuneration of Directors and key management personnel in the previous, this or future reporting periods are as follows:

#### Shares issued under the LSP

Issue date	No of shares	Loan expiry date	Vesting date	Issue price \$	Fair value per share at issue date \$	Date first available to deal with
02/12/2009	460,983	27/11/2015	27/11/2010	0.144	0.0935	27/11/2010
02/12/2009	460,981	27/11/2016	27/11/2011	0.144	0.1003	27/11/2011
02/12/2009	460,981	27/11/2017	27/11/2012	0.144	0.1060	27/11/2012
<b>Total</b>	<b>1,382,945</b>					

#### Options granted under the ESOP

Grant date	No of options	Expiry date	Vesting date	Exercise price \$	Fair value per option at grant date \$	Date exercisable
29/05/2007	300,000	29/05/2012	29/05/2007	0.45	0.1498	29/05/2007
29/05/2007	300,000	29/05/2013	29/05/2008	0.45	0.1607	29/05/2008
29/05/2007	150,000	29/05/2014	29/05/2009	0.45	0.1764	29/05/2009
29/05/2007	150,000	11/01/2012	11/01/2007	0.46	0.1476	11/01/2007
29/05/2007	150,000	11/01/2013	11/01/2008	0.56	0.1314	11/01/2008
06/07/2007	250,000	05/07/2012	06/07/2007	0.46	0.2021	06/07/2007
06/07/2007	25,000	05/07/2013	06/07/2008	0.46	0.2692	06/07/2008
06/07/2007	250,000	05/07/2013	06/07/2008	0.56	0.2692	06/07/2008
06/07/2007	25,000	05/07/2014	06/07/2009	0.56	0.2754	06/07/2009
31/10/2007	245,000	30/01/2013	31/01/2008	0.56	0.2492	31/01/2008
01/07/2008	250,000	01/07/2014	01/07/2009	0.33	0.1738	01/07/2009
01/07/2008	250,000	01/07/2015	01/07/2010	0.33	0.1892	01/07/2010
01/07/2008	250,000	01/07/2016	01/07/2011	0.33	0.2024	01/07/2011
01/07/2008	65,000	07/10/2013	07/10/2008	0.33	0.1608	07/10/2008
01/07/2008	65,000	07/04/2014	07/04/2009	0.33	0.1699	07/04/2009
19/11/2008	125,000	20/04/2014	20/04/2009	0.17	0.0499	20/04/2009
19/11/2008	125,000	20/10/2014	20/10/2009	0.17	0.0535	20/10/2009
28/11/2008	480,000	25/05/2014	25/05/2009	0.2609	0.0413	25/05/2009
28/11/2008	480,000	25/05/2015	25/05/2010	0.2609	0.0490	25/05/2010
28/11/2008	240,000	25/05/2016	25/05/2011	0.2609	0.0542	25/05/2011
02/12/2009	234,659	27/11/2015	27/11/2010	0.144	0.0935	27/11/2010
02/12/2009	234,659	27/11/2016	27/11/2011	0.144	0.1003	27/11/2011
02/12/2009	234,659	27/11/2017	27/11/2012	0.144	0.1060	27/11/2012
<b>Total</b>	<b>4,878,977</b>					

The above table includes 470,000 options which were granted to (i) Paul Andrews (300,000 on 29/05/07), (ii) Kevin Hollingsworth (50,000 on 06/07/2007) and (iii) Mary Sanderson (120,000 on 31/10/07). These options were not exercised within six months of cessation and therefore lapsed during the previous year.

### Equity issued to Directors and key management personnel

Details of equity issued in the Company provided as remuneration to each Director of Patrys Limited and each of the key management personnel of the Company are set out below. When vested, prior to the Director or key management personnel being able to deal with each share the loan advanced to acquire the share under the LSP must be repaid. In the case of the options, each is convertible into one ordinary share of Patrys Limited. Details are also provided for the number of equity instruments that have

vested during the 2010 financial year.

The assessed fair value at the date of issue of the equity instruments is allocated over the period from issue date to vesting date, and this amount is included in the remuneration tables above. Fair values at issue date are determined using the binomial option pricing model that takes into account the exercise price (or amount of loan), the term of the option (or loan), the share price at issue date and expected price volatility of the Patrys shares, the expected dividend yield and the risk-free interest rate for the term of the option.

Further information on the shares and options issued under the LSP and ESOP, including factors and assumptions used in determining fair value is set out in Note 20 to the financial statements.

Following the implementation of the LSP, Australian residents participate in the LSP and not the ESOP. Details of shares and options that have been issued and vested in this or the previous year are outlined in the table below.

### Shares issued under the LSP

Name	Shares issued during the year				Shares vested during the year	
	2010		2009		2010	2009
	Number	Loan per share \$	Number	Loan per share \$	Number	Number
<b>Directors of Patrys Limited</b>						
John Read	150,052	0.144	-	-	-	-
Alan Robertson	75,026	0.144	-	-	-	-
Daniel Devine	403,873	0.144	-	-	-	-
<b>Other key management personnel</b>						
Roger McPherson	403,873	0.144	-	-	-	-
Vic Ilag	150,052	0.144	-	-	-	-
Amos Hedt	200,069	0.144	-	-	-	-

There are no performance criteria that need to be met in relation to the shares issued above. Participants need to be appointed as a Director or employed by a Group company at the vesting date. Unvested shares are brought back by the Company at the cessation of appointment or employment.

### Options granted under the ESOP

Name	Options granted during the year				Options vested during the year	
	2010		2009		2010	2009
	Number	Exercise Price \$	Number	Exercise Price \$	Number	Number
<b>Directors of Patrys Limited</b>						
John Read	-	-	600,000	0.2609	240,000	340,000
Alan Robertson	-	-	300,000	0.2609	120,000	170,000
Michael Stork	-	-	300,000	0.2609	120,000	120,000
<b>Other key management personnel</b>						
Frank Hensel	403,873	0.144	350,000	0.33	116,667	125,000
Roger McPherson	-	-	250,000	0.17	125,000	125,000
Vic Ilag	-	-	150,000	0.33	50,000	125,000
Michael Conner	300,104	0.144	250,000	0.33	83,334	-
Amos Hedt	-	-	130,000	0.33	-	130,000

There are no performance criteria that need to be met in relation to the options granted above. Participants need to be appointed as a Director or employed by a Group company at the vesting date. Unvested options lapse on cessation of appointment or employment.

# DIRECTORS' REPORT (CONT.)

## Remuneration Report (Audited) (cont.)

### F) Additional Information

#### Details of remuneration: cash bonuses and options

Name	Cash bonus Note (iv)		Year issued	Vested %	Forfeited %	Shares & options		
	Paid %	Forfeited %				Financial years in which shares & options vest	Minimum total value of issue yet to vest \$	Maximum total value of issue yet to vest \$
John Read	-	-	2007	100	-	-	-	-
			2009	80	-	Note (i)	-	2,385
			2010	-	-	Note (iii)	-	9,776
Daniel Devine	-	-	2010	-	-	Note (iii)	-	26,313
Michael Stork	-	-	2009	80	-	Note (i)	-	1,192
Alan Robertson	-	-	2007	100	-	-	-	-
			2009	80	-	Note (i)	-	1,192
			2010	-	-	Note (iii)	-	4,889
Frank Hensel	-	-	2008	100	-	-	-	-
			2009	33.3	-	Note (ii)	-	7,873
			2010	-	-	Note (iii)	-	26,313
Vic Ilag	-	-	2008	100	-	-	-	-
			2009	33.3	-	Note (ii)	-	3,374
			2010	-	-	Note (iii)	-	9,776
Michael Conner	-	-	2008	100	-	-	-	-
			2009	33.3	-	Note (ii)	-	5,623
			2010	-	-	Note (iii)	-	19,552
Roger McPherson	-	-	2009	100	-	-	-	-
			2010	-	-	Note (iii)	-	26,313
Amos Hedt	-	-	2009	100	-	-	-	-
			2010	-	-	Note (iii)	-	13,035

- Notes (i) The financial years in which options vest are 40% in 2009, 40% in 2010 and 20% in 2011.  
(ii) The financial years in which options vest are 33.3% in 2010, 33.3% in 2011 and 33.3% in 2012.  
(iii) The financial years in which shares/options vest are 33.3% in 2011, 33.3% in 2012 and 33.3% in 2013.  
(iv) No cash bonuses were paid for the 2010 year.

#### Share-based compensation:

Further details relating to shares and options are set out below for year ending 30 June 2010

Name	A	B	C	D	E
	Remuneration consisting of shares and options %	Value at issue date \$	Value at loan repayment /exercise date \$	Value at cancellation /lapse date \$	Total of columns B-D \$
John Read	17	15,000	-	-	15,000
Daniel Devine	9	40,373	-	-	40,373
Alan Robertson	12	7,500	-	-	7,500
Michael Stork	-	-	-	-	-
Frank Hensel	14	40,373	-	-	40,373
Roger McPherson	15	40,373	-	-	40,373
Vic Ilag	7	15,000	-	-	15,000
Michael Conner	10	30,000	-	-	30,000
Amos Hedt	14	20,000	-	-	20,000

- A= The percentage of the value of remuneration consisting of equity, based on the value at grant date set out in column B.  
B= The value at issue date calculated in accordance with AASB 2 share-based payment of shares and options issued during the year as part of remuneration. These amounts represent the entire value of the equity issued during the year. The amounts recognised in remuneration is the vesting expense for equity issued in the current and prior years.  
C= The value at loan repayment date for shares and exercise date of options that were issued as part of remuneration and were repaid or exercised during the year.  
D= The value at cancellation/lapse date of equity that was granted as part of remuneration and that was cancelled or lapsed during the year.

Further details relating to options are set out below for year ending 30 June 2009

Name	A Remuneration consisting of options %	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
John Read	30	28,199	-	-	28,199
Alan Robertson	21	14,099	-	-	14,099
Michael Stork	100	14,099	-	-	14,099
Frank Hensel	20	65,975	-	-	65,975
Roger McPherson	8	12,928	-	-	12,928
Vic Ilag	13	28,276	-	-	28,276
Michael Conner	13	47,125	-	-	47,125
Amos Hedt	15	21,495	-	-	21,495
Kevin Hollingsworth*	-	-	-	6,886	(6,886)

A= The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B= The value at grant date calculated in accordance with AASB 2 share-based payment of options granted during the year as part of remuneration. These amounts represent the entire value of the options granted during the year. The amounts recognised in remuneration is the vesting expense for options issued in the current and prior years.

C= The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D= The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

\* The value recorded in column D represents the value of unvested options that lapsed on cessation of appointment.

#### Shares and options issued subsequent to 30 June 2010

On 1 July 2010 and 18 August 2010, Patrys granted the following key management personnel equity under either the LSP or the ESOP that will form part of remuneration in the 2011 financial year:

	No. of equity instruments granted during year ending 30 June 2010	No. of equity instruments issued post 30 June 2010	Total no. of shares issued as remuneration at date of report	Total no. of options issued as remuneration at date of report
<b>Shares under LSP</b>				
Roger McPherson – Chief Financial Officer and Company Secretary	403,873	250,562	654,435	250,000
Vic Ilag – Chief Operating Officer	150,052	75,003	225,055	400,000
Amos Hedt – Senior Director, Clinical Operations	200,069	100,004	300,073	130,000
Marie Roskrow – Chief Medical Officer and President	-	150,000	150,000	-
<b>Options under the ESOP</b>				
Frank Hensel – Vice President, Research and Development	403,873	250,562	-	1,254,435
Michael Conner – Vice President, Manufacturing	300,104	150,006	-	825,110

# DIRECTORS' REPORT (CONT.)

## Remuneration Report (Audited) (cont.)

### F) Additional Information (cont.)

#### Shares and options issued subsequent to 30 June 2010 (cont.)

The terms and conditions of these issues are as follows:

##### Shares issued under the LSP

Issue date	No of shares	Loan expiry date	Vesting date	Issue price \$	Fair value per share at issue date \$	Date first available to deal with
01/07/2010	141,855	01/07/2016	01/07/2011	0.106	0.0687	01/07/2011
01/07/2010	141,857	01/07/2017	01/07/2012	0.106	0.0728	01/07/2012
01/07/2010	141,857	01/07/2018	01/07/2013	0.106	0.0762	01/07/2013
18/08/2010	75,000	09/02/2016	09/02/2011	0.10	0.0649	09/02/2011
18/08/2010	75,000	09/08/2016	09/08/2011	0.10	0.0671	09/08/2011

##### Options issued under the ESOP

Grant date	No of options	Expiry date	Vesting date	Exercise price \$	Fair value per option at grant date \$	Date exercisable \$
01/07/2010	133,522	01/07/2016	01/07/2011	0.106	0.0687	01/07/2011
01/07/2010	133,523	01/07/2017	01/07/2012	0.106	0.0728	01/07/2012
01/07/2010	133,523	01/07/2018	01/07/2013	0.106	0.0762	01/07/2013

## End of Remuneration Report (Audited)

### Shares issued under loan share plan

Details of shares issued under the Loan Share Plan of Patrys Limited at the date of this report are as follows. Further details are included in Note 14 of the Financial Statements.

Date shares issued	Expiry date of loan	Issue price of share \$	Number under shares
02/12/2009	27/11/2015	0.144	589,694
02/12/2009	27/11/2016	0.144	589,693
02/12/2009	27/11/2017	0.144	589,693
01/07/2010	01/07/2016	0.106	205,437
01/07/2010	01/07/2017	0.106	205,437
01/07/2010	01/07/2018	0.106	205,437
18/08/2010	09/02/2016	0.10	75,000
18/08/2010	09/08/2016	0.10	75,000
<b>Total</b>			<b>2,535,391</b>

## Shares under option

Unissued ordinary shares of Patrys Limited under option at the date of this report are as follows. Further details are included in Note 14 of the Financial Statements.

Date options granted	Expiry date	Issue price of share \$	Number under option
31/03/2007	13/07/2012	0.45	4,595,851
31/03/2007	13/07/2012	0.45	4,595,852
31/03/2007	13/07/2012	0.80	7,627,163
31/03/2007	13/07/2012	0.80	7,627,164
29/05/2007	29/05/2012	0.45	300,000
29/05/2007	29/05/2013	0.45	300,000
29/05/2007	29/05/2014	0.45	150,000
06/07/2007	05/07/2012	0.46	250,000
06/07/2007	05/07/2013	0.56	250,000
31/10/2007	30/01/2013	0.56	345,000
01/07/2008	01/07/2014	0.33	405,004
01/07/2008	01/07/2015	0.33	324,999
01/07/2008	01/07/2016	0.33	311,665
01/07/2008	18/09/2013	0.33	57,500
01/07/2008	18/03/2014	0.33	57,500
01/07/2008	07/10/2013	0.33	65,000
01/07/2008	07/04/2014	0.33	65,000
19/11/2008	20/04/2014	0.17	125,000
19/11/2008	20/10/2014	0.17	125,000
28/11/2008	25/05/2014	0.2609	480,000
28/11/2008	25/05/2015	0.2609	480,000
28/11/2008	25/05/2016	0.2609	240,000
02/12/2009	27/11/2015	0.144	305,579
02/12/2009	27/11/2016	0.144	305,582
02/12/2009	27/11/2017	0.144	305,582
01/07/2010	01/07/2016	0.106	175,003
01/07/2010	01/07/2017	0.106	175,004
01/07/2010	01/07/2018	0.106	175,004
<b>Total</b>			<b>30,219,452</b>

No ordinary shares have been issued during or since the end of the financial year as a result of the exercise of options.

## Insurance and indemnification

During the financial year, the Company paid a premium in respect of a contract insuring the Directors and Company Secretary (as named above), and all executive officers of the Company against a liability incurred as such a Director, Company Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the insurance contract.

Other than to the extent permitted by law, the Company has not otherwise,

during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any other related body corporate against a liability incurred as such as an officer or auditor.

## Environmental regulations

Within Australia, the Company is subject to environmental regulations with respect to the disposal of wastes generated in the operation of its Melbourne-based laboratories. Such wastes are separately collected and classified according to type, for example solvents and all other potentially hazardous material. They are disposed of by waste collection organisations as

relevant to the type of waste. There have been no known breaches of the relevant Environmental Act and Regulations during the current year.

## Proceedings on behalf of the Company

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

# DIRECTORS' REPORT (CONT.)

## Proceedings on behalf of the Company (cont.)

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

## Non-audit services

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

Details of the amount paid or payable to the auditor (PKF Chartered Accountants) for audit and non-audit services provided during the year are set out below.

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

- All non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.

- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement APES 110, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

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

	2010 \$	2009 \$
<b>1 Audit services</b>		
PKF Chartered Accountants (East Coast Practice)		
• Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	52,000	62,149
Non PKF Audit Firm (McIntyre & Company)		
• Audit and review of financial reports for Patrys Inc. and Acceptys, Inc.	-	72,461
Non PKF Audit Firm (Verhulsdonk & Partner)		
• Review of financial reports for Patrys GmbH	18,883	18,450
<b>Total remuneration for audit services</b>	<b>70,883</b>	<b>153,060</b>
<b>2 Other advisory services</b>		
PKF Chartered Accountants (East Coast Practice)		
• Advice on taxation matters and review and lodgement of corporate tax return on PKF Audit Firm (McIntyre & Company)	9,708	13,784
Non PKF Audit Firm (McIntyre & Company)		
• General taxation and accounting advice for Patrys Inc.	6,621	4,596
Non PKF Audit Firm (Verhulsdonk & Partner)		
• General taxation and accounting advice for Patrys GmbH	2,492	8,582
<b>Total remuneration for audit and other advisory services</b>	<b>18,821</b>	<b>26,962</b>
<b>Total remuneration</b>	<b>89,704</b>	<b>180,022</b>

## Auditor's Independence Declaration

A copy of the auditor's declaration under Section 307C in relation to the audit for the period ended 30 June 2010 is attached.

## Auditor

PKF Chartered Accountants continues in office in accordance with Section 327 of the *Corporations Act 2001*. This report is made in accordance with a resolution of the Directors.



**Mr. John Read**

Chairman

Date: 30 August 2010

# AUDITOR'S INDEPENDENCE DECLARATION

## TO THE DIRECTORS OF PATRYS LIMITED



30 August 2010

The Directors  
Patrys Limited  
Suite 614  
343 Little Collins Street  
MELBOURNE VIC 3000

### Auditor's Independence Declaration

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

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Patrys Limited and the entities it controlled during the year.

Yours faithfully

PKF

A handwritten signature in black ink that reads 'David J Garvey'. The signature is written in a cursive, flowing style.

**D J Garvey**  
Partner

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# CORPORATE GOVERNANCE

The Board of Directors of Patrys Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Company is committed to implementing the highest standards of corporate governance.

In setting its standards the Company has considered the 2nd edition of the ASX Corporate Governance Principles and Recommendations (Revised Recommendations). Whilst the Company continues to develop and improve its corporate governance processes and standards, the Board is pleased to advise that Patrys' practices are largely consistent with the ASX guidelines.

The Corporate Governance Statement that follows contains certain specific information and discloses the extent to which the Company has followed the guidelines during the 2010 year. Patrys' Corporate Governance Statement is structured with reference to the ASX Corporate Governance Principles and Recommendations.

The Board reviews the Company's corporate governance policies on a continuous basis with a view to ensuring it adopts a model that recognises and reflects the ongoing development of the Company. The Board will continue its ongoing review process to ensure that the model is relevant, efficient and cost effective to the Company and its shareholders.

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

In general, the Board is responsible for, and has authority to determine, all matters relating to the policies, practices, management and operations of the Company. Specifically the Board functions include:

- setting the overall Company financial goals;
- approving strategies, objectives and plans for the Company's businesses to achieve these goals;

- ensuring the business risks are identified, approving systems and controls to manage these risks and monitor compliance;
- approving the Company's major HR policies and overseeing the development strategies for senior and high performing executives;
- approving financial plans and annual budgets;
- monitoring financial results on an ongoing basis;
- monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- ratifying and approving the appointment and removal of executives;
- reporting to shareholders on the Company's strategic direction and performance including constructive engagement in the development, execution and modification of the Company's strategies;
- overseeing the management of occupational health and safety and environmental performance;
- determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- meeting statutory and regulatory requirements; and
- overseeing the way in which the assets of the Company are managed.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a Director, employee or other person. However, the Board acknowledges that it retains ultimate responsibility for the exercise of such powers under the *Corporations Act 2001* (Cth).

The Board has guidelines for its Directors to address potential conflicts of interest, including a requirement that they declare their interests as required by the Corporations Act and the ASX Listing Rules.

## Principle 2; Structure the board to add value

The Company's Board comprises four Directors including an independent Non Executive Chairman who was appointed to the position in 2007. There are three Non Executive Directors. The Board has reviewed its current composition and has instituted a program to continually seek outstanding candidates as Non Executive Directors.

### Board composition

Directors are appointed to the Board based on the specific governance skills required by the Company and on the independence of their decision making and judgment. The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report is included in the Directors' Report. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

### Independent directors

Directors of Patrys are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with - or could reasonably be perceived to materially interfere with - the exercise of their unfettered and independent judgment. In the context of Director independence, 'materiality' is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 2% of the Company's gross revenue or expenditure (whichever is the greater). In accordance with the definition of independence above, and the materiality thresholds set by the Board, the following Directors of Patrys were considered to be independent:

- John Read, Chairman
- Alan Robertson

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Position/Term
John Read	Independent Non Executive Chairman 3 years and 3 months
Daniel Devine	Executive Director 3 years and 6 months
Alan Robertson	Independent Non Executive Director 3 years and 3 months
Michael Stork	Non Executive Director 3 years and 6 months

The skills, experience and expertise relevant to their position for all Directors is contained in the Directors' Report.

The Board has established a Nominations and Remuneration Committee comprising three Directors as follows:

Name	Position
John Read	Independent Chairman
Alan Robertson	Independent Member
Michael Stork	Member

Whilst the Committee has been formed, given the size and nature of the Company's operations to date the Board has chosen to discuss those matters usually considered by the Nominations and Remuneration Committee on a regular basis at the full Board during its regular meetings.

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

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established certain Codes of Conduct to guide all employees, particularly Directors, the CFO and other Senior Executives in respect of ethical behaviour expected by the Company. These Codes of Conduct cover conflicts of interest, confidentiality, fair dealing, protection of assets,

compliance with laws and regulations, whistle blowing, security trading and commitments to stakeholders.

### Summary of provisions – security trading code of conduct

#### Background

The Board of Directors is committed to there being a free and open market for the Company's securities. Accordingly, the Board fully supports the spirit and letter of the law and the listing rules concerning adequate and reasonable disclosure of information relevant to the Company and its securities in line with contemporary continuous disclosure requirements.

The Board is also mindful that trading by Directors and other employees of the Company at certain times may not be in the best interests of the above commitment. Accordingly, the Board has established and promulgated to all Directors and staff a Security Trading Code of Conduct to guide those officers in their responsibilities in respect of trading in the Company's and other companies' securities.

#### Prohibition

That the Directors, other employees and contractors may trade in the Company's securities at any time, unless the Chairman has declared a "blackout" or it is a "closed season", subject to approval procedures as follows:

1. A request to trade is emailed or a letter sent to the Company Secretary who circulates this request to the Chairman. The Chairman has seven days to respond and approve or deny the request; and
2. At the end of this seven day period if there is no objection then that person or contractor has a trading window of seven calendar days from the approval date.

Except where that person or contractor is in possession of price sensitive information.

#### Reporting of trading

All trading by officers, whether during a trading window or subject to specific authorisation, must be reported to the Board. The Company Secretary maintains a register of such trading within the Company's corporate records.

#### Price sensitive information

The Company has published for officers' guidance an exhaustive definition and explanation of what may amount to price sensitive information.

#### Training

##### Induction training

All officers of the Company are trained in the Company's Security Trading Code of Conduct as part of their induction training.

##### Ongoing training

All officers are provided with training in the Company's Security Trading Code of Conduct annually.

##### Trading in other companies' securities

The Company's Security Trading Code of Conduct is also expressly applied to other companies with which the Company may have dealings where an officer may have, or be perceived to have, price sensitive information.

### Principle 4: Safeguard integrity in financial reporting

#### Audit and risk committee

The Board has established an Audit and Risk Committee, which operates under a formal charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility to establish and maintain the framework of internal control and ethical standards for the management of the Company to the Audit and Risk Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

# CORPORATE GOVERNANCE (CONT.)

## Principle 4: Safeguard integrity in financial reporting (cont.)

### Audit and risk committee (cont.)

The Board has established an Audit and Risk Committee comprising of at least three members, the majority of whom are independent Directors and the Chair of the Committee is not the Chair of the Board as follows:

Name	Position
Michael Stork	Chairman
Alan Robertson	Independent Member
John Read	Independent Member

The CEO and CFO attend each Audit and Risk Committee meeting by invitation. Additionally the Committee meets with and receives reports from the external auditors concerning any matters arising in connection with the performance of its role, including the adequacy of internal controls. The external auditors have been appointed since the Company listed in 2007. The Lead External Audit Engagement Partner is required to rotate at least once every 5 years.

### Declaration of the CEO and CFO

The CEO and CFO provide the Board with written confirmation that:

- The financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- The statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects in relations to financial reporting risks.

The Board has received the above declaration from the CEO and CFO for this year.

## Principle 5: Make timely and balanced disclosure

The Board has established a policy governing continuous disclosure and has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

The identification and monitoring of matters which may require disclose in accordance with the Company's continuous disclosure obligations occurs on a regular basis at management meetings attended by Senior Management. To ensure that all information of this nature is brought to the attention of the Board the Company has developed a training program for all staff.

If a matter is identified as potentially requiring disclosure it is provided to the Chairman by the CEO or CFO/Company Secretary. All ASX announcements of a non procedural nature are approved by the Chairman before release.

In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

1. Concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Company posts all information disclosed in accordance with this policy on the Company's website in an area accessible by the public.

## Principle 6: Respect the rights of Shareholders

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

1. communicating effectively with shareholders through releases to the market via the ASX, the Company's website, information mailed and emailed to shareholders and the general meetings of the Company;
2. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals; and
3. making it easy for shareholders to participate in general meetings of the Company.

The Company also requests the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

In addition, the Company makes available a telephone number and email address for shareholders to make enquiries of the Company.

## Principle 7: Recognise and manage risk

The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

Management, through the CEO, is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. Management reports to the Audit and Risk Committee on the Company's key risks and the extent to which it believes these risks are being monitored at each Committee meeting. The Audit and Risk Committee review and monitor management's risk management and internal compliance and control systems.

On a continuous basis the Board has charged the Committee with responsibility that:

- clearly describe the respective roles of the Board, the Committee and Management; and
- prescribe the necessary elements of an effective risk management system, namely, oversight, risk profile, risk management, compliance and control, and assessment of system effectiveness.

The CEO and CFO in providing written confirmation to the Board in accordance with the requirements of Section 295A (2) of the *Corporations Act 2001* have also certified in writing. This certification is founded on a sound system of risk management and internal compliance and control, which implement the policies adopted by the Board and the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

### Principle 8: Remunerate fairly and responsibly

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Non Executive Chairman and the Senior Management team. The Board has established a Nominations and Remuneration Committee, comprising of three Directors, the majority of which are Non Executive Directors.

The performance of the Board, Committees, individual Directors and key executives is reviewed regularly against both measurable and qualitative indicators.

Performance appraisals are undertaken annually. The performance criteria against the Board, key executives and committees will be assessed and aligned with key corporate governance needs as well as financial and non-

financial objectives.

Executives are given limited salary packaging options for their base salary including superannuation. It is intended that the manner of payment is optimal for the recipient without increasing the cost to the Company. Executive performance and remuneration includes an "at-risk" component, the payment of which is dependent upon individual and team performance relative to specific targets. Long-term incentive arrangements have been provided by participation in equity plans to ensure key employees maintain a long-term interest in the growth and value of the Company.

The Company also issues equity to Non Executive Directors to align their interests with the long-term goals of the Company. There is no scheme to provide retirement benefits other than statutory superannuation.

In relation to the payment of bonuses, options and other incentive payments to executives and other staff, discretion is exercised by the Board having regard to individual, team and Company performance relative to specific targets during the period.

The expected outcomes of the remuneration structure are to retain and motivate Directors and key executives, attract quality management and provide incentives which align performance and Company success in a manner that is market competitive, consistent with best practice and in the interests of shareholders. Details of the nature and amount of each element of remuneration, including both monetary and non-monetary components, for each Director and the (Non Director) Officers paid during the year can be found in the Directors' Report.

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
Revenues from continuing operations	2(a)	941,662	1,426,800
Other income	2(b)	587,158	1,217,795
Expenses from continuing operations	2(c)		
Research & development		(6,976,925)	(9,103,320)
Management & administration		(2,062,541)	(2,143,307)
Finance costs		(2,693)	(4,061)
Share of losses of equity accounted associates		-	(33,653)
Loss from continuing operations before tax		(7,513,339)	(8,639,746)
Income tax (expense)	3	(21,784)	(22,593)
<b>Loss for the year from continuing operations after income tax</b>		<b>(7,535,123)</b>	<b>(8,662,339)</b>
Other comprehensive income			
Exchange differences on translating foreign operations	15(a)	(63,462)	11,416
<b>Total comprehensive income for the year attributable to members of the Company</b>		<b>(7,598,585)</b>	<b>(8,650,923)</b>
<b>Earnings per share:</b>			
Basic earnings per share - from continuing operations	5	(4.15¢)	(5.44¢)
Diluted earnings per share - from continuing operations	5	(4.15¢)	(5.44¢)

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## For the year ended 30 June 2010

	Fully paid ordinary shares \$	Foreign currency translation reserve \$	Share option reserve \$	Share loan plan reserve \$	Accumulated losses \$	Total \$
<b>2010</b>						
<b>At 1 July 2009</b>	<b>34,677,027</b>	<b>9,693</b>	<b>665,913</b>	<b>-</b>	<b>(17,635,057)</b>	<b>17,717,576</b>
Loss for the period	-	-	-	-	(7,535,123)	(7,535,123)
Other comprehensive income	-	(63,462)	-	-	-	(63,462)
Total comprehensive income for the period	-	(63,462)	-	-	(7,535,123)	(7,598,585)
<b>Transactions with owners in their capacity as owners:</b>						
Issued capital	5,036,687	-	-	-	-	5,036,687
Transaction costs related to shares issued	(79,184)	-	-	-	-	(79,184)
Cost of share based payment	-	-	94,684	61,588	-	156,272
<b>At 30 June 2010</b>	<b>39,634,530</b>	<b>(53,769)</b>	<b>760,597</b>	<b>61,588</b>	<b>(25,170,180)</b>	<b>15,232,766</b>
<b>2009</b>						
<b>At 1 July 2008</b>	<b>31,580,827</b>	<b>(1,723)</b>	<b>369,289</b>	<b>-</b>	<b>(8,972,718)</b>	<b>22,975,675</b>
Loss for the period	-	-	-	-	(8,662,339)	(8,662,339)
Other comprehensive income	-	11,416	-	-	-	11,416
Total comprehensive income for the period	-	11,416	-	-	(8,662,339)	(8,650,923)
<b>Transactions with owners in their capacity as owners:</b>						
Issued capital	3,096,200	-	-	-	-	3,096,200
Cost of share based payment	-	-	296,624	-	-	296,624
<b>At 30 June 2009</b>	<b>34,677,027</b>	<b>9,693</b>	<b>665,913</b>	<b>-</b>	<b>(17,635,057)</b>	<b>17,717,576</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>Current Assets</b>			
Cash and cash equivalents	6	6,783,233	9,595,669
Trade and other receivables	7	681,417	117,448
Deferred capital raising costs		-	52,105
Other current assets	8	105,195	171,104
<b>Total Current Assets</b>		<b>7,569,845</b>	<b>9,936,326</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	676,409	829,775
Intangible assets	10	8,060,622	8,411,142
<b>Total Non-Current Assets</b>		<b>8,737,031</b>	<b>9,240,917</b>
<b>Total Assets</b>		<b>16,306,876</b>	<b>19,177,243</b>
<b>Current Liabilities</b>			
Trade and other payables	11	864,404	1,150,984
Current tax liabilities	3	17,558	25,673
Borrowings	12	4,217	24,930
Provisions	13	73,177	58,080
<b>Total Current Liabilities</b>		<b>959,356</b>	<b>1,259,667</b>
<b>Non-Current Liabilities</b>			
Trade and other payables	11	100,000	200,000
Borrowings	12	14,754	-
<b>Total Non-Current Liabilities</b>		<b>114,754</b>	<b>200,000</b>
<b>Total Liabilities</b>		<b>1,074,110</b>	<b>1,459,667</b>
<b>Net Assets</b>		<b>15,232,766</b>	<b>17,717,576</b>
<b>Equity</b>			
Issued capital	14(a)	39,634,530	34,677,027
Reserves	15(a)(b)(c)	768,416	675,606
Accumulated losses	15(d)	(25,170,180)	(17,635,057)
<b>Total Equity</b>		<b>15,232,766</b>	<b>17,717,576</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>Cash Flows From Operating Activities</b>			
Payments to suppliers and employees		(7,401,977)	(8,583,496)
Finance costs		(2,693)	(4,061)
Income tax paid		(29,898)	(23,236)
Interest received		354,774	521,227
Government grants and R & D tax concession		19,110	831,173
Other income		6,005	37
<b>Net cash used in operating activities</b>	<b>16 (b)</b>	<b>(7,054,679)</b>	<b>(7,258,356)</b>
<b>Cash Flows From Investing Activities</b>			
Payments for property, plant and equipment		(82,613)	(310,220)
Payments for intangible assets		(919,447)	(1,079,620)
Payments for other assets		(326,869)	-
Investment in associates		-	(613,202)
<b>Net cash used in investing activities</b>		<b>(1,328,929)</b>	<b>(2,003,042)</b>
<b>Cash Flows From Financing Activities</b>			
Net proceeds from issue of shares		5,036,687	3,096,200
Payment for share issue expenses		(60,027)	(19,157)
Repayment of borrowings		(5,959)	(9,158)
<b>Net cash provided by financing activities</b>		<b>4,970,701</b>	<b>3,067,885</b>
Net (decrease)/increase in cash and cash equivalents		(3,412,907)	(6,193,513)
Effects of exchange rate changes on the balance of assets held in foreign currencies		600,471	555,206
Cash and cash equivalent at beginning of year		9,595,669	15,233,976
<b>Cash and cash equivalent at end of year</b>	<b>16 (a)</b>	<b>6,783,233</b>	<b>9,595,669</b>

The accompanying notes form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Introduction

The financial report covers Patrys Limited ("Patrys" or "Company"), a Company limited by shares whose shares are publicly traded on the Australian Securities Exchange. Patrys is incorporated and domiciled in Australia. The presentation currency and functional currency of the Group is Australian dollars.

Separate financial statements for Patrys Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, limited financial information for Patrys Limited as an individual entity is included in Note 24.

The principal activity of the Company and its subsidiaries ("Group") during the financial year was associated with utilising its technologies with the objective to develop natural human antibody therapeutics to administer as treatments to fight disease.

The financial report was authorised for issue by the Board of Directors of Patrys on the date shown on the Declaration by the Board of Directors attached to the Financial Statements.

## Note 1. Statement of significant accounting policies

The significant policies which have been adopted in the preparation of these financial statements are:

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report comprises the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

## Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted. All values are rounded to the nearest dollar.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the 'Group'. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra group transactions, balances, income and expenses are eliminated in full on consolidation. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Investments in subsidiaries are accounted for at cost in the individual financial statement of Patrys Limited.

### (b) Going concern

The financial statements have been prepared on a going concern basis. The financial statements have been prepared in accordance with generally accepted accounting standards, which are based on the Company continuing as a going concern. The Group has incurred operating losses; however the Group is

able to continue as a going concern on the basis that the Group has sufficient cash reserves to cover expenditure for at least the next twelve months.

### (c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, held at call with financial institutions, and other short-term deposits with an insignificant risk of change in value.

Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (d) Earnings per share

#### Basic earnings per share

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

#### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (e) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be

reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements concerns management's review of the following items for indicators of impairment: (i) investments in and loans to subsidiaries in the parent entity and (ii) finite life intangibles in the group. The carrying amount of investments in subsidiaries at 30 June 2010 is \$233,542 (2009: \$233,542) and the carrying amount of intangibles at 30 June 2010 is \$8,060,622 (2009: \$8,411,142).

At each reporting period the Company assesses whether investments in subsidiaries and loans to subsidiaries have suffered any impairment in accordance with the accounting policy stated in Note 1(t) and whether finite life intangibles have suffered any impairment in accordance with the accounting policy stated in Note 1(t).

Other areas that require significant judgement and key assumptions include share based payments, which are calculated at fair value using industry standard option pricing models, and the estimated useful life of intangibles, which is based on knowledge of patent law, understanding of competitive forces, and general familiarity with the biotechnology therapeutic product market.

There have been no other significant judgments made in applying accounting policies that the Directors consider would have a significant effect on the amounts recognised in the financial statements.

There have been no key assumptions made concerning the future, and there are no other key sources of estimation uncertainty at the balance date, that

the Directors consider would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **(f) Property, plant and equipment**

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Property, plant and equipment are depreciated over their estimated useful lives using the straight line method. The expected useful life for property, plant and equipment is:

- Computer equipment – 3 years;
- Plant and equipment – 5 years;
- Motor Vehicles – 8 years; and
- Furniture – 13.3 years.

Profits and losses on disposal of plant and equipment are taken into account in determining the profit for the year.

#### **Impairment**

The carrying values of plant and equipment are reviewed for impairment at each reporting date with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

Impairment losses are recognised in the statement of comprehensive income.

#### **(g) Investments**

Shares in controlled entities are shown in the parent entity information disclosed at Note 24 at cost or recoverable amount. Controlled entities are accounted for in the consolidated accounts as set out in the Note 1(a).

#### **(h) Investments accounted for using the equity method**

Associates are all entities over which the Group has significant influence but

not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

The investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The statement of comprehensive income reflects the Company's share of the results of operations of the associate.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

When there has been a change recognised directly in the associate's equity, the Company recognises its share of any change and discloses this, when applicable, in the statement of changes in equity.

The carrying value of an investment accounted for using the equity method is assessed annually to determine whether there is any indication that the asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

#### **(i) Trade and other receivables**

Trade receivables and other receivables represent the principal amounts due at balance date less, where applicable, any provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Debts which are known to be uncollectible are written off. All trade receivables and other receivables are recognised at the amounts receivable as they are due for settlement within 90 days.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 1. Statement of significant accounting policies (cont.)

### (j) Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its future recoverability can reasonably be regarded as assured, in which case it is deferred and amortised on a straight line basis over the period in which the related benefits are expected to be realised.

The carrying value of development costs that have been capitalised are reviewed for impairment annually when the asset is not yet in use or when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

### (k) Trade and other payables

Payables represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest. Liabilities for payables and other amounts are carried at cost which approximates fair value of the consideration to be paid in the future for goods and services received, whether or not billed. The amounts are unsecured and are usually paid within 30 days of recognition.

### (l) Borrowings

Loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

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

### (m) Borrowing costs

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the assets for its intended use or sale. No borrowing costs were

capitalised during the financial year ended 30 June 2010 (2009: Nil). Other borrowing costs are expensed.

### (n) Leases

Leases of property, plant and equipment where the Company bears substantially all the risks and benefits incidental to ownership of the asset, are classified as finance leases (Note 12). Finance leases are capitalised, recorded as an asset and a liability equal to the present value of the minimum lease payments, including any residual payments as determined by the lease contract. Leased assets are amortised on a straight line basis over the estimated useful lives where it is likely that the Group will obtain legal ownership of the asset on expiry of the lease. Lease payments are allocated over both the lease interest expense and the lease liability.

Lease payments for operating leases where substantially all the risks and benefits of ownership remain with the lessor are charged as expenses in the periods in which they are incurred.

### (o) Share based payments

Equity settled share based payments with employees, key consultants providing similar services and Directors are measured at fair value at the date of issue. Fair value is measured by use of industry standard pricing models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The fair value determined at the issue date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash settled share based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

### (p) Income taxes

Income taxes are accounted for using the comprehensive statement of financial position liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset; and
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

### (q) Issued capital

Ordinary shares are classified as equity (Note 14).

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

### (r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of 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 the asset or as part of the expense.

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 flows arising from investing and financing activities, which is recoverable from, or payable to, the

taxation authority, are classified as operating cash flows.

## **(s) Revenue recognition**

### **(i) Licence revenue**

Licence revenue is recognised in accordance with the underlying agreement. Upfront milestone payments are brought to account as revenues at the time of execution of the agreement and subsequent milestones when the relevant milestone has been achieved.

### **(ii) Interest income**

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### **(iii) R&D tax concession**

Income from the R&D Tax Concession is recognised on a receipts basis.

### **(iv) Grant income**

Grant income is recognised on a receipts basis.

## **(t) Impairment of assets**

Goodwill and other intangible assets that have an indefinite useful life and intangible assets not yet available for use are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment of Goodwill is not subsequently reversed.

Other assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impaired loss is recognised for the amount by which the asset's carrying amount may not be recoverable.

At each reporting date, the Group reviews the carrying amounts of its finite life tangible and intangible assets to determine whether there

is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## **(u) Foreign currency translation**

### **(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Patrys Limited's functional and presentation currency.

### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at balance date. Foreign exchange gains or losses resulting from the translation of monetary assets and liabilities at year end exchange rates are recognised in the statement of comprehensive income.

### **(iii) Group companies**

The results and financial position of all the Group entities (none of which has the currency of a

hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale where applicable.

The functional currency of the overseas subsidiary Patrys GmbH is the Euro. The functional currency of the overseas subsidiary Patrys Inc. is United States Dollars.

## **(v) Intangible assets**

### **Patents, trademarks and licences**

Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Patents, trademarks and licences comprise licences, intellectual property and registered trademarks and patents. Amortisation is calculated using straight line method, over their estimated useful lives from 10 to 20 years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 1. Statement of significant accounting policies (cont.)

### (w) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### (i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

### (ii) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- (i) has been acquired principally for the purpose of selling in the near future;
- (ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- (iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

### (iii) Available-for-sale financial assets

Certain financial assets held by the Group are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payments is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

### (iv) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

### (v) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

## (x) Comparative figures

Comparatives have been reclassified so as to be consistent with the figures presented in the current year.

## (y) New and revised accounting standards and interpretations

### (i) Adoption of new and revised standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) as of 1 July 2009 that are relevant to its operations and effective for the current annual reporting period. When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

#### *AASB 101 Presentation of Financial Statements*

AASB 101 (September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In addition, the revised Standard separates the owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

#### *AASB 8 Operating Segments*

AASB 8 Operating Segments replaced AASB 114 Segment Reporting from 1 July 2009. AASB 8 requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating Segments are now reported in a manner that is consistent with the internal reporting provided to the Board.

#### *AASB 2008-7 Amendments to Australian Accounting Standards - Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in the profit and loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary. Patrys Limited did not receive any dividends from the subsidiaries during the year ended 30 June 2010, and therefore did not impact the recoverability of the investments in subsidiaries. The adoption of these amendments did not have any impact on the financial position of the performance of the Group.

#### *AASB 2009-2 Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments*

The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

#### *AASB 123 Borrowing Costs (as revised in 2007) and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123*

The principal change to AASB 123 was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

### (ii) New accounting standards and interpretations

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

new standards and interpretations is set out below.

#### *AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-Settled Share based Payment Transactions [AASB 2] (effective from 1 January 2010)*

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the group's financial statements.

#### *AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132] (effective from 1 February 2010)*

In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The group will apply the amended standard from 1 July 2010. As the group has not made any such rights issues, the amendment will not have any effect on the group's financial statements.

Other than disclosed above, the accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those of the previous financial year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>Note 2: Revenue and expenses from continuing operations</b>			
<b>(a) Revenue</b>			
Licensing revenue		500,000	-
Interest received – bank deposits		397,414	591,892
Interest received – other		20,484	-
R & D tax credit		-	681,348
Government grants		19,110	149,825
Other		4,654	3,735
<b>Total revenue from continuing operations</b>		<b>941,662</b>	<b>1,426,800</b>
<b>(b) Other income</b>			
Foreign currency exchange gain		587,158	1,217,795
<b>Total other income</b>		<b>587,158</b>	<b>1,217,795</b>
<b>(c) Expenses</b>			
Employee salary and benefit expenses			
Salary and employee benefit expenses		2,489,688	2,906,161
Defined contribution superannuation expenses		120,673	144,113
Expenses of share based payments		156,272	296,624
<b>Total employee salary and benefit expenses</b>		<b>2,766,633</b>	<b>3,346,898</b>
<b>Depreciation and amortisation of non-current assets:</b>			
Plant and equipment		139,277	132,764
License and registered patents		946,515	524,794
<b>Total depreciation and amortisation</b>		<b>1,085,792</b>	<b>657,558</b>
<b>Foreign currency exchange differences</b>			
Foreign currency exchange losses		881,771	-
		<b>881,771</b>	<b>-</b>
<b>Operating expenses</b>			
Research and development expenses		6,976,925	9,103,320
Operating lease expenses		118,173	124,546
Loss on disposal of non-current assets		-	57,253
Provision for non-recovery of other debtors		347,353	-
<b>Note 3: Income taxes</b>			
<b>(a) Income tax expense</b>			
Current tax expense in respect of current year		21,784	22,593
<b>(b) The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:</b>			
<b>Loss from continuing operation</b>		<b>(7,513,339)</b>	<b>(8,639,746)</b>
Income tax calculated at 30%		(2,254,002)	(2,591,924)
Effect of expenses that are not deductible in determining taxable loss		46,882	88,986
Effect of equity accounted losses that are not deductible		-	10,096
Effect of different tax rates of subsidiaries operating in other jurisdictions		535	1,840
Deferred tax assets not brought into account		2,228,369	2,513,595
<b>Income tax expenses</b>		<b>21,784</b>	<b>22,593</b>

	Note	Consolidated	
		2010 \$	2009 \$
<b>Note 3: Income taxes (cont.)</b>			
<b>(b) The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows (cont.):</b>			
<b>Current tax liabilities</b>			
Income tax payable attributable to subsidiaries		17,558	25,673
<b>Deferred tax liabilities arise from the following:</b>			
Temporary differences in property, plant and equipment		-	-
<b>Unrecognised deferred tax assets</b>			
The following deferred tax assets have not been brought to account as assets:			
Tax losses – revenue		8,151,703	5,494,750

These deferred tax assets (not recognised) will only be obtained if:

- (i) the entities derive future assessable income of a nature and of an amount sufficient to enable the benefits from the deduction for losses to be realised;
- (ii) the entities continue to comply with the conditions for deductibility imposed by the law; and no changes in tax legislation adversely affect the entities in realising the relevant benefits from deduction for the losses; and
- (iii) no changes in tax legislation adversely affect the entities in realising the relevant benefits from deduction for the losses.

## Note 4: Remuneration and auditors

	2010 \$	2009 \$
<b>1 Audit services</b>		
PKF Chartered Accountants (East Coast Practice)		
• Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	52,000	62,149
Non PKF Audit Firm (McIntyre & Company)		
• Audit and review of financial reports for Patrys Inc. and Acceptys, Inc.	-	72,461
Non PKF Audit Firm (Verhulsdonk & Partner)		
• Review of financial reports for Patrys GmbH	18,883	18,450
<b>Total remuneration for audit services</b>	<b>70,883</b>	<b>153,060</b>
<b>2 Other advisory services</b>		
PKF Chartered Accountants (East Coast Practice)		
• Advice on taxation matters and review and lodgement of corporate tax return on PKF Audit Firm (McIntyre & Company)	9,708	13,784
Non PKF Audit Firm (McIntyre & Company)		
• General taxation and accounting advice for Patrys Inc.	6,621	4,596
Non PKF Audit Firm (Verhulsdonk & Partner)		
• General taxation and accounting advice for Patrys GmbH	2,492	8,582
<b>Total remuneration for audit and other advisory services</b>	<b>18,821</b>	<b>26,962</b>
<b>Total remuneration</b>	<b>89,704</b>	<b>180,022</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>Note 5: Earnings per share</b>			
Net loss used in calculating basic earnings per share:		7,535,123	8,662,339
Net loss used in calculating diluted earnings per share:		7,535,123	8,662,339

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	181,483,196	159,321,886
Dilutive potential ordinary shares	-	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	181,483,196	159,321,886

## Information concerning the classification of securities

**(i) Fully paid ordinary shares:** Fully paid ordinary shares carry the right to participate in dividends and the proceeds on winding up of the Company in equal proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Fully paid ordinary shares are included as ordinary shares in the determination of basic earnings per share.

On 3 August 2010 and 18 August 2010 the Company issued 3,000,000 and 355,998 ordinary shares respectively in accordance with its obligations under the Agreement with Advance Opportunities Fund. For further details refer to Note 25.

**(ii) Loan Share Plan:** The Company introduced the Loan Share Plan ("LSP") in December 2009 following approval of the plan at the 2009 Annual General Meeting. Only Australian residents are eligible to participate in the plan. The plan allows non-recourse, interest free loans to be provided to eligible participants to acquire shares under the plan. If and when an issue is made it will be treated as an in-substance grant of options and expensed over the vesting period because of the limited recourse nature of the loans.

Shares offered under the Loan Share Plan may be subject to Vesting Conditions, Forfeiture Conditions and Disposal Restrictions (collectively referred to as "Conditions") as determined by the Board and specified in the Offer documents sent to participants. The Board had discretion to waive or deem Conditions to have been satisfied. Shares under the LSP cannot be dealt with (including traded on the ASX) unless they are not subject to any Conditions and there is not outstanding Loan on the shares.

Generally shares issued under the plan will vest over a three year period. The shares are acquired in the name of the participant and each participant authorises and appoints the Company Secretary to act on their behalf. Any dividends paid on the shares are used to repay the loan. In all other respects the shares issued under the LSP carry the same rights as other ordinary shares on issue. If the participant leaves the Company, any shares that have not vested will be brought back by the Company and cancelled along with the loan. In respect of shares that have vested the loan balance must be paid in full within six months of termination or the shares will be sold and the proceeds applied to settle the loan balance. The issue price of the shares in the Company held under the LSP is not included in equity until the loan has been repaid.

Amounts unpaid on shares held under the LSP are treated as the equivalent of options to acquire ordinary shares and are included as potential ordinary shares in the determination of diluted earnings per share. The shares held under the LSP have not been included in the determination of basic earnings per share. Details relating to the LSP are set out in note 20.

The 1,969,150, 616,311 and 150,000 shares granted on 2 December 2009, 1 July 2010 and 18 August 2010 respectively are not included in the calculation of diluted earnings per share because they are anti dilutive for the year ended 30 June 2010. These shares held under LSP could potentially dilute basic earnings per share in the future.

**(iii) Options:** Options granted to employees under the Employee Share Option Plan ("ESOP") are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 20.

The 1,184,129 and 525,011 options granted on 2 December 2009 and 1 July 2010 respectively are not included in the calculation of diluted earnings per share because they are anti dilutive for the year ended 30 June 2010. These options could potentially dilute basic earnings per share in the future.

	Note	Consolidated	
		2010 \$	2009 \$
<b>Note 6: Cash and cash equivalents</b>			
Cash at bank		31,691	163,112
Deposit at call		975,738	5,133,741
Term deposit		5,775,804	4,298,816
<b>Total</b>		<b>6,783,233</b>	<b>9,595,669</b>

## Note 7: Trade and other receivables

<b>Current</b>			
Trade debtors		550,000	-
Other debtors		478,770	117,448
Provision for non-recovery (i)		(347,353)	-
<b>Total</b>		<b>681,417</b>	<b>117,448</b>

(i) Included within other debtors is an amount of \$347,353 which is past due and considered impaired. The balance of trade and other receivables of \$681,417 (2009: \$117,448) is not past due and not considered impaired.

## Note 8: Other current assets

Prepayments		78,330	142,128
Security Deposits		26,865	28,976
<b>Total</b>		<b>105,195</b>	<b>171,104</b>

	Note	Consolidated	
		2010	2009
		\$	\$

## Note 9: Property, plant and equipment

### Plant and equipment

At cost		936,967	973,664
Accumulated depreciation		(288,212)	(177,087)
Net plant and equipment		648,755	796,577

### Plant and equipment – finance lease

At cost		42,189	42,189
Accumulated depreciation		(14,535)	(8,991)
Net plant and equipment – finance lease		27,654	33,198

<b>Total net plant and equipment</b>		<b>676,409</b>	<b>829,775</b>
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### Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

#### (i) Plant and equipment at cost:

Balance at the beginning of year		796,577	601,776
Additions		82,613	310,220
Depreciation expense		(133,733)	(127,223)
Foreign exchange increment/(decrement)		(96,702)	11,804

<b>Carrying amount at the end of year</b>		<b>648,755</b>	<b>796,577</b>
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#### (ii) Plant and equipment hire purchase:

Balance at the beginning of year		33,198	38,739
Additions		-	-
Depreciation expense		(5,544)	(5,541)

<b>Carrying amount at the end of year</b>		<b>27,654</b>	<b>33,198</b>
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## Note 10: Intangible assets

Intellectual property establishment and licenses acquired at cost (ii)		9,832,632	9,236,636
Less: Accumulated amortisation		(1,772,010)	(825,494)
		<b>8,060,622</b>	<b>8,411,142</b>

### Movements in the carrying amounts for intellectual property between the beginning and the end of the current financial year

Carrying amount at the beginning of year		8,411,142	4,166,506
Additions – acquisitions		595,995	4,769,430
Amortisation expense (i)		(946,515)	(524,794)

<b>Carrying amount at the end of year (iii)</b>		<b>8,060,622</b>	<b>8,411,142</b>
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- (i) Amortisation expense is included in the line item 'research and development' in the statement of comprehensive income
- (ii) Intangible assets comprise licences, intellectual property, trademarks and registered patents, have a finite useful life and are recorded at cost. Amortisation is calculated using straight line method over the estimated useful life, which range from 9 to 20 years. Remaining amortisation periods range from 7.5 to 20 years.
- (iii) The recoverable amounts of intellectual property which includes platform technology and product related intellectual property have been supported based on a value in use calculation under which the present worth of the future cash flows expected over the economic life of the asset was determined. The future cash flow projections are based on financial budgets and business plans as well as an assessment of information from external sources on such facts as the existing incidence of the disease, projections of patients, product market size, competitor products and the expected growth figures.
- The valuation was performed in-house using the probability adjusted net present value (NPV) method. The valuation has been based on a cash flow projection covering the remaining term of each relevant patent application that can exceed 12 years yet, does not exceed 19 years.
- A pre-tax discount rate of 20% was used. The other key assumptions included expected milestone receipts; royalty rates received of 3% and estimated market size.
- No reasonably expected change in any of the key assumptions would impact the estimated recoverable amount.
- Funds are being invested in research and development, as products move through each phase of required preclinical and clinical development. Product development can take several years. The NPV model has incorporated projected cash flows from between 8 to 19 years based on the patent life in lieu of using a terminal value to better reflect the nature of the cash flows to be received over the product life cycle. The application of extended cash flow projections beyond five years is consistent with AASB 136 Impairment of Assets 134(d)(iii).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>Note 11: Trade and other payables</b>			
<b>Current</b>			
Trade creditors		173,523	241,556
Payables associated with acquisition of IP		100,000	341,262
Other creditors and accruals		590,881	568,166
		<b>864,404</b>	<b>1,150,984</b>
<b>Non-current</b>			
Payables associated with acquisition of IP		100,000	200,000
		100,000	200,000
<b>Total</b>		<b>964,404</b>	<b>1,350,984</b>
<b>Note 12: Borrowings</b>			
<b>Current</b>			
Finance lease liabilities (i)		4,217	24,930
		<b>4,217</b>	<b>24,930</b>
<b>Non-current</b>			
Finance lease liabilities (i)		14,754	-
		<b>14,754</b>	-
(i) Secured by the assets leased. The borrowings are of fixed interest rate debt with repayment periods not exceeding five years. The current weighted average effective interest rate on the finance liabilities is 11.99% per annum.			
<b>Note 13: Provisions</b>			
Annual leave		73,177	58,080
		<b>73,177</b>	<b>58,080</b>

## Note 14: Contributed equity

The Company does not have authorised capital nor par value in respect of its issued shares.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in equal proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

### (a) Movements in issued capital during the year were as follows:

Issued shares	2010		2009	
	No. of shares	\$	No. of shares	\$
At the beginning of the reporting period	164,151,475	34,677,027	152,851,475	31,580,827
Shares issued pursuant to the Acceptys Transaction	-	-	11,300,000	3,096,200
Rights Issue shares issued at 25 cents per share	20,146,746	5,036,687	-	-
Transaction costs arising on issue of shares	-	(79,184)	-	-
Shares issued pursuant to the Loan Share Plan (refer Note 20(a))	1,969,150	-	-	-
<b>At end of the reporting period</b>	<b>186,267,371</b>	<b>39,634,530</b>	<b>164,151,475</b>	<b>34,677,027</b>
<b>Issued shares are comprised as follows:</b>				
Ordinary shares	184,298,221	-	164,151,475	-
Restricted shares issued under the LSP	1,969,150	-	-	-
	<b>186,267,371</b>		<b>164,151,475</b>	

**(b) Movements in share options over ordinary shares during the year were as follows:**

	Consolidated	
	2010 No.	2009 No.
Balance at beginning of the year	29,043,530	26,649,530
Granted during the year	1,184,129	2,990,000
Exercised during the year	-	-
Lapsed during the year	(418,008)	(596,000)
<b>Balance at end of the year</b>	<b>29,809,651</b>	<b>29,043,530</b>

Option – Series	Number	Vesting date	Expiry date	Exercise price \$	Unvested at Year End
Granted 29 May 2007	300,000	29/05/2007	29/05/2012	0.45	-
Granted 29 May 2007	300,000	29/05/2008	29/05/2013	0.45	-
Granted 29 May 2007	150,000	29/05/2009	29/05/2014	0.45	-
Granted 31 March 2007	4,595,851	13/01/2008	13/07/2012	0.45	-
Granted 31 March 2007	4,595,852	13/07/2008	13/07/2012	0.45	-
Granted 31 March 2007	7,627,163	13/01/2008	13/07/2012	0.80	-
Granted 31 March 2007	7,627,164	13/07/2008	13/07/2012	0.80	-
Granted 6 July 2007	250,000	06/07/2007	05/07/2012	0.46	-
Granted 6 July 2007	250,000	06/07/2008	05/07/2013	0.56	-
Granted 31 October 2007	350,000	31/01/2008	31/01/2013	0.56	-
Granted 1 July 2008	407,504	01/07/2009	01/07/2014	0.33	-
Granted 1 July 2008	324,999	01/07/2010	01/07/2015	0.33	324,999
Granted 1 July 2008	324,998	01/07/2011	01/07/2016	0.33	324,998
Granted 1 July 2008	57,500	18/09/2008	18/09/2013	0.33	-
Granted 1 July 2008	57,500	18/03/2009	18/03/2014	0.33	-
Granted 1 July 2008	65,000	07/10/2008	07/10/2013	0.33	-
Granted 1 July 2008	65,000	07/04/2009	07/04/2014	0.33	-
Granted 19 November 2008	125,000	20/04/2009	20/04/2014	0.17	-
Granted 19 November 2008	125,000	20/10/2009	20/10/2014	0.17	-
Granted 28 November 2008	480,000	25/05/2009	25/05/2014	0.2609	-
Granted 28 November 2008	480,000	25/05/2010	25/05/2015	0.2609	-
Granted 28 November 2008	240,000	25/05/2011	25/05/2016	0.2609	240,000
Granted 2 December 2009	337,038	27/11/2010	27/11/2015	0.144	337,038
Granted 2 December 2009	337,041	27/11/2011	27/11/2016	0.144	337,041
Granted 2 December 2009	337,041	27/11/2012	27/11/2017	0.144	337,041
	<b>29,809,651</b>				<b>1,901,117</b>

Share options granted carry no rights to dividends and no voting rights.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>Note 15: Reserves and accumulated losses</b>			
Foreign currency translation reserve	(a)	(53,769)	9,693
Share options reserve	(b)	760,597	665,913
Share loan plan reserve	(c)	61,588	-
		<b>768,416</b>	<b>675,606</b>
<b>(a) Foreign currency translation reserve</b>			
Opening balance 1 July		9,693	(1,723)
Net adjustment arising from the translation of foreign controlled entities' financial statements		(63,462)	11,416
<b>Closing balance</b>		<b>(53,769)</b>	<b>9,693</b>
Exchange differences relating to translation from functional currencies of the Group's foreign controlled entities into Australian Dollars are brought to account by entries made directly to the foreign currency translation reserve			
<b>(b) Share options reserve</b>			
Opening balance 1 July		665,913	369,289
Value of options issued		94,684	296,624
<b>Closing balance</b>		<b>760,597</b>	<b>665,913</b>
<b>(c) Share loan plan reserve</b>			
Opening balance 1 July		-	-
Value of shares issued		61,588	-
<b>Closing balance</b>		<b>61,588</b>	<b>-</b>
The equity settled employee benefits reserves arise on issue of equity under the Loan Share Plan or the Executive Share Option Plan to executives and senior employees. Amounts are transferred out of the reserves and into issued capital when the loans are repaid or the options are exercised. Further information about share based payments to Directors and key management personnel is made at Note 20 of the financial statements.			
<b>(d) Movement in accumulated losses</b>			
Opening balance 1 July		(17,635,057)	(8,972,718)
Net loss attributable to the members of the parent entity for the period		(7,535,123)	(8,662,339)
<b>Closing balance</b>		<b>(25,170,180)</b>	<b>(17,635,057)</b>
<b>Note 16: Cash flow Information</b>			
<b>(a) Reconciliation of cash</b>			
Cash at bank		31,691	163,112
Deposit at call		975,738	5,133,741
Term deposit		5,775,804	4,298,816
		<b>6,783,233</b>	<b>9,595,669</b>

	Note	Consolidated	
		2010 \$	2009 \$
<b>Note 16: Cash flow Information (cont.)</b>			
<b>(b) Reconciliation of cash flow used in operations with loss after income tax</b>			
Loss from ordinary activities		(7,535,123)	(8,662,339)
<b>Non cash movements:</b>			
Depreciation and amortisation		1,085,792	657,558
Equity settled share based payment		156,272	296,624
Equity accounted losses on investment		-	33,653
Unrealised foreign exchange gains		(587,094)	(555,594)
Loss on disposal of non-current assets		-	57,253
Non cash expenditure		-	53,180
(Increase)/decrease in trade and other receivables		(237,100)	83,167
(Increase)/decrease in prepaid expenses		65,909	584,991
Increase/(decrease) in trade creditors and accruals		(18,432)	135,071
Increase/(decrease) in provisions		15,097	58,080
<b>Cash flows used in operations</b>		<b>(7,054,679)</b>	<b>(7,258,356)</b>

### (c) Non cash financing and investing activities

During the year ended 30 June 2009, Patrys acquired intellectual property by the issue of fully paid ordinary shares as part of the arrangements with Acceptys, Inc. The fair value attributed to this intellectual property was \$3,382,563.

During the year ended 30 June 2008, Patrys acquired a motor vehicle by way of a 2-year finance lease, this finance lease was extended during the current year for a further 3 year term. Present value minimum lease payments at 30 June 2010 \$18,971 (2009:\$24,930).

Non cash investing activities involving the issue of shares are disclosed in Note 14.

### Note 17: Commitments and contingencies

#### (a) Acquisition Agreements

Agreement	Expected date of settlement
Vollmers Acquisition Agreement	Payments commenced in 2007; contingent payments possible for up to 20 years
OncoMab Acquisition Agreement	Contingent payments possible for up to 20 years
Würzburg Cooperation Agreement	Payments started in 2007; contingent payments possible for up to 20 years
Confirmation Assignment Agreement: Patrys, University of Würzburg and Acceptys, Inc.	Payments started in 2007; contingent payments possible for up to 20 years

Patrys has entered into several agreements whereby Patrys is obliged to make royalty payments on future sales and make future cash milestone payments if certain events occur. These agreements include:

- Vollmers Acquisition Agreement: milestone payments and royalty payments;
- OncoMab Acquisition Agreement: royalty payments;
- Würzburg Cooperation Agreements: royalty payments; and
- Confirmation Assignment Agreement: Patrys, University of Würzburg and Acceptys, Inc.: royalty payments.

#### Vollmers Acquisition Agreement

Patrys is committed to make additional payments as further consideration for the Vollmers Technology Assets. This liability was triggered on a successful listing on the ASX with \$150,000 payable six months from the date of ASX listing and payments of \$100,000 payable 18, 30, 42 and 60 months from the date of ASX listing. These payments have been recorded as a liability as the ASX listing occurred on 13 July 2007. These payments have been capitalised into intangible assets. In addition Patrys is committed to making certain milestone payments if certain hurdles are achieved as follows:

- milestone payments for products derived from the Vollmers Hybridomas and Residual Hybridomas, payable only once for each product, in the amount of \$250,000 upon attaining the first Phase II clinical trials and a payment upon attaining regulatory approval

in any of the US, Japan, UK, France, Germany Italy or Spain;

- milestone payments for products derived from the PAT-SM6-LDL Rights in the amount of \$250,000 upon attaining Phase II clinical trials, \$400,000 for attaining Phase III clinical trials and a payment for regulatory approval in a major market; and
- certain later stage milestone payments (at regulatory approval) and royalties on sales of products derived from the assigned assets are also payable in amounts and at rates that are typical in the industry for transactions of this nature and for such products.

#### OncoMab Acquisition Agreement

Patrys must pay to OncoMab certain royalties on sales of products derived from the assigned assets in amounts and at rates that are typical in the industry for transactions of this nature and for such products.

#### Würzburg Cooperation Agreement

The University with the cooperation and sponsorship of the Company undertakes research in accordance with an agreed research and development plan. The University has assigned all of its intellectual property rights, title and interest in the new intellectual property (New IPR) created under the research project to the Company. Patrys must pay to the University certain royalties on sales of products derived from the New IPR in amounts and at rates that are typical in the industry for transactions of this nature and for such products.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 17: Commitments and contingencies (cont.)

### (a) Acquisition Agreements (cont.)

#### Confirmation Assignment Agreement

The University of Würzburg assigned to Patrys all of its rights, title and interest in a library of hybridomas in consideration for payment of a lump sum of US\$75,000 and royalties payable on the sale of products that derive from the New IPR. These payments and royalty rates are typical in the industry for transactions of such nature.

### (b) Capital expenditure commitments

There was no capital expenditure contracted for at balance date but not provided for in the accounts.

### (c) Licence agreements

Patrys has entered into a number of licence agreements in respect of technologies and assets as outlined below:

#### Patrys – Crucell 2007 Research Licence Agreement

In May of 2007, Patrys entered into contracts with DSM Biologics Company and Crucell Holland B.V., covering the evaluation of Crucell's PER.C6® human antibody production technologies for potential use for Patrys' products. The contract was at the risk of DSM and Crucell in that no payments would be due from Patrys short of a successful result. In August

of 2008, DSM and Crucell reported significantly positive results from this work (which was completed at a DSM/ Crucell joint venture laboratory at DSM/Crucell cost). As part of these arrangements the Company entered into a research licence with Crucell in respect of the application of these technologies in 3 Patrys products. Under this agreement Patrys is committed to make an annual licence fee payment of €50,000. If Patrys wishes to commercialise any of the products developed under the research licence agreement it has the right to enter into a commercial licence with Crucell which would incur annual payments and royalties payable on the sale of products that derive from the licensed PER.C6® cell line. These payments and royalty rates are typical in the industry for transactions of such nature.

#### Patrys – Crucell 2009 Research Licence Agreement

In July of 2009, Patrys entered into a research licence agreement with Crucell Holland B.V., covering the use of Crucell's PER.C6® human antibody production technologies for potential use for 5 Patrys' products. Patrys is committed to make an annual license fee of €50,000. If Patrys wishes to commercialise any of the products developed under the research licence agreement it has the right to enter into a commercial licence with Crucell which would incur annual payments and royalties payable on the sale of products that derive from the licensed

PER.C6® cell line. These payments and royalty rates are typical in the industry for transactions of such nature.

### Patrys – Debiovision – Option License and Assignment Agreement

In August of 2009, Patrys acquired the rights to product SC-1 (renamed PAT-SC1) from Debiovision Inc. Once developed, Patrys royalties will be payable to Debiovision on the sale of products that derive from PAT-SC1. These royalty rates are typical in the industry for transactions of this nature.

### (d) Other contingencies

#### Patrys – The University of Melbourne ARC Linkage Agreement

In February 2010, Patrys entered into a ARC linkage agreement with The University of Melbourne, covering the use of PAT-SM6 in biophysical and biochemical studies with researchers based at the university. From 2010 to 2012, Patrys will contribute an annual cash contribution of \$63,024 towards the project in addition to in-kind support.

#### Patrys Supplier Arrangements

As at balance date projects that had been committed to with suppliers. To the extent that work had been completed expenditure has been provided for in the accounts. Committed but unrecognised expenditure as at balance day amounted to \$384,934 (2009: \$539,365).

## Note 18: Leases

### Finance leases

#### Leasing arrangements

The finance lease relates to a motor vehicle which had an initial lease term of two years. The lease was extended during the year for a further three years. The Group has options to purchase the motor vehicle for a nominal amount at the conclusion of the lease agreement. The Group's obligation under the finance lease is secured by the lessor's title to the leased asset.

#### Finance lease liabilities

	Consolidated	
	2010 \$	2009 \$
<b>Present value of minimum future lease payments</b>		
No later than 1 year	7,280	25,657
Later than 1 year and not later than 5 years	17,706	-
Minimum future lease payments*	24,986	25,657
Less future finance charges	(6,015)	(727)
<b>Present value of minimum lease payments</b>	<b>18,971</b>	<b>24,930</b>
<b>Included in the financial statements as: (Note 12)</b>		
Current borrowings	4,217	24,930
Non-current borrowings	14,754	-
	<b>18,971</b>	<b>24,930</b>

\* Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

## Note 18: Leases (cont.)

### Finance leases (cont.)

#### Operating leases

##### Lease arrangements

Patrys' office space at 343 Little Collins Street, Melbourne, Australia, has a lease term extending to 1 December 2010. The leases for Group's laboratories at the Bio21 Institute in Melbourne and in Würzburg, Germany (Patrys GmbH) are currently on a month to month basis following the expiry of the previous leases. The Group currently intends to remain at these facilities and will negotiate lease extensions when required by the lessors. The Company does not have an option to purchase the respective properties covered by these leases.

##### Non-cancellable operating lease commitments

	Consolidated	
	2010 \$	2009 \$
Not longer than 1 year	14,241	140,621
Longer than 1 year and not longer than 5 years	-	-
	<b>14,241</b>	<b>140,621</b>

## Note 19: Financial instruments

### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 12, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 14, and 15, respectively. The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the Group's assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to borrow centrally; using a variety of capital market issues and borrowing facilities to meet anticipated funding requirements.

#### Gearing ratio

The Group's Audit and Risk Committee reviews the capital structure on a semi-annual basis. As a part of this review the committee considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing of 0% in line with the industry norm that is determined as the proportion of net debt to equity. Based on recommendations of the committee the Group will balance its overall capital structure through new share issues.

The gearing ratio at year end was as follows:

	Note	Consolidated	
		2010 \$	2009 \$
<b>Financial assets</b>			
Debt (i)	12	(18,971)	(24,930)
Cash and cash equivalents	6	6,783,233	9,595,669
<b>Net cash/(debt)</b>		<b>6,764,262</b>	<b>9,570,739</b>
Equity (ii)	14,15	15,232,766	17,717,576
Net debt to equity ratio		-	-

(i) Debt is defined as long-term and short-term borrowings, as detailed in Note 12.

(ii) Equity includes all capital and reserves as detailed in Note 14 and 15.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 19: Financial instruments (cont.)

### (b) Financial risk management objectives

The Group's treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. There have been no changes to these risks since the previous financial year.

The Board of Directors ensures that the Group maintains a competent management structure capable of defining, analysing, measuring and reporting on the effective control of risk inherent in the Group's underlying financial activities and the instruments used to manage risk. Key financial risks including interest rate risk and foreign currency risk are reviewed by management on a regular basis and are communicated to the Board so that it can evaluate and impose its oversight responsibility. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Company and the Group do not have written policies regarding financial risk management, but it is managed prudently by the Chief Financial Officer and the Audit and Risk Committee which meets three times a year.

The consolidated entity holds the following financial instruments:

	Note	2010 \$	2009 \$
<b>Financial assets</b>			
Cash and cash equivalents	6	6,783,233	9,595,669
Trade and other receivables	7, 8	786,612	288,552
		<b>7,569,845</b>	<b>9,884,221</b>
<b>Financial liabilities</b>			
Trade and other payables	11	981,962	1,376,657
Borrowings	12	18,971	24,930
		<b>1,000,933</b>	<b>1,401,587</b>

### (c) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency rates. The Group's exposure to foreign currency is predominately in US dollars and Euros. The Group has maintained cash in US dollars and Euros to cover a portion of its anticipated US dollar and Euro expenditures.

There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures risk from the previous period.

### (d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. Exchange rate exposures are managed within approved policy parameters. The Group manages the currency risk by monitoring the trend of the US dollar and Euro. The Group has maintained US dollar and Euro bank accounts to cover a portion of its anticipated expenditures in the respective foreign currencies.

The consolidated entity's foreign currency risk denominated financial assets and financial liabilities at the reporting date are as follows:

Consolidated	30 June 2010		30 June 2009	
	USD	Euro	USD	Euro
<b>Financial Assets</b>				
Cash and cash equivalents	21,521	483,465	1,341,772	1,287,021
Trade and other receivables	7,646	12,589	1,429	16,336
<b>Financial Liabilities</b>				
Trade and other payables	251,043	159,969	249,511	244,719
Borrowings	-	-	-	-

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date. A 10 percent increase or decrease in the foreign exchange rate is used and represents management's assessment of the possible change in foreign exchange rates and historically is within a range of rate movements. A positive number indicates an increase in profit and other equity. A negative number indicates a decrease in profit and other equity. At 30 June 2010, if foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, pre tax profit and equity would have been affected as follows:

Consolidated	-10%		+10%	
	Profit \$	Equity \$	Profit \$	Equity \$
<b>30 June 2010</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	79,777	79,777	(65,272)	(65,272)
Trade and other receivables	3,001	3,001	(2,455)	(2,455)
<b>Financial Liabilities</b>				
Trade and other payables	(42,694)	(42,694)	34,931	34,931
Borrowings	-	-	-	-
<b>Total Increase/(decrease)</b>	<b>40,084</b>	<b>40,084</b>	<b>(32,796)</b>	<b>(32,796)</b>
<b>30 June 2009</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	432,395	432,395	(353,778)	(353,778)
Trade and other receivables	3,352	3,352	(2,742)	(2,742)
<b>Financial Liabilities</b>				
Trade and other payables	(81,448)	(81,448)	66,639	66,639
Borrowings	-	-	-	-
<b>Total Increase/(decrease)</b>	<b>354,299</b>	<b>354,299</b>	<b>(289,881)</b>	<b>(289,881)</b>

### (e) Interest rate risk management

The Company's exposure to market interest rates relates primarily to the Company's short term deposits held and deposits at call. The interest income earned from these balances can vary due to interest rate changes.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 10 percent increase or decrease in the interest rate is used and represents management's assessment of the possible change in interest rates and historically is within a range of rate movements.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the statement of financial position date. At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre tax profit and equity would have been affected as follows:

Consolidated	-10%		+10%	
	Profit \$	Equity \$	Profit \$	Equity \$
<b>30 June 2010</b>				
<b>Financial assets</b>				
Cash and cash equivalents	(35,294)	(35,294)	35,294	35,294
<b>30 June 2009</b>				
<b>Financial assets</b>				
Cash and cash equivalents	(21,860)	(21,860)	21,860	21,860

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 19: Financial instruments (cont.)

### (f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to pay its debts as and when they fall due. The Company has no borrowings to balance date other than finance lease liability and the Directors ensure that the cash on hand is sufficient to meet the commitments of the Group at all times during the research and development phase.

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash and where necessary unutilised borrowing facilities are maintained.

### Financing arrangements

The Company does not have access to any borrowing facilities at the reporting date.

### Maturities of financial liabilities

The tables below analyse the parent entity and consolidated financial liabilities.

Consolidated	6 -12 months \$	Maturing 1 to 3 years \$	Total \$
<b>2010</b>			
<b>Financial liabilities</b>			
Payables	981,962	-	981,962
Borrowings	4,217	14,754	18,971
<b>Total financial liabilities</b>	<b>986,179</b>	<b>14,754</b>	<b>1,000,933</b>
<b>2009</b>			
<b>Financial Liabilities</b>			
Payables	1,376,657	-	1,376,657
Borrowings	24,930	-	24,930
<b>Total financial liabilities</b>	<b>1,401,587</b>	<b>-</b>	<b>1,401,587</b>

All current balances mature within one year; all non-current balances mature in between one and three years.

### (g) Price risk

Price risk is the risk that future cashflows derived from financial instruments will be changed as a result of a market price movement, other than foreign currency rates and interest rates. The Group is not exposed to any material commodity price risk, other than those already described above.

### Net fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values.

The net fair values of financial assets and financial liabilities are determined as follows:

- the net fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the net fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

### (h) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

## Note 20: Share based payments

### (a) Employee share options

The Company issues equity to all Patrys (including subsidiaries Patrys Inc. and Patrys GmbH) directors, employees and key consultants under either the Loan Share Plan (LSP) or the Executive Share Option Plan (ESOP). Under the plans, participants are issued with equity to foster an ownership culture within the Company to motivate them to achieve performance targets of the Group. Participation in the plans is at the Board's discretion and no individual has a contractual right to participate in the plans or to receive any guaranteed benefits.

The Company introduced the LSP in December 2009 following approval of the plan at the 2009 Annual General Meeting. Only Australian residents are eligible to participate in the plan. The plan allows non-recourse, interest free loans to be provided to eligible participants to acquire shares under the plan. If and when an issue is made it will be treated as an in-substance grant of options and expensed over the vesting period because of the limited recourse nature of the loans. Generally shares issued under the plan will vest over a three year period.

The shares are acquired in the name of the participant and each participant authorises and appoints the Company Secretary to act on their behalf. Any dividends paid on the shares are used to repay the loan. If the participant leaves the Company, any shares that have not vested will be brought back by the Company and cancelled along with the loan. In respect of shares that have vested the loan balance must be paid in full within six months of termination of appointment or the shares will be sold and the proceeds applied to settle the loan balance. The issue price of the shares in the Company held under the LSP is not included in equity until the loan has been repaid.

Options are granted under the ESOP. Following the introduction of the LSP issues under the ESOP are generally only made to non-Australian residents. Under the ESOP each option granted converts into one ordinary share of Patrys Limited. Options are granted under the plan for no consideration and carry no dividend or voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The options are typically issued in two or three equal tranches which vest over a three year period, each tranche

having an expiry date of five years after vesting date. The exercise period in relation to an option means the period in which the option may be exercised and is specified by the Board.

If a participant ceases to be appointed as a Director or employed by any member of the group (other than due to his/her death) then options that have vested at the date of cessation of appointment/employment will lapse if not exercised within six months of the cessation date. In the case of death of the participant then the exercise period is extended to twelve months. All unvested options will generally lapse on cessation.

The valuations of shares issued under the LSP and options issued under the LSP are determined by using an industry standard option pricing model taking into account the terms and conditions upon which the instruments were issued.

The Board aims to ensure that the aggregate number of shares or options which may be issued pursuant to the LSP and ESOP shall not at any time exceed 5% of the total number of issued shares of the Company. All issues of shares or options under the plans are subject to the approval by the Nominations and Remuneration Committee.

The following share-based payment arrangements were in existence during the current and comparative reporting period:

Loan Share Plan (LSP) - Series	Number	Issue date	Loan expiry date	Fair Value at Grant Date	
				Unit Price \$	Amount \$
Employees LSP Tranche 1	446,733	02/12/2009	27/11/2015	0.0935	41,781
Employees LSP Tranche 2	446,733	02/12/2009	27/11/2016	0.1003	44,822
Employees LSP Tranche 3	446,733	02/12/2009	27/11/2017	0.1060	47,371
Directors LSP Tranche 1	209,651	02/12/2009	27/11/2015	0.0935	19,608
Directors LSP Tranche 2	209,650	02/12/2009	27/11/2016	0.1003	21,035
Directors LSP Tranche 3	209,650	02/12/2009	27/11/2017	0.1060	22,230
<b>Total</b>	<b>1,969,150</b>				<b>196,847</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 20: Share based payments (cont.)

### (a) Employee share options (cont.)

Executive Share Option Plan (ESOP) - Series				Fair Value at Grant Date	
	Number	Issue date	Loan expiry date	Unit Price \$	Amount \$
Directors ESOP Tranche 1	300,000	29/05/2007	29/05/2012	0.1498	44,937
Directors ESOP Tranche 2	300,000	29/05/2007	29/05/2013	0.1607	48,214
Directors ESOP Tranche 3	150,000	29/05/2007	29/05/2014	0.1764	26,464
Employees ESOP Tranche 1	150,000	29/05/2007	11/01/2012	0.1476	22,139
Employees ESOP Tranche 2	150,000	29/05/2007	11/01/2013	0.1314	19,715
Employees ESOP Tranche 3	250,000	06/07/2007	05/07/2012	0.2021	50,532
Employees ESOP Tranche 4	25,000	06/07/2007	05/07/2013	0.2692	6,730
Employees ESOP Tranche 5	250,000	06/07/2007	05/07/2013	0.2692	67,300
Employees ESOP Tranche 6	25,000	06/07/2007	05/07/2014	0.2754	6,886
Employees ESOP Tranche 7	603,500	31/10/2007	31/01/2013	0.2492	150,409
Employees ESOP Tranche 8	418,339	01/07/2008	01/07/2014	0.1738	72,723
Employees ESOP Tranche 9	418,332	01/07/2008	01/07/2015	0.1892	79,162
Employees ESOP Tranche 10	418,329	01/07/2008	01/07/2016	0.2024	84,687
Employees ESOP Tranche 11	20,000	01/07/2008	03/06/2013	0.1541	3,082
Employees ESOP Tranche 12	20,000	01/07/2008	03/12/2013	0.1637	3,275
Employees ESOP Tranche 13	57,500	01/07/2008	18/09/2013	0.1598	9,191
Employees ESOP Tranche 14	57,500	01/07/2008	18/03/2014	0.1689	9,712
Employees ESOP Tranche 15	65,000	01/07/2008	07/10/2013	0.1608	10,454
Employees ESOP Tranche 16	65,000	01/07/2008	07/04/2014	0.1699	11,041
Employees ESOP Tranche 17	125,000	19/11/2008	20/04/2014	0.0499	6,235
Employees ESOP Tranche 18	125,000	19/11/2008	20/10/2014	0.0535	6,693
Directors ESOP Tranche 4	480,000	28/11/2008	25/05/2014	0.0414	19,868
Directors ESOP Tranche 5	480,000	28/11/2008	25/05/2015	0.0490	23,520
Directors ESOP Tranche 6	240,000	28/11/2008	25/05/2016	0.5421	13,009
Employees ESOP Tranche 19	394,709	02/12/2009	27/11/2015	0.0935	36,915
Employees ESOP Tranche 20	394,710	02/12/2009	27/11/2016	0.1003	39,602
Employees ESOP Tranche 21	394,710	02/12/2009	27/11/2017	0.1060	41,855
<b>Total</b>	<b>6,377,629</b>				<b>914,350</b>

The weighted average fair value of the shares and options issued during the financial year under the LSP and ESOP is \$0.1440 (2009: \$0.1179). These shares and options were priced using standard industry pricing models. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the share loans and options), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past year.

The following reconciles the outstanding shares issued under the Loan Share Plan at the beginning and end of the financial year:

	2010		2009	
	Number of shares	Weighted average issue price \$	Number of shares	Weighted average issue price \$
Balance at beginning of the financial year	-	-	-	-
Granted during the financial year	1,969,150	0.1440	-	-
Forfeited during the financial year	(200,070)	0.1440	-	-
Loans repaid during the financial year	-	-	-	-
Loans cancelled during the financial year	-	-	-	-
Balance at end of the financial year	1,769,080	0.1440	-	-
Weighted average remaining contractual life	6.415 Years		-	-
Loans repayable at end of the financial year	-	-	-	-

The following reconciles the outstanding share options granted under the Executive Share Option Plan at the beginning and end of the financial year:

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	4,597,500	0.3607	2,203,500	0.4965
Granted during the financial year	1,184,129	0.1440	2,990,000	0.2889
Forfeited during the financial year	(418,008)	0.2613	(596,000)	0.5026
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end of the financial year	5,363,621	0.3206	4,597,500	0.3607
Weighted average remaining contractual life	4.366 Years		4.933 Years	
Exercisable at end of the financial year	3,462,504	0.3745	2,505,000	0.4141

#### Shares issued in the current and past periods under the Loan Share Plan:

Shares were first issued under the Loan Share Plan in the current financial year.

Loan Share Plan - Series	Issue price \$	Balance at start of year	Issued during the year	Loans repaid during the year	Loans cancelled during the year	Balance at end of year	Vested & repayable at the end of the year	Not vested at the end of the year
<b>Shares issued during the year ended 30 June 2010</b>								
Directors LSP Tranche 1	0.144	-	209,651	-	-	209,651	-	209,651
Directors LSP Tranche 2	0.144	-	209,650	-	-	209,650	-	209,650
Directors LSP Tranche 3	0.144	-	209,650	-	-	209,650	-	209,650
Employees LSP Tranche 1	0.144	-	446,733	-	66,690	380,043	-	380,043
Employees LSP Tranche 2	0.144	-	446,733	-	66,690	380,043	-	380,043
Employees LSP Tranche 3	0.144	-	446,733	-	66,690	380,043	-	380,043
		-	<b>1,969,150</b>		<b>200,070</b>	<b>1,769,080</b>		<b>1,769,080</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 20: Share based payments (cont.)

### (a) Employee share options (cont.)

Options granted in the current and past periods:

Loan Share Plan - Series	Exercise price \$	Balance at start of year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of year	Vested & exercisable at the end of the year	Not vested & unexercisable at the end of the year
<b>Options granted prior to 30 June 2009</b>								
Directors ESOP Tranche 1	0.45	300,000	-	-	-	300,000	300,000	-
Directors ESOP Tranche 2	0.45	300,000	-	-	-	300,000	300,000	-
Directors ESOP Tranche 3	0.45	150,000	-	-	-	150,000	150,000	-
Employees ESOP Tranche 3	0.46	250,000	-	-	-	250,000	250,000	-
Employees ESOP Tranche 5	0.56	250,000	-	-	-	250,000	250,000	-
Employees ESOP Tranche 7	0.56	365,000	-	-	15,000	350,000	350,000	-
Employees ESOP Tranche 8	0.33	415,838	-	-	8,334	407,504	407,504	-
Employees ESOP Tranche 9	0.33	415,832	-	-	90,833	324,999	-	324,999
Employees ESOP Tranche 10	0.33	415,830	-	-	90,832	324,998	-	324,998
Employees ESOP Tranche 11	0.33	20,000	-	-	20,000	-	-	-
Employees ESOP Tranche 12	0.33	20,000	-	-	20,000	-	-	-
Employees ESOP Tranche 13	0.33	57,500	-	-	-	57,500	57,500	-
Employees ESOP Tranche 14	0.33	57,500	-	-	-	57,500	57,500	-
Employees ESOP Tranche 15	0.33	65,000	-	-	-	65,000	65,000	-
Employees ESOP Tranche 16	0.33	65,000	-	-	-	65,000	65,000	-
Employees ESOP Tranche 17	0.17	125,000	-	-	-	125,000	125,000	-
Employees ESOP Tranche 18	0.17	125,000	-	-	-	125,000	125,000	-
Directors ESOP Tranche 4	0.2609	480,000	-	-	-	480,000	480,000	-
Directors ESOP Tranche 5	0.2609	480,000	-	-	-	480,000	480,000	-
Directors ESOP Tranche 6	0.2609	240,000	-	-	-	240,000	-	240,000
<b>Options granted during the year ended 30 June 2010</b>								
Employees ESOP Tranche 19	0.144	-	394,709	-	57,671	337,038	-	337,038
Employees ESOP Tranche 20	0.144	-	394,710	-	57,669	337,041	-	337,041
Employees ESOP Tranche 21	0.144	-	394,710	-	57,669	337,041	-	337,041
		<b>4,597,500</b>	<b>1,184,129</b>		<b>418,008</b>	<b>5,363,621</b>	<b>3,462,504</b>	<b>1,901,117</b>

### (b) Options granted under share purchase plan pre IPO

At the time of the IPO the Company provided initial seed investors who subscribed for 18,380,475 fully paid preference shares, 9,191,703 options to acquire 9,191,703 ordinary shares at an exercise price of \$0.45 and 15,254,327 options to acquire 15,254,327 ordinary shares at an exercise price of \$0.80, which options if not exercised will lapse.

Set out below are options granted under the plan

	Granted Number	Grant Date	Exercise price \$	First exercise date	Last exercise date
Initial seed investors	4,595,851	31/03/07	0.45	13/01/2008	13/07/2012
Initial seed investors	4,595,852	31/03/07	0.45	13/07/2008	13/07/2012
Initial seed investors	7,627,163	31/03/07	0.80	13/01/2008	13/07/2012
Initial seed investors	7,627,164	31/03/07	0.80	13/07/2008	13/07/2012

Options granted carry no dividend or voting rights.

### (c) Fair values of share options

The fair value of all loan shares and options granted to Directors, key management personnel, consultants and other employees have been calculated using the Binomial Option Pricing Model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise (including the probability of meeting market conditions attached to the option), and behavioural considerations. The model requires the Company share price volatility to be measured. The share price volatility has been measured with reference to the historical share prices of the Company, and also similar Company's.

Details in respect of share based payments that were in existence at balance date were:

Equity Instrument	Loan/Exercise price \$	Share price on issue Date	Volatility	Vesting date	Time to maturity	Risk free interest rate	Expected dividend yield
<b>Equity issued prior to 30 June 2009</b>							
Directors ESOP Tranche 1	0.45	\$0.40	46%	29/05/2007	5 years	6.07%	-
Directors ESOP Tranche 2	0.45	\$0.40	46%	29/05/2008	6 years	6.07%	-
Directors ESOP Tranche 3	0.45	\$0.40	46%	29/05/2009	7 years	6.07%	-
Employees ESOP Tranche 3	0.46	\$0.40	46%	06/07/2007	5 years	6.07%	-
Employees ESOP Tranche 5	0.56	\$0.40	46%	06/07/2008	6 years	6.07%	-
Employees ESOP Tranche 7	0.56	\$0.51	46%	31/01/2008	5.33 years	6.44%	-
Employees ESOP Tranche 8	0.33	\$0.30	60%	01/07/2009	6 years	8.5%	-
Employees ESOP Tranche 9	0.33	\$0.30	60%	01/07/2010	7 years	8.5%	-
Employees ESOP Tranche 10	0.33	\$0.30	60%	01/07/2011	8 years	8.5%	-
Employees ESOP Tranche 13	0.33	\$0.30	60%	18/09/2008	5.25 years	8.5%	-
Employees ESOP Tranche 14	0.33	\$0.30	60%	18/03/2009	5.75 years	8.5%	-
Employees ESOP Tranche 15	0.33	\$0.30	60%	07/10/2008	5.25 years	8.5%	-
Employees ESOP Tranche 16	0.33	\$0.30	60%	07/04/2009	5.75 years	8.5%	-
Employees ESOP Tranche 17	0.17	\$0.10	75%	20/04/2009	5.5 years	5.8%	-
Employees ESOP Tranche 18	0.17	\$0.10	75%	20/10/2009	6 years	5.8%	-
Directors ESOP Tranche 4	0.2609	\$0.09	75%	25/05/2009	5.5 years	5.8%	-
Directors ESOP Tranche 5	0.2609	\$0.09	75%	25/05/2010	6.5 years	5.8%	-
Directors ESOP Tranche 6	0.2609	\$0.09	75%	25/05/2011	7.5 years	5.8%	-
<b>Equity issued during the year ended 30 June 2010</b>							
Directors LSP Tranche 1	0.144	0.145	75%	27/11/2010	6 years	7.35%	-
Directors LSP Tranche 2	0.144	0.145	75%	27/11/2011	7 years	7.40%	-
Directors LSP Tranche 3	0.144	0.145	75%	27/11/2012	8 years	7.44%	-
Employees LSP Tranche 1	0.144	0.145	75%	27/11/2010	6 years	7.35%	-
Employees LSP Tranche 2	0.144	0.145	75%	27/11/2011	7 years	7.40%	-
Employees LSP Tranche 3	0.144	0.145	75%	27/11/2012	8 years	7.44%	-
Employees ESOP Tranche 19	0.144	0.145	75%	27/11/2010	6 years	7.35%	-
Employees ESOP Tranche 20	0.144	0.145	75%	27/11/2011	7 years	7.40%	-
Employees ESOP Tranche 21	0.144	0.145	75%	27/11/2012	8 years	7.44%	-

### (d) Share based payments

The amount expensed in relation to equity settled share based payments to the profit & loss was \$156,272 (2009: \$296,624).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 21: Key management personnel

### (a) Details of key management personnel

The Directors and other members of key management personnel of the Company during the year were:

Name	Position
John Read	Non Executive Chairman
Daniel Devine	Executive Director and Chief Executive Officer
Michael Stork	Non Executive Director
Alan Robertson	Non Executive Director
Frank Hensel	Vice President, Research & Development
Roger McPherson	Chief Financial Officer and Company Secretary
Vic Ilag	Chief Operating Officer
Michael Conner	Vice President, Manufacturing
Amos Hedt	Senior Director, Clinical Operations

### (b) Key management personnel compensation

The aggregate compensation made to Directors and other members of key management personnel of the Company is set out below:

	30 June 2010 \$	30 June 2009 \$
Short term employee benefits	2,489,688	1,723,772
Post employment benefits	120,673	117,642
Equity based payments	156,272	215,649
<b>Total</b>	<b>2,766,633</b>	<b>2,057,063</b>

Further disclosures regarding key management personnel compensation are contained within the remuneration report.

## Note 22: Related party transactions

### (a) Equity interests in related parties

Name of entity	Country of Incorporation	Class of share	Percentage Owned	
			2010	2009
<b>Parent Entity:</b>				
Patrys Limited	Australia			
<b>Controlled Body Corporate of:</b>				
Patrys GmbH	Germany	Ordinary	100%	100%
Patrys, Inc.	USA	Ordinary	100%	100%

The consolidated financial statements incorporate the assets, liabilities and results of these subsidiaries in accordance with the accounting policy described in Note 1 (a).

### (b) Transactions with key management personnel

#### (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in the Remuneration Report.

**(ii) Key management personnel equity holdings**
*Options*

2010	Balance at 1 July	Granted as compensation	Lapsed	Net change other	Balance at 30 June	Total vested at 30 June	Vested & exercisable	Not vested but not exercisable
	No.	No.	No.	No.	No.	No.	No.	No.
John Read	1,100,000	-	-	-	1,100,000	980,000	980,000	-
Daniel Devine	-	-	-	-	-	-	-	-
Michael Stork	300,000	-	-	-	300,000	240,000	240,000	-
Alan Robertson	550,000	-	-	-	550,000	490,000	490,000	-
Frank Hensel	600,000	403,873	-	-	1,003,873	366,667	366,667	-
Roger McPherson	250,000	-	-	-	250,000	250,000	250,000	-
Vic Ilag	400,000	-	-	-	400,000	300,000	300,000	-
Michael Conner	375,000	300,104	-	-	675,104	208,334	208,334	-
Amos Hedt	130,000	-	-	-	130,000	130,000	130,000	-
<b>Totals</b>	<b>3,705,000</b>	<b>703,977</b>	<b>-</b>	<b>-</b>	<b>4,408,977</b>	<b>2,965,001</b>	<b>2,965,001</b>	<b>-</b>

*Shareholdings*

Fully paid ordinary shares and shares under the Loan Share Plan held by key management personnel or their related parties:

2010	Balance at 1 July	Issued as compensation under Loan Share Plan	Purchased under the Rights Issue and/or Share Top Up Plan	Received on exercise of options	Net change other	Balance at 30 June	Total vested 30 June
	No.	No.	No.	No.	No.	No.	No.
John Read	250,000	150,052	41,670	-	-	441,722	291,670
Daniel Devine	14,327,272	403,873	80,000	-	-	14,811,145	14,407,272
Michael Stork*	37,625,000	-	20,000,000	-	-	57,625,000	57,625,000
Alan Robertson	-	75,026	-	-	-	75,026	-
Frank Hensel	-	-	-	-	-	-	-
Roger McPherson	150,000	403,873	-	-	100,000	653,873	250,000
Vic Ilag	28,000	150,052	4,667	-	-	182,719	32,667
Michael Conner	-	-	-	-	-	-	-
Amos Hedt	40,000	200,069	-	-	-	240,069	40,000
<b>Totals</b>	<b>52,420,272</b>	<b>1,382,945</b>	<b>20,126,337</b>	<b>-</b>	<b>100,000</b>	<b>74,029,554</b>	<b>72,646,609</b>

\* These shares are held by PNK Holdings Ltd (26,325,000) and Acceptys, Inc. (11,300,000). PNK Holding Ltd has a controlling interest in Acceptys, Inc. The shares of PNK Holdings Ltd are held by a related trust in which Michael Stork in his own right does not control. PNK Holdings Ltd was the Underwriter of the Rights Issue and acquired additional shares in accordance with the Underwriting Agreement.

#Note – No shares issued under the Loan Share Plan as compensation had vested at 30 June 2010.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

## Note 22: Related party transactions (cont.)

### (a) Equity interests in related parties (cont.)

#### (ii) Key management personnel equity holdings (cont.)

##### Options

2009	Balance at 1 July	Granted as compensation	Lapsed	Net change other	Balance at 30 June	Total vested at 30 June	Vested & exercisable	Not vested but not exercisable
	No.	No.	No.	No.	No.	No.	No.	No.
John Read	500,000	600,000	-	-	1,100,000	740,000	740,000	-
Daniel Devine	-	-	-	-	-	-	-	-
Michael Stork	-	300,000	-	-	300,000	120,000	120,000	-
Alan Robertson	250,000	300,000	-	-	550,000	370,000	370,000	-
Frank Hensel	250,000	350,000	-	-	600,000	250,000	250,000	-
Roger McPherson	-	250,000	-	-	250,000	125,000	125,000	-
Vic Ilag	250,000	150,000	-	-	400,000	250,000	250,000	-
Michael Conner	125,000	250,000	-	-	375,000	125,000	125,000	-
Amos Hedt	-	130,000	-	-	130,000	130,000	130,000	-
Mary Sanderson	120,000	-	120,000	-	-	-	-	-
Paul Andrews	300,000	-	300,000	-	-	-	-	-
Kevin Hollingsworth	50,000	-	50,000	-	-	-	-	-
<b>Totals</b>	<b>1,845,000</b>	<b>2,330,000</b>	<b>470,000</b>	<b>-</b>	<b>3,705,000</b>	<b>2,110,000</b>	<b>2,110,000</b>	<b>-</b>

##### Shareholdings

Fully paid ordinary shares held by key management personnel or their related parties:

2009	Balance at 1 July	Granted as compensation	Received on exercise of options	Net change other	Balance at 30 June
	No.	No.	No.	No.	No.
John Read	250,000	-	-	-	250,000
Daniel Devine	14,327,272	-	-	-	14,327,272
Michael Stork*	26,325,000	-	-	11,300,000	37,625,000
Alan Robertson	-	-	-	-	-
Frank Hensel	-	-	-	-	-
Roger McPherson	-	-	-	150,000	150,000
Vic Ilag	12,500	-	-	15,500	28,000
Michael Conner	-	-	-	-	-
Amos Hedt	-	-	-	40,000	40,000
<b>Totals</b>	<b>40,914,772</b>	<b>-</b>	<b>-</b>	<b>11,505,500</b>	<b>52,420,272</b>

\* These shares are held by PNK Holdings Ltd (26,325,000) and Acceptys, Inc. (11,300,000). PNK Holding Ltd has a controlling interest in Acceptys, Inc. The shares of PNK Holdings Ltd are held by a related trust in which Michael Stork in his own right does not control.

### (c) Transactions with other related parties

Hollingsworth & Co. Pty. Ltd., being a Company owned by Kevin Hollingsworth (former Company Secretary), was contracted to provide certain accounting services to Patrys Limited prior to 31 December 2008. The fee paid for this accounting service in the current year was \$NIL (2009: \$124,751) not including the remuneration disclosed in the Directors' Report as Company Secretary equal to \$NIL (2009: \$11,193).

#### (d) Transaction with controlled entities

The parent entity has signed a Research and Development services agreement with Patrys GmbH (a wholly owned subsidiary) to reimburse the subsidiary its Research and Development expenses plus 5%. The amount expensed for the period to 30 June 2010 was \$1,617,363 (2009: \$1,968,606). An inter-Company loan balance at 30 June 2010 of \$55,687 (2009: \$151,314) will be expensed during year ending 30 June 2011. This loan is non interest bearing and unsecured.

The parent entity has signed a research and development services agreement with Patrys, Inc. (a wholly owned subsidiary) to reimburse the subsidiary its research and development expenses plus 5%. The amount expensed for the period to 30 June 2010 was \$330,826 (2009: \$644,400). An inter-Company loan balance at 30 June 2010 of (\$27,533) (2009: (\$2,231)) will be repaid during year ending 30 June 2011. This loan is non interest bearing and unsecured.

### Note 23: Segment information

A segment is a component of the consolidated entity that engages in business activities to provide products or services within a particular economic environment. The consolidated entity operates in one business segment, being the conduct of research and development activities in the biopharmaceutical sector. The Board of Directors assess the operating performance of the group based on management reports that are prepared on this basis. The group has established activities in more than one geographical area, however these activities support the research and development conducted by the consolidated entity and are considered immaterial for the purposes of segment reporting. The group invests excess funds in short term deposits but this are not regarded as being a separate segment.

### Note 24: Parent Entity Information

	30 June 2010 \$	30 June 2009 \$
<b>Information relating to Patrys Limited:</b>		
Current assets	7,538,771	9,939,213
Total assets	16,058,884	18,859,882
Current liabilities	829,511	1,075,244
Total liabilities	944,265	1,275,244
Issued capital	39,634,530	34,677,027
Retained earnings	(25,342,095)	(17,758,303)
Share option reserve	760,597	665,913
Loan share plan reserve	61,588	-
<b>Total shareholders' equity</b>	<b>15,114,620</b>	<b>17,584,637</b>
Profit or (loss) of the parent entity	(7,583,792)	(8,811,031)
Total comprehensive income of the parent entity	(7,583,792)	(8,811,031)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	NIL	NIL
Details of any contingent liabilities of the parent entity	Refer Note 17	Refer Note 17
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	NIL	NIL

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 30 June 2010*

## **Note 25: Events after statement of financial position date**

On 1 July 2010, following approval of the Directors a total of 616,311 ordinary shares and 525,011 unlisted options were issued under the Loan Share Plan and the Executive Share Option Plan respectively. These issues were made to confirm entitlements arising under existing employment/consultancy agreements.

On 28 July 2010 the Company announced that it had acquired a promising human antibody therapeutic candidate (PAT-PAT) which has shown significant potency against pancreatic and gastric cancers which it plans to advance toward human clinical development.

On 2 August 2010 Patrys announced that the Human Research Ethics Committee at the Royal Adelaide Hospital had granted approval for it to commence a human clinical trial to evaluate PAT-SM6 as a treatment for melanoma. The clinical trial will be conducted at the Royal Adelaide Hospital in Australia and enrol approximately 10 patients. The primary endpoint for the trial is to measure the safety of PAT-SM6. Multiple secondary endpoints are aimed at measuring the anti-tumour activity of PAT-SM6. First patient data from the trial is expected to be available in the 2HCY2010. The trial is expected to take approximately twelve months to complete.

On 3 August 2010 the Company announced that it had secured up to \$15 million in funding to support the advancement of clinical products. The funding facility has a term of up to three years and is divided into three "tranches" of \$5 million. Patrys will receive a minimum of \$4 million during the first twelve months of the facility. The investor, Advance Opportunities Fund (Advance) has the option to provide an additional \$1 million of funding to complete the first tranche of the facility. Two additional tranches of \$5 million each may be provided during the three-year term of the facility, subject to the consent of both parties. On 3 August 2010, in accordance with the agreement with Advance, Patrys issued it 3,000,000 ordinary shares as collateral for the facility. On 16 August 2010 the Company received the first payment under the facility of \$500,000 and issued Notes to Advance. On 17 August 2010 the Company issued Advance 355,998 ordinary shares following partial conversion of these Notes.

On 12 August 2010 the Company announced that it had appointed Dr. Marie Roskrow to the position of Chief Medical Officer and President. In this role Dr. Roskrow will assume responsibility for the Company's clinical development programs as well as working closely with the CEO Daniel Devine on corporate strategy and business development activities. On 18 August 2010 following approval of the Directors 150,000 ordinary shares were issued to Dr. Roskrow under the Loan Share Plan.

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

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

# DIRECTORS' DECLARATION

The Directors of Patrys Limited declare that:

- (a) in the Directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on pages 13 to 68, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in Note 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.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* by the chief executive officer and chief financial officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors.



**Mr. John Read**  
Director

Melbourne  
30 August 2010

# INDEPENDENT AUDITOR'S REPORT

To the members of Patrys Limited



## Report on the Financial Report

We have audited the accompanying financial report of Patrys Limited which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income and statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of Patrys Limited (the consolidated entity). The consolidated entity comprises the entity and the entities it controlled at year 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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### Independence

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

### Auditor's Opinion

In our opinion:

- (a) the financial report of Patrys Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 28 of the directors' report for the year ended 30 June 2010. 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.

### Auditor's Opinion

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

A stylized, handwritten signature of the firm PKF in black ink.

**PKF**  
Chartered Accountants

A handwritten signature in black ink that reads 'David Garvey'.

**DJ Garvey**  
Partner

30 August 2010  
Melbourne

# SHAREHOLDER INFORMATION

## A. Substantial shareholders

The Company's Holders of Relevant Interests as notified by ASX Substantial Shareholders and the number of shares in which they have an interest as disclosed by notices received under Part 6.7 of the Corporations Act 2001 as at 25 August 2010 are:

	Ordinary Shares
PNK Holdings Ltd	57,625,000
OncoMab GmbH	20,250,000
Mr. Daniel Devine	14,811,145

## B. Number of holders of equity securities and voting rights

	Ordinary Shares (i)	Share Options (ii)
Number of Holdings	778	66

The voting rights attaching to each class of equity securities are:

(i) On a show of hands, every member present at a meeting, in person or by proxy, shall have one vote and upon a poll each share shall have one vote.

(ii) No voting rights.

## C. Distribution of equity securities

Distribution of holders of equity securities as at 25 August 2010:

No. of holders	Ordinary Shares	Options
1 - 1,000	17	-
1,001 - 5,000	87	-
5,001 - 10,000	83	1
10,001 - 100,000	456	26
100,001 and over	135	39
	<b>778</b>	<b>66</b>

**Number of holders of less than a marketable parcel of shares**

**104**

## D. 20 largest holders of quoted securities

The names of the 20 largest shareholders of each class of equity security as at 25 August 2010 are listed below:

No.	Name	No. of shares Held	% of total shares
1.	PNK Holdings Ltd	46,325,000	24.36
2.	Oncomab GmbH	20,250,000	10.65
3.	Mr Daniel Devine	14,811,145	7.79
4.	Acceptys, Inc.	11,300,000	5.94
5.	National Nominees Limited	10,150,657	5.34
6.	Takeda Research Investment Inc.	4,471,000	2.35
7.	J P Morgan Nominees Australia Limited	4,450,927	2.34
8.	Josaka Investments Pty Ltd	4,397,728	2.31
9.	Chessari Holdings Pty Ltd	4,288,840	2.26
10.	Austock Nominees Pty Ltd	3,078,999	1.62
11.	HSBC Custody Nominees (Australia) Limited	3,017,045	1.59
12.	Asia Pac Holdings Pty Ltd	2,984,583	1.57
13.	Trailplus Pty Ltd	2,200,000	1.16
14.	ANZ Nominees Limited	1,579,041	0.83
15.	Sandhurst Trustees Ltd	1,302,876	0.69
16.	Cogent Nominees Pty Limited	1,241,623	0.65
17.	Mrs Moira Patricia Cooper	1,118,000	0.59
18.	Mr Warwick Barnett Bowden	1,100,000	0.58
19.	Citicorp Nominees Pty Limited	991,613	0.52
20.	Michael Brown + Christine Brown	956,170	0.50
		<b>140,015,247</b>	<b>73.64%</b>

## E. Shares subject to restriction arrangements

The total number of shares subject to restriction arrangements is 2,535,391 shares. These shares were all issued under the Loan Share Plan and the escrow period ends on the latter of the date of repayment of the associated loan or as outlined below:

Date shares issued	Vesting date	Number of shares
02/12/2009	27/11/2015	589,694
02/12/2009	27/11/2016	589,693
02/12/2009	27/11/2017	589,693
01/07/2010	01/07/2016	205,437
01/07/2010	01/07/2017	205,437
01/07/2010	01/07/2018	205,437
18/08/2010	09/02/2016	75,000
18/08/2010	09/08/2016	75,000

# BOARD OF DIRECTORS AND

## COMPANY PARTICULARS

### Directors

John Read  
 Daniel Devine  
 Michael Stork  
 Alan Robertson

### SECRETARY

Roger McPherson

### REGISTERED OFFICE

Suite 614, Level 6  
 Equitable House  
 343 Little Collins Street  
 MELBOURNE VIC 3000

### BUSINESS ADDRESS

Suite 614, Level 6  
 Equitable House  
 343 Little Collins Street  
 MELBOURNE VIC 3000

### AUDITORS

PKF  
 Level 14  
 140 William Street  
 MELBOURNE VIC 3000

### SOLICITORS

Middletons  
 Level 25  
 South Tower  
 525 Collins Street  
 MELBOURNE VIC 3000

### BANKERS

National Australia Bank Ltd  
 Level 1  
 406-408 Glenhuntly Road  
 ELSTERNWICK VIC 3185

### SHARE REGISTRY

Computershare Investor  
 Services Pty Limited  
 Yarra Falls  
 452 Johnston Street  
 ABBOTSFORD VIC 3067

### STOCK EXCHANGE LISTING

Australian Securities Exchange  
 (ASX Code: PAB)

### AUSTRALIAN COMPANY NUMBER (ACN)

123 055 363



**Patrys Limited**

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