

**BUY \$0.43****Matthijs Smith**

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ASX Code	PAB
Price	\$0.43
12 month price target	\$1.00
Implied return	96%
Shares on issue	152.9m
Market capitalisation	\$65.7m
12 Month price range	\$0.38 - \$0.70
Monthly turnover (shares)	2.1m

Cash Flow Summary

Yr to 30 June	2007A	2008F	2009F	2010F
Receipts	0	0	0	0
Interest	0.1	1.1	0.5	0
Oper. Cash Inflow	0.1	1.1	0.5	0
Oper. Cash Out	(1.1)	(9.0)	(10.5)	(11.5)
Net Oper Cash	(1.0)	(7.9)	(10.0)	(11.5)
Net Inv. Cashflow	(4.7)	(1.7)	(1.6)	(0.1)
Net Fin. Cashflow	33.0	0	0	0
Inc/(Dec) Cash	27.3	(9.6)	(11.6)	(11.6)
Opening Cash	0	27.3	17.7	6.1
Closing Cash	27.3	17.7	6.1	(5.5)

Board of Directors

John Read	Chairman (Non-Exec)
Daniel Devine	CEO
Michael Stork	Non-Exec. Dir.
Alan Robertson	Non-Exec. Dir.

Major Shareholders

PNK Holdings	17.2%
OncoMab GmbH	13.2%
Daniel Devine (CEO)	9.4%

Share Price Chart**Patrys (PAB)****Growing Ahead With Antibodies**

As with many biotechnology stocks, PAB's price has suffered with the downturn across the entire stock market. However, the company continues to make good progress and has commenced scale-up GMP manufacture one of its internal antibodies, PAT-LM1, which will allow clinical testing to commence before the end of 2008. In addition, Takeda, Japan's largest pharmaceutical company which is currently testing 5 of PAB's antibodies, has established a new R&D facility in San Francisco focused on the discovery of new antibody therapeutics. Also, new data has been published showing the target for PAB's lead antibody PAT-SM6, a protein called GRP78, is involved in promoting growth of cancer cells, protecting cancer cells against cell death and stimulating formation of new blood vessels to tumours. Blocking these activities with an antibody such as PAT-SM6 could provide three types anti-cancer activity.

PAB is on track to deliver significant milestones during 2008 and we believe the current price provides investors with a good buying opportunity. We maintain our price target of **\$1.00** for PAB with a **BUY** recommendation.

Candidate Antibody Drugs Commence Scale-Up Manufacture

PAB has contracted US-based AppTec Laboratory Services to undertake the scale-up GMP manufacture of one of the company's internal lead antibody drugs, PAT-LM1. AppTec was selected following a review of over 20 contract manufacturers in both Europe and the US and was selected based on its ability to perform all elements of the scale-up process ("one-stop-shop") and because it had experience in production of IgM antibodies.

AppTec has commenced the PAT-LM1 production program and is expected to commence production of another PAB lead antibody drug, PAT-SM6, in the near term. The initial production run of PAT-LM1, which is expected to be completed in 2Q CY08, should provide sufficient antibody for PAB to undertake the final toxicology studies in animals. Once these are completed, the company should be able to commence Phase-I/IIa clinical testing by 4Q CY08.

As PAB has already undertaken much of the process development work and had acceptable yields from small-scale production runs, we are not anticipating any significant difficulties during scale-up manufacture. However, most therapeutic antibodies that have been developed by pharma and biotech companies are IgGs. Thus there is a slightly greater technical risk in scaling up the manufacture of PAB's antibodies, which are IgMs that have a different structure to IgGs and thus require different manufacturing processes.

This technical risk is one that potential pharma/biotech partners, who are more familiar with IgGs, may not feel comfortable with. Thus, while we do not foresee any major impediments to the scale-up manufacture of PAB's IgM antibodies, it will reduce the technical risks associated with the PABs technology and should allow the company to start exploring licensing or partnering opportunities for its internal leads.

Globally, the appetite for antibody technologies has continued to be strong. In our view, the recent deal between OncoMed and GSK (up to US\$1.4B for preclinical antibodies and new targets) has raised the potential market value for PAB's assets and increases the probability that the company will be able to secure an earlier stage deal.

Takeda Expanding Investment In Antibodies

Takeda Pharmaceuticals (Japan's largest pharmaceutical company which is currently evaluating 5 of PAB's antibodies for potential licensing) announced in November 2007 the establishment of a new, wholly-owned subsidiary called Takeda San Francisco Inc. which is focused on therapeutic antibody research. We believe this company will employ up to 100 researchers from the Bay Area for the discovery and development of new therapeutic antibodies as well as technologies for antibody optimisation, enhancement and manufacture. This will represent a significant expansion of the Takeda's antibody capabilities which currently engages around 20 researchers based in Osaka, Japan.

Over the past few years, Takeda has been active in establishing partnerships with companies that provide access to monoclonal antibody therapeutics. In addition to the collaboration with PAB for 5 antibodies announced in September 2007, Takeda expanded its collaboration with the phage display company XOMA in February 2007, established a joint research initiative with Arius in April 2006 and licensed an anti-HGF (hepatocyte growth factor) antibody from US-based Galaxy Biotech in July 2006. In combination with the launch of Takeda San Francisco, this reinforces that biologics represent future strategic focus of the company.

While all the major pharmaceutical companies have been active in gaining access to antibody technologies, Takeda has a very clear need to address issues with its current pipeline. In 2006, Takeda had US\$11.2m in sales of which US\$9.8m was from the sale of ethical pharmaceuticals. However, nearly 80% of this revenue (\$7.8m) was from 4 products (Actos, Prevacid, Blopress and Lupron) which will all be off-patent by 2012 and hence under threat from generics.

We believe the combination of industry drivers, patent expiry and strategic focus all work in favour for PAB's current partnership with Takeda. Takeda is currently undertaking testing and development work on 5 of PAB's antibodies which provide them with a time-limited option (we believe to the end of 2008) to negotiate a license from PAB for one or more of these antibodies. With its new company established in San Francisco, we anticipate that Takeda have a high interest in taking out a license for any of PAB's antibodies that show promising preliminary data. We are expecting that some of the results from Takeda's initial testing may be available as early as March or April 2008.

SM6's Target Is On Target

New data has been published on the target GRP78 that PAB's internal antibody, SM6, binds to. This protein is involved in assisting newly made proteins to fold properly and is normally found inside cells. However, levels of GRP78 are elevated in a number of different tumours and, unlike in normal cells, it is often found on the surface of tumour cells. High levels of GRP78 are correlated with drug resistance in both dividing and dormant cancer cells. SM6 appears to recognise a tumour-specific carbohydrate attached to GRP78 on the surface of cancer cells.

A recent publication in the scientific journal Cancer Research has presented new data from laboratory studies using mice who have had the gene encoding GRP78 inactivated. The data indicate that the increased levels of GRP78 assist tumours to survive by three mechanisms:

1. Promoting the growth and division of cancer cells (proliferation)
2. Protecting cancer cells from programmed cell death (apoptosis)
3. Promoting the formation of new blood vessels to the tumour (angiogenesis)

This makes GRP78 a very attractive target as an antibody that binds to it could have three different types of anticancer activity. SM6 also appears to induce apoptosis in cancer cells by inducing the accumulation of oxidized LDLs. PAB has filed a patent on the cancer-specific form of GRP78 that is recognised by the SM6 antibody. We believe one of the most valuable aspects of PAB's technology is the ability to identify new, natural targets and the data from SM6 continues to support this view.

In our view, PAB remains one of the most promising companies in the Australian biotech sector with unique technology in the hottest area of biotech, sound cash position, deep product pipeline, good news flow over the next 12-months and established partnerships with quality players. In view of this, the current price weakness due to overall market conditions represents a great buying opportunity for investors in the sector.

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Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

The analyst holds shares in Patrys Limited (PAB).

Analyst Verification

I verify that I Matthijs Smith, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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Lodge Corporate Services has provided corporate advice and services to Patrys Limited including Lead Manager and Underwriter for an Initial Public Offering that raised \$25m at \$0.40 per share in July 2007.

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