PATRYS™
LIMITED

PATRYS IN THE CLINIC






# ANNUAL REPORT 2011

# Contents

# The Year's Highlights

- **Dr. Marie Roskrow appointed as CEO:** Dr. Roskrow has an extensive clinical and healthcare investment background, as well as recent experience as Patrys' Chief Medical Officer and President.
- **No significant adverse effects** to date in PAT-SM6 clinical trial which is in its final stages.
- **The third patient cohort** was being recruited at the time of writing.

- **21 September 2011:** PAT-SM6 shows promise in additional cancer indications in preclinical studies. The best results were seen in a study that examined PAT-SM6's efficacy against ovarian cancer. A prostate cancer model also showed promise.
- **19 September 2011:** Princess Alexandra Hospital, Brisbane joins the PAT-SM6 melanoma trial as a second clinical centre which should enable the study to advance quickly.
- **22 August 2011:** Detection of the PAT-SM6 product in tumours taken from patients in both the first and second dose groups. At this stage trial doses are substantialy below anticipated therapeutic levels and the detection of PAT-SM6 in tumours is thus very encouraging.
- **17 August 2011:** Patrys' undisclosed product shows promise in multiple myeloma. Encouraging data provide sufficient proof of concept to warrant further study in multiple myeloma patients.
- **27 June 2011:** Further positive results from PAT-SM6 preclinical work. Additional preclinical data enhanced the value of the candidate currently undergoing Phase I clinical trials for safety.
- **20 June 2011:** Clarity and vivoPharm collaborations to support PAT-SM6. These strategic partners were chosen as collaborators for their high quality assurance and specialist skills in obtaining further validatory data for PAT-SM6 to enhance the candidate's value and strengthen our licensing profile.
- **13 April 2011:** Global patent developments announced for multiple products within Patrys' portfolio.
- **17 March 2011:** Emerging Company of the Year Award from Biospectrum. An independent jury of life sciences experts highlighted Patrys' innovative technology and high potential impact with this prestigious award.
- **9 March 2011:** Achievement of commercial yields for PAT-SC1. Industry standard yield of antibody far exceeded with commercial grade production of PAT-SC1.
- **14 December 2010:** Successful $4.3m capital raise. Strong capital raise signals confidence in Patrys' operations and grants additional funding flexibility into 2011.
- **5 November 2010:** Orphan drug status confirmed for PAT-SC1. United States Food & Drug Administration approval for PAT-SC1's fast-tracked status gives scope for accelerating its development, enhancing its attractiveness as a licensing opportunity.
- **19 October 2010:** Melanoma trial for SM6 initiated. First-in-human trial for PAT-SM6's safety in treating melanoma signalled a huge milestone for Patrys.

# Who We Are

Patrys is a publicly-listed clinical stage therapeutics company on the Australian Securities Exchange (ASX: PAB).

We are a world leader in the development of natural human antibodies for treating human disease. Patrys is a first-in-class mover in the natural human antibody space. Our platform technologies allow us to identify the antibodies naturally present in the human body that are the best at fighting cancers, and produce those specific antibodies in high amounts suitable for re-introduction into the body as a therapeutic.

This technology has never before received comprehensive study in humans, which is why Patrys is particularly proud of our current trial at the Royal Adelaide Hospital testing the safety of our lead antibody, PAT-SM6, in the treatment of melanoma. Next in our antibody pipeline is PAT-LM1, which we aim to introduce to the clinic. In addition, our candidate PAT-SC1 is supported by clinical evidence undertaken by a previous developer, and after further validation we will seek to out-license PAT-SC1.

We also have a portfolio of more than 300 other antibodies that have demonstrated the ability to specifically attack cancer cells.

We began with 40,000 antibodies, with the initial screening performed on both tumour cells and normal cells. This was performed to establish specificity for cancer cells. Any antibody that was attaching to normal cells as well as their cancerous counterparts was discarded, giving us a very high likelihood of strong safety profiles in our candidates. This is one of the main points which differentiates our natural human antibodies from most anti-cancer therapeutics.

As well as continued in-house research and selective acquisition of validated antibodies, we have a discovery collaboration with industry leader CSL Limited, who are working on a selection of our proprietary antibodies.

In the next 12 months we expect to:

» Conclude our first-in-humans trial of PAT-SM6.

» Prepare and release the results of this trial to the market.

» Conduct a capital raising.

» Finalise plans for the Phase I/II PAT-SM6 multi-dose solid tumour trial.

» Finalise plans for the Phase I/IIa trialling of PAT-LM1 for the treatment of a range of solid tumours.

» Actively seek out-licensing for PAT-SC1, the value of which is already substantiated by clinical data.

» Continue our validatory preclinical work to grow the value of our candidates and enhance the attractiveness of our offering to potential partners.

John Read
Chairman

Dr. Marie Roskrow
CEO

# Chairman's Report

**Dear Shareholder,**

On behalf of Patrys' Board of Directors, I am pleased to present this Report for the year ended 30 June 2011.

The Company's dominant focus has been to advance its lead anti-cancer human antibody, PAT-SM6, through its Phase 1 melanoma clinical trial programme. This primary activity has been supported by additional preclinical studies and intellectual property filings for our other lead anti-cancer candidates, PAT-LM1 and PAT-SC1.

As I write, Patrys is recruiting the third and final cohort of patients for its Phase 1 PAT-SM6 clinical trial at Royal Adelaide Hospital. I am also pleased to announce that Princess Alexandra Hospital, Brisbane, has recently agreed to join this clinical trial programme accelerating our recruitment process and broadening the diversity of our patient catchment.

The PAT-SM6 trial has been devoted to establishing safety and tolerability. To date, no safety issues have been observed or reported. The primary objective of safety has been augmented by exciting outcomes in relation to specificity, with PAT-SM6 being detected in biopsies of two different patients who participated in the initial phases of the trial. Analysis of the trial results is also suggestive that cancer cell death occurred in the samples collected. These results are indicative of the potential of PAT-SM6 as an effective therapeutic for the treatment of melanoma.

Our commercial ambitions were enhanced during the year with the confirmation of orphan drug status for lead candidate PAT-SC1. This acknowledgment by the United State's Food and Drug Administration (FDA) has the potential to fast-track future applications and to grant an extended exclusivity term post-approval.

Patrys understands the need for a strong fiscal position to ensure that long term shareholder value can be realised. In late calendar 2010, the Company completed a successful capital raising programme to new and existing shareholders. A total of $4.3 million was raised from this initiative. As at balance date, the Company held cash reserves of $6.2 million. Since balance date, world equity markets have experienced significant volatility. Your Board and management are acutely aware of the need for effective capital management to navigate this period of uncertainty in world markets.

The year witnessed important changes to our management team. Upon the expiry of his second term of office on 30 June 2011, founding CEO, Mr Dan Devine, retired as a member of the executive team and as a member of the Board. The Board wishes Dan well for his future endeavours. Recognising the significance of the changes in the Company's standing form an early stage research and development company to a clinical stage company, Patrys appointed Dr. Marie Roskrow as Chief Executive Officer following her appointment as Chief Medical Officer and President in August 2010. Marie's extensive drug development experience combined with her international investment banking experience have allowed Patrys to give effect to its clinical development programmes and to redefine its corporate and business development activities.

The year ahead presents significant opportunities and challenges. As with any emergent company, Patrys must be nimble -in its approach, capturing the opportunities as they present and addressing the challenges in a direct and forthright manner. As a clinical stage company, our focus is clear. We will advance our PAT-SM6 clinical programme to deliver important outcomes for human antibody development, real prospects of effective treatment for cancer patients, and most importantly, value for our shareholders.

**John Read**
Chairman

# CEO's Report

**Dear Shareholder,**

In the 2011 fiscal year Patrys resolved to get PAT-SM6 through the Phase I melanoma clinical safety trial while planning for further trials and building the appeal of our portfolio for potential partnering. The trial is progressing well and we are currently completing the third cohort of patients.

We are excited to now be in the trial's final treatment stage, but in parallel we remain focused on continuing to develop other elements of our business.

## STATUS OF THE CURRENT PAT-SM6 CLINICAL PROGRAMME AND NEXT STEPS

To recap, our patients in our first clinical trial have a type of melanoma called "in-transit melanoma," which is a recurrent form of melanoma confined to the skin, and despite treatment, the cancer almost always returns.

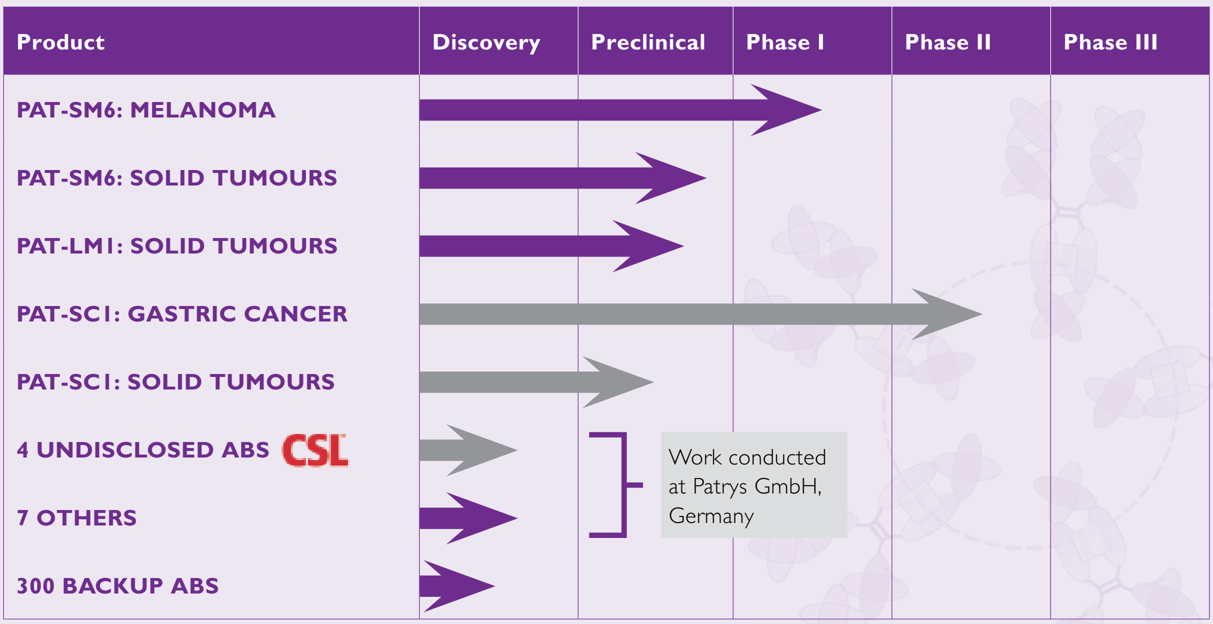
Our selection of this type of melanoma was based on two rationales. Firstly, our patients are relatively healthy because the cancer is not end-stage. The second is that we can perform biopsies on the tumours before the commencement of treatment and a few days after, as a simple outpatient procedure.

Administration of the antibody in this trial has involved a single dose of PAT-SM6 given to patients based on a typical "three plus three" structure commonly used in cancer clinical trials. Each group is composed of three patients and there are three different dosing groups. We started at a very low dose of 0.15 mg/kg, which doubled in the next group to 0.3 mg/kg and again to 0.6 mg/kg.

The antibody is given intravenously over 60 minutes – a relatively short infusion. Between each cohort there are several weeks given to reviewing of the safety data by the Data Safety Monitoring Board.

As it is a Phase I trial, we aim only to establish safety and this is why we have commenced dosing at extremely low doses. In August Patrys made a significant announcement with regard to data collected from melanoma patients treated to date. PAT-SM6 was detected in post-treatment tumour biopsies taken from two different patients. These results indicate the strong utility of the therapy and potential for it to be an effective therapeutic for the treatment of melanoma. At this stage trial doses are substantially below anticipated therapeutic levels and the detection of PAT-SM6 in tumours is thus very encouraging.

## PATRYS PIPELINE




Partner development    Focus of internal development    ABS = Antibodies

# CEO's Report CONTINUED

In addition to this ongoing trial, we are now planning a Phase I/II multidose study to be conducted in patients with relapsed / refractory solid tumours. This year we have completed a range of animal models using PAT-SM6 and shown that this antibody is effective in reducing the size of tumours. These models will guide us in the planning and patient selection for the Phase I/II clinical trial. We anticipate that such a trial could commence in the latter part of 2012.

## THE NEXT STEPS FOR PAT-LM1

Our PAT-SM6 study has given Patrys considerable experience in administering our antibodies in the clinical setting, so we anticipate that an initial trial with PAT-LM1 will go straight to a Phase I/II multi-dose all-comers study. This means a faster progression than with PAT-SM6, which as our first trial required a significant amount of groundwork.

We have not yet announced the intended clinical indications for PAT-LM1 in its first trial, but preclinical studies displayed this candidate's efficacy against several common solid tumours, thus the particular cancers will certainly be chosen from this group. We will select the cancer types that have the right combination of a high chance of success in-trial, as well as the greatest potential long-term value to Patrys.

## PLANS FOR PAT-SC1

We will seek to out-licence PAT-SC1 next year. We have undertaken a review of the PAT-SC1 package, including all prior work conducted by ourselves and others, and have identified a number of actions we will complete to improve the value of the package. This will involve intellectual property work to expand our patent claims.

The completion of these steps should significantly round out our understanding of PAT-SC1 and make the candidate a more compelling license offering going forward.

## OTHER AVENUES FOR PATRYS TECHNOLOGY

One of the advantages about working with antibodies is the diversity of their potential applications. Nature has provided us with a huge variety of antibodies with powerful targeting abilities so useful in the complex system of the body. Outside the clinical arena, antibody technologies are well known for their applicability in both the diagnostic and imaging spaces. We have certainly made good progress in this direction – our research partner Clarity Pharmaceuticals' expertise in the labelling of biologics is currently yielding valuable information in characterising the activity of PAT-SM6 in animal studies.

We envisage proceeding to a human study looking at imaging in a PET-CT scanner to further confirm localisation of PAT-SM6 in the body and the extent of our capability to visualise it.

We recognise the importance of thinking commercially about enhancing the value of products in our portfolio, especially when it's possible to capture significant potential value by running imaging studies that require only modest investment.

As we move forward we are continually thinking about new ways to leverage our assets and create value.

## ACADEMIC COLLABORATIONS

Patrys has recently initiated a number of collaborations with both Australian and overseas academics. Forming relationships with experts specialising in state-of-the-art techniques to identify and validate targets of Patrys' antibodies is invaluable. In addition, Patrys has an ARC Linkage project with The University of Melbourne designed to better understand the biophysical properties of our lead clinical candidate PAT-SM6. We look forward to fostering these relationships and reporting on the outcomes to our shareholders.

## MANUFACTURING

One of the core capabilities that we have established is our manufacturing expertise in commercial scale IgM antibody production. The IgM family of antibodies has traditionally been difficult to produce on a large scale, and our significant investment into this space has been rewarded with a world-leading capability in this area. The technical challenges involved are mainly due to the large size of IgM's; purifying these molecules with traditional IgG focussed techniques has previously been unsuccessful. IgMs tend to be more sensitive to changing purification conditions than IgGs. Patrys has made considerable ground advancing its manufacturing technologies and now its production, level of purification and recovery rivals the best IgG procedures used by big Pharma.

Breaking down these challenges has been a valuable learning journey for our team, but timelines were extended as a result. Nonetheless, financial year 2011 was marked by major milestones in this area, and we now have strong technical foundations on which to base further production.

Another major step was the moving of our production system to the U.S. under the oversight of our partner Laureate Biopharmaceutical Services. Laureate's expertise and capabilities is a good match for our requirements, and they will oversee further production of PAT-LM1 and other antibodies.

## INTELLECTUAL PROPERTY

This component of our work is of course a constant process of expansion and consolidation. In April we announced an update of our work which included new patent protections across the major international markets for several of the antibodies in our pipeline:

| Patrys allowed/issued patents | | |
|---|---|---|
| Product | Country | Date |
| **PAT-LM1** | United States | 4/4/11 |
| **PAT-SC1** | Japan | 16/3/11 |
| **PAT-CM1** | Europe | 5/1/11 |
| **PAT-PA1** | Europe | 1/12/10 |
| **PAT-SC1** | Canada | 24/8/10 |
| **PAT-PM1** | United States | 10/8/10 |
| **PAT-PM2** | United States | 22/6/10 |
| **PAT-SC1** | United States | 3/8/10 |
| **PAT-PA1** | Israel | 16/7/10 |
| **PAT-CM1** | Australia | 3/6/10 |

As we continue to bring new candidates into our pipeline, progress our lead candidates, and improve on our production processes, we will ensure that our intellectual property protection is monitored and assessed so that it provides value to the Company.

## FUNDING SUCCESSES

In late 2010 we completed a successful capital raise of A$4.3m that as well as being a strong vote of confidence also gave us greater flexibility with our funding structure going into the new calendar year.

Continuing to build value across the Patrys business is our mandate for fiscal year 2012. Our key goals are:

- Conclude our first-in-humans trial of PAT-SM6.
- Prepare and release the results of this trial to the market.
- Conduct a capital raising.
- Finalise plans for the Phase I/II PAT-SM6 multi-dose solid tumour trial.
- Finalise plans for the Phase I/IIa trialling of PAT-LM1 for the treatment of a range of solid tumours.
- Actively seek out-licensing for PAT-SC1, the value of which is already substantiated by clinical data.
- Continue our validatory preclinical work to grow the value of our candidates and enhance the attractiveness of our offering to potential partners.

We look forward to sharing with you our successes in the coming year as we move further into the clinical setting and build the value of the Patrys portfolio.

Dr. M. Roskrow.

**Dr. Marie Roskrow**
CEO

*We continue to be open-minded to new ways to boost the value of our intellectual property and antibody portfolio.*

# Management

**Chief Executive Officer -** Marie Roskrow *BSc. (Hons), MBBS (Hons), Ph.D*

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.

**Chief Financial Officer and Company Secretary -** Roger McPherson *CPA, GAICD*

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 12 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.

**Vice President, Research & Development -** Frank Hensel *Ph.D*

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 PhD from, and later worked in, the laboratory of Dr. Vollmers at the University of Würzburg. 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.

**Vice President, Manufacturing -** Michael Conner *BA*

Mr. Conner has more than 20 years experience in the biotech industry covering GMP 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.

**Senior Director Business Development -** Deanne Greenwood *Ph.D, MBA*

Dr. Greenwood spent the past 10 years in academia conducting immunology research in the areas of vaccine development and autoimmunity, with the last four years at the Centre for Animal Biotechnology, The University of Melbourne. Dr. Greenwood has managed various research and commercial research projects and collaborations and is responsible for business development, grants and external relationship management at Patrys. Dr. Greenwood has a PhD in Immunology from Monash University and a Masters of Business Administration (Technology) from La Trobe University.

**Senior Director Clinical Operations -** Amos Hedt *BA, PGradDip*

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 Phase I/II trials for lead products PAT-SM6 and PAT-LM1.

# Advisory Board

## CLINICAL ADVISORS

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

Prof. Zalcberg 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 specialising in gastrointestinal cancer and is interested in translational research and new drug development. Prof. Zalcberg 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 and 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 Programme 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 Institute 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. 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

### 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.

### 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).

# Financial Report

## Contents

# 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 2011.**

## DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

- Mr. John Read (Non Executive Chairman)
- Mr. Michael Stork (Non Executive Director and Deputy Chairman)
- Dr. Alan Robertson (Non Executive Director).

Mr. Daniel Devine was a director from the beginning of the financial year until his resignation on 30 June 2011.

Details of each director's qualifications and 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 ended 30 June 2011, Patrys focused on the following key areas of operations:

- Progressing lead product PAT-SM6 through the Phase I melanoma clinical safety trial which commenced in October 2010, planning for further trials and building the appeal of the product for potential partnering.
- Preparing its lead products PAT-LM1 and PAT-SC1 for clinical trials.
- Expansion of its pipeline and patent portfolio through internal R&D.
- Enhancing the financial strength of the Company.

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

During the financial year Patrys made significant progress with its first clinical trial for PAT-SM6. The trial is aimed at patients who have a type of melanoma called "in-transit melanoma," which is a recurrent form of melanoma confined to the skin, and despite treatment, the cancer almost always returns.

The selection of this type of melanoma was based on two rationales. Firstly, the patients are relatively healthy because the cancer is not end-stage. The second is that biopsies can be performed on the tumours before the commencement of treatment and a few days after, as a simple outpatient procedure.

Administration of the antibody in this trial involved a single dose of PAT-SM6 given to patients based on a typical "three plus three" structure commonly used in cancer clinical trials. Each group is composed of three patients and there are three different dosing groups. Dosing started at a very low dose of 0.15 mg/kg, which doubled in the next group to 0.3 mg/kg and again to 0.6 mg/kg. The antibody is given intravenously over 60 to 90 minutes – a relatively short infusion. Between each cohort several weeks are given to reviewing of the safety data by the Data Safety Monitoring Board. To date, dosing has been completed of the first two cohorts of patients.

As it is a Phase I trial, the primary aim is to establish safety which is why dosing commenced at extremely low levels. To date, no safety issues have been observed or reported. The primary objective of safety has been augmented by exciting outcomes in relation to specificity, with PAT-SM6 being detected in biopsies of two different patients who participated in the initial phases of the trial. Analysis of the trial results is also suggestive that cancer cell death occurred in the samples collected. These results are indicative of the potential of PAT-SM6 as an effective therapeutic for the treatment of melanoma.

Patrys plans to conduct a Phase I/II multi-dose study in a larger population of patients.

### Advancement of PAT-LM1 and PAT-SC1 toward human clinical trials

Patrys is currently preparing PAT-LM1 for a clinical trial. The PAT-SM6 study has given Patrys considerable experience in administering antibodies in the clinical setting, so the Company anticipates that an initial trial with PAT-LM1 will go straight to a Phase I/II multi-dose all-comers study. This means a faster progression than with PAT-SM6, which as the first trial required a significant amount of groundwork.

In addition the Company is working to improve the clinical package for PAT-SC1. Patrys intends to seek to out-licence PAT-SC1 next year. The completion of improvement to the package should significantly round out understanding of PAT-SC1 and make the candidate a more compelling license offering.

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

During the year, Patrys continued to monitor its intellectual property portfolio and leverage its internal R&D capabilities to expand on its pipeline. This work is a constant process of expansion and consolidation. In April the Company announced the grant of a number of new patents across the major international markets for several of the antibodies in its pipeline. Intellectual property protection is monitored and assessed so that it provides value to the company.

### Enhance financial strength of the group

In November/December 2010, the Company raised $4.3 million from a placement to institutional and professional investors combined with a share purchase plan for existing shareholders. In August 2010, Patrys also announced closing of a funding facility negotiated with the Advance Opportunities Fund, this arrangement was terminated in March 2011.

### Financial and treasury activities

The financial results of the Group for the year ended 30 June 2011 are summarised as follows:

- The Group produced a loss from ordinary activities before income tax of $7,405,935 (2010: $7,513,339). The net loss after tax was $7,421,670 (2010: $7,535,123). Before interest, tax, depreciation and amortisation, the net loss for the same period was $6,391,756 (2010: $6,424,854).
- Revenue was generated from interest of $356,610 (2010: $417,898) and a R&D Tax Concession of $703,547 (2010: Nil).
- Direct research and development costs of $6,299,205 (2010: $6,976,925) 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 continued its focus on the advancement of PAT-SM6 in the clinic and PAT-LM1 and PAT-SC1 towards the clinic. Management and administration costs contributed a further $1,951,885 (2010: $2,062,541) 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 US 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 3.39¢ (2010: 4.15¢) predominantly due to the increase in the number of shares on issue.

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 the placement and share purchase plan in December 2010, as of 30 June 2011 the Group's cash and term deposits remain strong at $6,203,135 (2010: $6,783,233).

## FINANCIAL SUMMARY

### Operating results

The net consolidated loss for the year was $7,421,670 (2010: $7,535,123).

### Income

Consolidated revenue including other income during the period was $1,067,756 (2010: $1,528,820).

### Expenditure

Total consolidated operating expenses for the period were $8,473,691 (2010: $9,042,159) being:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Direct research & development | 4,569,328 | 5,048,517 |
| Management & administration | 916,180 | 1,224,316 |
| Employee benefits | 2,765,582 | 2,766,633 |
| Finance costs | 222,601 | 2,693 |
| **Total** | **8,473,691** | **9,042,159** |

### Statement of cash flows

Net cash consolidated outflow from operations was $5,113,507 (2010: $7,054,679).

During the year under review the Company has raised capital in the amount of $5,780,500 (2010: $5,036,687).

# Directors' Report CONTINUED

### Statement of financial position

At 30 June 2011 the consolidated entity's cash position was $6,203,135 (2010: $6,783,233).

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 expenses 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 2011.

## EARNINGS PER SHARE

| Earnings per share | 2011 Cents | 2010 Cents |
|---|---|---|
| Basic earnings per share from continuing operations | (3.39) | (4.15) |
| Basic diluted earnings per shares from continuing operations | (3.39) | (4.15) |

## CHANGES IN STATE OF AFFAIRS

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

### Capital raisings

In November/December 2010, the Company raised $4.3 million from a placement to institutional and professional investors combined with a share purchase plan for existing shareholders. In August 2010, Patrys also announced closing of a funding facility negotiated with the Advance Opportunities Fund, this arrangement was terminated in March 2011.

## SUBSEQUENT EVENTS

On 25 July 2011 the Company announced that it had commenced recruitment for the final patient group in its human clinical trial to evaluate PAT-SM6 as a treatment for melanoma. Importantly there have been no safety issues reported in any of the patients treated to date.

On 17 August 2011 the Company announced that the results of preclinical work conducted at The University Hospital of Würzburg show that a Patrys anti-cancer product offers a potential application in multiple myeloma. This data opens an opportunity to pursue this key cancer market.

On 22 August 2011 the Company provided an update in respect of its PAT-SM6 human clinical trial in which it announced that the PAT-SM6 antibody had been detected in biopsies of patients after they received treatment. This provides evidence that the PAT-SM6 antibody can target and penetrate tumours at low doses which supports the ongoing trial design.

On 19 September 2011 the Company announced that the Princess Alexandra Hospital, Brisbane had joined the PAT-SM6 melanoma trial as a second clinical centre. With two active recruitment centres the trial should advance quickly.

On 20 September 2011 the Company announced that PAT-SM6 had shown promise in additional cancer indications in preclinical studies which adds breadth to the potential indications to be explored in the planned Phase I/IIa study. The best results were seen in a study that examined PAT-SM6's efficacy against ovarian cancer. A prostate cancer model also showed promise.

No other matter or circumstance has arisen since 30 June 2011 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

| | | Particulars of interests in shares and options of Patrys Limited | | |
|---|---|---|---|---|
| **Director and Executives** | **Qualifications and experience** | **Shares** | **LSP† shares** | **Options** |
| **Non Executive Chairman**<br><br>**John Read**<br>*BSc (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.<br><br>Director of Patrys Limited since 29 May 2007.<br><br>**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). | 491,670 | 150,052 | 1,100,000 |
| **Non Executive Director**<br><br>**Michael Stork**<br>*BBA* | Mr. Stork is the Managing Director of Stork Holdings 2010 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.<br><br>Director of Patrys Limited since 19 February 2007.<br><br>**Other Directorships of listed companies over the past three years:** None.<br><br>* *These shares are held by Stork Holdings 2010 Ltd. (48,325,000) and Acceptys, Inc. (9,300,000). Stork Holdings 2010 Ltd. has a controlling interest in Acceptys, Inc. The shares of Stork Holdings 2010 Ltd. are held by a related trust which Michael Stork in his own right does not control.* | 57,625,000* | Nil | 300,000 |

† *Loan Share Plan - refer to Remuneration Report - Note E for details.*

# Directors' Report CONTINUED

| Director and Executives | Qualifications and experience | Particulars of interests in shares and options of Patrys Limited<br>Shares | LSP† shares | Options |
|---|---|---|---|---|
| **Non Executive Director**<br><br>**Alan Robertson**<br>*BSc, 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 Ph.D 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.<br><br>Director of Patrys Limited since 29 May 2007.<br><br>**Other Directorships of listed companies over the past three years:** Pharmaxis Ltd (since 2000). | Nil | 75,026 | 550,000 |
| **Former Executive Director and Chief Executive Officer**<br><br>**Daniel Devine**<br>*BSc., 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.<br><br>Director of Patrys Limited from 19 February 2007 to 30 June 2011.<br><br>**Other Directorships of listed companies over the past three years:** None | 14,427,272 | 933,646 | Nil |

† *Loan Share Plan - refer to Remuneration Report - Note E for details.*

| Director and Executives | Qualifications and experience | Particulars of interests in shares and options of Patrys Limited: Shares | LSP† shares | Options |
|---|---|---|---|---|
| **Chief Executive Officer (formerly Chief Medical Officer and President)**<br><br>**Marie Roskrow**<br>*BSc. (Hons), MBBS (Hons), 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 |
| **Chief Financial Officer and Company Secretary**<br><br>**Roger McPherson**<br>*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 12 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. | 300,000 | 654,435 | 250,000 |
| **VP, Research & Development**<br><br>**Frank Hensel**<br>*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.<br><br>* *Dr Hensel has a non-controlling interest in OncoMab GmbH which holds 20,250,000 shares in the Company.* | Nil* | Nil | 1,254,435 |

† *Loan Share Plan - refer to Remuneration Report - Note E for details.*

# Directors' Report CONTINUED

| Director and Executives | Qualifications and experience | Particulars of interests in shares and options of Patrys Limited: Shares | LSP† shares | Options |
|---|---|---|---|---|
| **VP, Manufacturing**<br><br>**Michael Conner**<br>*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. He 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 |
| **Senior Director, Clinical Operations**<br><br>**Amos Hedt**<br>*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. | 60,000 | 300,073 | 130,000 |
| **Senior Director, Business Development**<br><br>**Deanne Greenwood**<br>*Ph.D, MBA* | Dr. Greenwood spent 10-years in academia conducting immunology research in the areas of vaccine development and autoimmunity, with the last four years at the Centre for Animal Biotechnology, The University of Melbourne. Dr. Greenwood has managed various research and commercial research projects and collaborations and is responsible for business development, grants and external relationship management at Patrys. Dr. Greenwood has a PhD degree in Immunology from the Monash University and a Masters of Business Administration (Technology) from La Trobe University. | 50,000 | 400,829 | 115,000 |

† *Loan Share Plan - refer to Remuneration Report - Note E for details.*

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Directors (including committee meetings of Directors) held during the year ended 30 June 2011 and the numbers of meetings attended by each Director were:

| Director | Board of Directors | | Nomination and Remuneration Committee | | Audit and Risk Committee | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| John Read | 11 | 11 | 4 | 4 | 3 | 3 |
| Daniel Devine | 11 | 11 | 4 | 3 | 3 | 3 |
| Michael Stork | 11 | 11 | 4 | 4 | 3 | 3 |
| Alan Robertson | 11 | 10 | 4 | 4 | 3 | 3 |

Note that while Daniel Devine was not a member of the Nomination & Remuneration Committee or the Audit & Risk Committee he was 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) Principles used to determine the nature and amount of remuneration

(C) Details of remuneration

(D) Service agreements

(E) Share-based compensation to Diretors and key management personnel

(F) Additional information

### (A) Key management personnel

The key management personnel include the following:

#### (a) Directors

» Non Executive Chairman
  - John Read

» Executive Director and Chief Executive Officer
  - Daniel Devine (resigned 30 June 2011)

» 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 |
|---|---|---|
| Marie Roskrow | Chief Medical Officer and President | Patrys Limited |
| Roger McPherson | Chief Financial Officer and Company Secretary | Patrys Limited |
| Frank Hensel | Vice President, Research and Development | Patrys GmbH |
| Michael Conner | Vice President, Manufacturing | Patrys Inc. |
| Amos Hedt | Senior Director, Clinical Operations | Patrys Limited |

On 1 July 2011 Dr. Marie Roskrow was appointed to the role of Chief Executive Officer of Patrys Limited. She was initially employed by the Company in the role of Chief Medical Officer and President on 9 August 2010. No other changes have occurred after the reporting date and prior to the date of the Directors' Declaration.

### (B) Principles 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.

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 ended 30 June 2011 (2010: Nil).

**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 Nomination and Remuneration Committee.

| | 13 July 2007 (Date of listing) | 30 June 2008 | 30 June 2009 | 30 June 2010 | 30 June 2011 |
|---|---|---|---|---|---|
| Closing share price (IPO price) | $0.40 | $0.30 | $0.13 | $0.10 | $0.09 |
| Price increase/(decrease) $ | | (0.10) | (0.17) | (0.03) | (0.01) |
| Price increase/(decrease) % | | (25) | (57) | (23) | (10) |
| **Total key management personnel remuneration** | | **$1,852,758** | **$2,057,063** | **$1,748,371** | **$2,067,026** |

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 2011. 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.

# Directors' Report CONTINUED

## (C) Details of remuneration

**Year ended 30 June 2011**

Details of the remuneration of each Director of Patrys and the key management personnel (KMP) of the Company are set out in the following tables for the year ended 30 June 2011. 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 over the vesting period.

| 2011 | Short-term employee benefits | | | Post employment benefits | | Equity-based payments | | |
|---|---|---|---|---|---|---|---|---|
| Name | Cash salary & fees $ | Cash bonus $ | Non-monetary benefits $ | Super-annuation $ | Termin-ation payments $ | Shares & options $ | % of total remu-neration | Total $ |
| Executive Directors | | | | | | | | |
| Daniel Devine[1,2] | 264,337 | - | 175,965 | - | 252,887 | 66,313 | 9 | 759,502 |
| **Sub-total Executive Directors** | **264,337** | **-** | **175,965** | **-** | **252,887** | **66,313** | | **759,502** |
| Non Executive Directors | | | | | | | | |
| John Read | 75,000 | - | - | - | - | 8,611 | 10 | 83,611 |
| Michael Stork | - | - | - | - | - | 1,192 | 100 | 1,192 |
| Alan Robertson | 50,459 | - | - | 4,541 | - | 4,306 | 7 | 59,306 |
| **Total Directors** | **389,796** | **-** | **175,965** | **4,541** | **252,887** | **80,422** | | **903,611** |
| Other KMP | | | | | | | | |
| Marie Roskrow[3] | 194,193 | - | - | 15,199 | - | 9,478 | 4 | 218,870 |
| Roger McPherson | 221,291 | - | - | 25,000 | - | 27,661 | 10 | 273,952 |
| Frank Hensel | 226,617 | - | - | - | - | 35,534 | 14 | 262,151 |
| Michael Conner[4] | 220,609 | - | 11,945 | 7,849 | - | 24,603 | 9 | 265,006 |
| Amos Hedt | 119,984 | - | - | 10,799 | - | 12,653 | 9 | 143,436 |
| **Total Other KMP** | **982,694** | **-** | **11,945** | **58,847** | **-** | **109,929** | | **1,163,415** |
| **Total** | **1,372,490** | **-** | **187,910** | **63,388** | **252,887** | **190,351** | | **2,067,026** |

(1) *Mr. Devine's contract with the Company expired on 30 June 2011 and he also resigned as a director on that date.*

(2) *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.*

(3) *Dr. Roskrow joined the Company on 9 August 2010 in the role of Chief Medical Officer and President. She was appointed as Chief Executive Officer on 30 June 2011.*

(4) *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 ended 30 June 2011*

During the year ended 30 June 2011 no cash bonuses were paid (2010: Nil) due to the current economic conditions.

**Year ended 30 June 2010**

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 over the vesting period.

| 2010 | Short-term employee benefits | | | Post employment benefits | | Equity-based payments | | |
|---|---|---|---|---|---|---|---|---|
| Name | Cash salary & fees $ | Cash bonus $ | Non-monetary benefits $ | Super-annuation $ | Termin-ation payments $ | Shares & Options $ | % of total remu-neration | Total $ |
| Executive Directors | | | | | | | | |
| Daniel Devine[(1)] | 277,843 | - | 145,096 | - | - | 14,060 | 3 | 436,999 |
| **Sub-total Executive Directors** | **277,843** | **-** | **145,096** | **-** | **-** | **14,060** | **-** | **436,999** |
| Non Executive Directors | | | | | | | | |
| 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 |
| **Total Directors** | **397,225** | **-** | **145,096** | **4,369** | **-** | **41,472** | | **588,162** |
| Other KMP | | | | | | | | |
| Frank Hensel | 246,080 | - | - | - | - | 32,971 | 12 | 279,051 |
| Roger McPherson | 211,250 | - | - | 25,000 | - | 16,012 | 6 | 252,262 |
| Vic Ilag[(2)] | 164,450 | - | - | 24,231 | - | 13,329 | 7 | 202,010 |
| Michael Conner[(3)] | 247,482 | - | 13,546 | 8,578 | - | 23,955 | 8 | 293,561 |
| Amos Hedt | 115,927 | - | - | 10,433 | - | 6,965 | 5 | 133,325 |
| **Total Other KMP** | **985,189** | **-** | **13,546** | **68,242** | **-** | **93,232** | | **1,160,209** |
| **Total** | **1,382,414** | **-** | **158,642** | **72,611** | **-** | **134,704** | | **1,748,371** |

(1) *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.*

(2) *Dr. Ilag terminated on 2 September 2010 but ceased to be a member of the key management personnel at 30 June 2010.*

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

### (D) Service agreements

Remuneration and other terms of employment for the Non Executive Chairman, Non Executive Directors, 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 equity in the Company.

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 (ceased 30 June 2011)
  - **Term of Agreement:** Mr. Devine's original employment agreement commenced on 1 March 2007. A new agreement became effective 1 July 2009 and had a term of two years. This agreement expired on 30 June 2011 and Mr. Devine's role as an Executive Director and Chief Executive Officer ceased on that date.
  - **Base remuneration:** Commencing on 1 July 2010 $432,000 per annum.
  - **Bonus:** At the discretion of the Board of Directors and subject to Company performance.
  - **Equity:** Mr. Devine was 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's fee:** $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.
- **Marie Roskrow -** Chief Executive Officer (formerly Chief Medical Officer and President)
  - **Term of Agreement:** Dr. Roskrow's original employment agreement commenced on 9 August 2010 and covered her initial role of Chief Medical Officer and President. Following her promotion to the role of Chief Executive Officer a new agreement became effective from 1 July 2011 which is ongoing unless terminated in accordance with its terms.
  - **Base remuneration:** Effective 1 July 2011 $360,000 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:** Effective 1 July 2011 $261,068 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.
- **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 its terms.
  - **Base remuneration:** Effective 1 July 2011 €167,895 per annum, subject to annual increases 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.

- **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 remuneration:** Effective 1 July 2011 US$195,840 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:** 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 its terms.
  - **Base remuneration:** Effective 1 July 2011 $136,000 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.

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 is 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 generally 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 generally 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.

In accordance with the rules of both the LSP and ESOP the Board has the ability to vary the terms in respect of issues in circumstances it considers appropriate.

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.

# Directors' Report CONTINUED

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 | 50,018 | 31/12/2011 | 02/09/2010 | 0.144 | 0.0935 | 02/09/2010 |
| 02/12/2009 | 50,017 | 31/12/2011 | 02/09/2010 | 0.144 | 0.1003 | 02/09/2010 |
| 02/12/2009 | 50,017 | 31/12/2011 | 02/09/2010 | 0.144 | 0.1060 | 02/09/2010 |
| 02/12/2009 | 410,965 | 27/11/2015 | 27/11/2010 | 0.144 | 0.0935 | 27/11/2010 |
| 02/12/2009 | 134,624 | 30/06/2016 | 30/06/2011 | 0.144 | 0.1003 | 30/06/2011 |
| 02/12/2009 | 134,624 | 30/06/2016 | 30/06/2011 | 0.144 | 0.1060 | 30/06/2011 |
| 02/12/2009 | 276,340 | 27/11/2016 | 27/11/2011 | 0.144 | 0.1003 | 27/11/2011 |
| 02/12/2009 | 276,340 | 27/11/2017 | 27/11/2012 | 0.144 | 0.1060 | 27/11/2012 |
| 01/07/2010 | 25,001 | 31/12/2011 | 02/09/2010 | 0.106 | 0.0687 | 02/09/2010 |
| 01/07/2010 | 25,001 | 31/12/2011 | 02/09/2010 | 0.106 | 0.0728 | 02/09/2010 |
| 01/07/2010 | 25,001 | 31/12/2011 | 02/09/2010 | 0.106 | 0.0762 | 02/09/2010 |
| 01/07/2010 | 91,853 | 01/07/2016 | 01/07/2011 | 0.106 | 0.0687 | 01/07/2011 |
| 01/07/2010 | 91,855 | 01/07/2017 | 01/07/2012 | 0.106 | 0.0728 | 01/07/2012 |
| 01/07/2010 | 91,855 | 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 | 09/02/2016 |
| 18/08/2010 | 75,000 | 09/08/2016 | 09/08/2011 | 0.10 | 0.0671 | 09/08/2016 |
| 29/10/2010 | 176,591 | 30/06/2016 | 30/06/2011 | 0.083 | 0.0722 | 30/06/2011 |
| 29/10/2010 | 176,591 | 30/06/2016 | 30/06/2011 | 0.083 | 0.0757 | 30/06/2011 |
| 29/10/2010 | 176,591 | 30/06/2016 | 30/06/2011 | 0.083 | 0.0786 | 30/06/2011 |
| **Total** | **2,413,284** | | | | | |

*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 | 125,000 | 31/12/2011 | 06/07/2007 | 0.46 | 0.2021 | 06/07/2007 |
| 06/07/2007 | 125,000 | 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 | 125,000 | 31/12/2011 | 06/07/2008 | 0.56 | 0.2692 | 06/07/2008 |
| 06/07/2007 | 125,000 | 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 | 50,000 | 31/12/2011 | 01/07/2009 | 0.33 | 0.1738 | 01/07/2009 |
| 01/07/2008 | 50,000 | 31/12/2011 | 01/07/2010 | 0.33 | 0.1892 | 01/07/2010 |
| 01/07/2008 | 50,000 | 31/12/2011 | 02/09/2010 | 0.33 | 0.2024 | 02/09/2010 |
| 01/07/2008 | 200,000 | 01/07/2014 | 01/07/2009 | 0.33 | 0.1738 | 01/07/2009 |
| 01/07/2008 | 200,000 | 01/07/2015 | 01/07/2010 | 0.33 | 0.1892 | 01/07/2010 |
| 01/07/2008 | 200,000 | 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 |
| 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 |
| **Total** | **5,279,545** | | | | | |

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.

### 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, the exercise price must be paid prior to each being converted into one ordinary share of Patrys Limited. Details are also provided for the number of equity instruments that have vested during the 2011 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 (or loan).

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 | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | 2010 |
| | Number | Loan per share $ | Number | Loan per share $ | Number | Number |
| **Directors of Patrys Limited** | | | | | | |
| John Read | - | - | 150,052 | 0.144 | 50,018 | - |
| Alan Robertson | - | - | 75,026 | 0.144 | 25,008 | - |
| Daniel Devine | 529,773 | 0.083 | 403,873 | 0.144 | 933,646 | - |
| **Other key management personnel** | | | | | | |
| Marie Roskrow | 150,000 | 0.10 | - | - | 75,000 | - |
| Roger McPherson | 250,562 | 0.106 | 403,873 | 0.144 | 134,625 | - |
| Vic Ilag* | - | - | 150,052 | 0.144 | - | - |
| Amos Hedt | 100,004 | 0.106 | 200,069 | 0.144 | 66,689 | - |

* *Dr. Ilag ceased to be a member of the key management personnel from 30 June 2010.*

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 at the issue price.

*Options granted under the ESOP*

| Name | Options granted during the year | | | | Options vested during the year | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | 2010 |
| | Number | Exercise price $ | Number | Exercise price $ | Number | Number |
| Directors of Patrys Limited | | | | | | |
| John Read | - | - | - | - | 120,000 | 240,000 |
| Alan Robertson | - | - | - | - | 60,000 | 120,000 |
| Michael Stork | - | - | - | - | 60,000 | 120,000 |
| Other key management personnel | | | | | | |
| Frank Hensel | 250,562 | 0.106 | 403,873 | 0.144 | 251,292 | 116,667 |
| Roger McPherson | - | - | - | - | - | 125,000 |
| Vic Ilag* | - | - | - | - | - | 50,000 |
| Michael Conner | 150,006 | 0.106 | 300,104 | 0.144 | 183,367 | 83,334 |

* *Dr. Ilag ceased to be a member of the key management personnel from 30 June 2010.*

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.

## (F) Additional information

**Details of remuneration: cash bonuses, shares and options**

| | Cash bonus Note (v) | | Shares and options | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Paid % | Forfeited % | Year issued | Vested % | 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 | 100 | - | - | - | - |
| | | | 2010 | 33.3 | - | Note (ii) | - | 3,550 |
| Daniel Devine | - | - | 2010 | 100 | - | - | - | - |
| | | | 2011 | 100 | - | - | - | - |
| Michael Stork | - | - | 2009 | 100 | - | - | - | - |
| Alan Robertson | - | - | 2007 | 100 | - | - | - | - |
| | | | 2009 | 100 | - | - | - | - |
| | | | 2010 | 33.3 | | Note (ii) | - | 1,775 |
| Marie Roskrow | - | - | 2011 | 50 | - | Note (iv) | - | 419 |
| Frank Hensel | - | - | 2008 | 100 | - | - | - | - |
| | | | 2009 | 66.6 | - | Note (i) | - | - |
| | | | 2010 | 33.3 | - | Note (ii) | - | 9,555 |
| | | | 2011 | - | - | Note (iii) | - | 7,284 |
| Michael Conner | - | - | 2008 | 100 | - | - | - | - |
| | | | 2009 | 66.6 | - | Note (i) | - | - |
| | | | 2010 | 33.3 | - | Note (ii) | - | 7,100 |
| | | | 2011 | - | - | Note (iii) | - | 4,361 |
| Roger McPherson | - | - | 2009 | 100 | - | - | - | - |
| | | | 2010 | 33.3 | - | Note (ii) | - | 9,555 |
| | | | 2011 | - | - | Note (iii) | | 7,284 |
| Amos Hedt | - | - | 2009 | 100 | - | - | - | - |
| | | | 2010 | 33.3 | - | Note (ii) | - | 4,733 |
| | | | 2011 | - | - | Note (iii) | | 2,907 |

*Notes:*

*(i) The financial years in which options vest are 33.3% in 2010, 33.3% in 2011 and 33.3% in 2012.*

*(ii) The financial years in which shares/options vest are 33.3% in 2011, 33.3% in 2012 and 33.3% in 2013.*

*(iii) The financial years in which shares/options vest are 33.3% in 2012, 33.3% in 2013 and 33.3% in 2014.*

*(iv) The financial years in which shares vest are 50% in 2011 and 50% in 2012.*

*(v) No cash bonuses were paid for the 2011 year (2010: Nil).*

**Share-based compensation**

*Further details relating to shares and options are set out below:*

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Name | 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 $ |
| Year ending 30 June 2011 | | | | | |
| John Read | - | - | - | - | - |
| Daniel Devine | 5 | 40,000 | | | 40,000 |
| Alan Robertson | - | - | - | - | - |
| Michael Stork | - | - | - | - | - |
| Marie Roskrow | 5 | 9,898 | | | 9,898 |
| Frank Hensel | 7 | 18,187 | - | - | 18,187 |
| Roger McPherson | 7 | 18,187 | - | - | 18,187 |
| Michael Conner | 4 | 10,888 | - | - | 10,888 |
| Amos Hedt | 5 | 7,259 | - | - | 7,259 |
| Year ending 30 June 2010 | | | | | |
| 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.*

## END OF REMUNERATION REPORT (AUDITED)

# Directors' Report CONTINUED

## 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 Notes 14 and 20 of the Financial Statements.

| Date shares issued | Expiry date of loan | Issue price of share $ | Number under shares |
|---|---|---|---|
| 02/12/2009 | 31/12/2011 | 0.144 | 150,052 |
| 02/12/2009 | 27/11/2015 | 0.144 | 517,002 |
| 02/12/2009 | 30/06/2016 | 0.144 | 269,248 |
| 02/12/2009 | 27/11/2016 | 0.144 | 382,377 |
| 02/12/2009 | 27/11/2017 | 0.144 | 382,377 |
| 01/07/2010 | 31/12/2011 | 0.106 | 75,003 |
| 01/07/2010 | 01/07/2016 | 0.106 | 180,436 |
| 01/07/2010 | 01/07/2017 | 0.106 | 180,436 |
| 01/07/2010 | 01/07/2018 | 0.106 | 180,436 |
| 18/08/2010 | 09/02/2016 | 0.10 | 75,000 |
| 18/08/2010 | 09/08/2016 | 0.10 | 75,000 |
| 29/10/2010 | 30/06/2016 | 0.083 | 529,773 |
| **Total** | | | **2,997,140** |

## 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 Notes 14 and 20 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 | 31/12/2011 | 0.46 | 125,000 |
| 06/07/2007 | 31/12/2011 | 0.56 | 125,000 |
| 06/07/2007 | 05/07/2012 | 0.46 | 125,000 |
| 06/07/2007 | 05/07/2013 | 0.56 | 125,000 |
| 31/10/2007 | 30/01/2013 | 0.56 | 260,000 |
| 01/07/2008 | 31/12/2011 | 0.33 | 150,000 |
| 01/07/2008 | 24/05/2013 | 0.33 | 50,000 |
| 01/07/2008 | 01/07/2014 | 0.33 | 261,669 |
| 01/07/2008 | 01/07/2015 | 0.33 | 261,666 |
| 01/07/2008 | 01/07/2016 | 0.33 | 261,665 |
| 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 |
| **Total** | | | **30,077,784** |

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

# Directors' Report CONTINUED

## 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 was 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. Note that these laboratories were closed during the financial 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.

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:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| 1. Audit services | | |
| PKF Chartered Accountants: | | |
| - Audit and review of financial reports and other audit work under the *Corporations Act 2001* | 57,406 | 52,000 |
| Non PKF Audit Firm (Verhulsdonk & Partner): | | |
| - Review of financial reports for Patrys GmbH | - | 18,883 |
| **Total remuneration for audit services** | **57,406** | **70,883** |
| 2. Other advisory services | | |
| PKF Chartered Accountants: | | |
| - Advice on taxation matters and review and lodgement of corporate tax returns | 10,745 | 9,708 |
| Non PKF Audit Firm (Verhulsdonk & Partner): | | |
| - General taxation and accounting advice for Patrys GmbH | 831 | 2,492 |
| **Total remuneration for other advisory services** | **11,576** | **12,200** |
| **Total remuneration** | **68,982** | **83,083** |

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's declaration under Section 307C in relation to the audit for the year ended 30 June 2011 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: 26 September 2011

# Auditor's Independence Declaration to the Directors of Patrys Limited

Chartered Accountants
& Business Advisers

**LEAD AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To: The Directors
Patrys Limited and the entities it controlled during the year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

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

**David Garvey**
Partner

**PKF**

26 September 2011
Melbourne

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PKF | ABN 83 236 985 726
Level 14, 140 William Street | Melbourne | Victoria 3000 | Australia
GPO Box 5099 | Melbourne | Victoria 3001

# Corporate Governance

The Board of Directors of Patrys Limited (Board) 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 Board supports the core corporate governance principles published by the ASX Corporate Governance Council (Council). The Company's corporate governance framework is designed to comply with the Council's principles whilst being relevant, efficient and cost effective for the current stage of the Company's development.

The Corporate Governance Statement that follows contains certain specific information and discloses the extent to which the Company has followed the Council's principles during the 2011 year. Patrys' Corporate Governance Statement is structured with reference to the ASX Corporate Governance Principles and Recommendations.

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.

**A copy of the Board Charter is available on the Company's website at www.patrys.com**

# Corporate Governance CONTINUED

### Executive performance evaluation

The Nomination and Remuneration Committee (refer to Principle 8 for more detail) is responsible for evaluating the performance of the Chief Executive Officer and of the other senior executives. The Chief Executive Officer is also involved in evaluating the performance of the other senior executives and provides input to the Committee. The performance evaluation of management involves an assessment of the Company's business performance, whether short-term operational targets and individual performance objectives are being achieved and whether long-term strategic objectives are being achieved.

Due to the nature and stage of the Company's activities, effective management of the Company's resources and advancement of its products along the clinical development path which in turn should achieve value for shareholders is the key short-term objective. Long-term objectives are linked to activities/milestones that are expected to create and maintain value for shareholders.

The performance of the Chief Executive Officer and management is monitored on an informal basis throughout the year with the objective of performing a formal evaluation once a year. A review of the remuneration structure for management was performed in June 2011 by the Nomination and Remuneration Committee. This review was in accordance with the process outlined in the "Remuneration Report" section of the Directors' Report.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The Company's Board currently comprises three Directors including an independent Non Executive Chairman who was appointed to the position in 2007. All three are Non Executive Directors. The Board has a programme to review its current composition having regard to the Company's size and stage of development.

### 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<br>4 years and 4 months |
| Alan Robertson | Independent Non Executive Director<br>4 years and 4 months |
| Michael Stork | Non Executive Director and<br>Deputy Chairman<br>4 years and 7 months |

### Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee to assist the Board in ensuring it is equipped to discharge its responsibilities. The Committee has guidelines for the nomination and selection of directors and for the operation of the Board. 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 Nomination and Remuneration Committee on a regular basis at the full Board during its regular meetings. **The Charter of the Nomination and Remuneration Committee is available on the Company's website www.patrys.com**

The Nomination and Remuneration Committee comprises three Directors as follows:

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

### Board and committee performance

Board and committee performance is monitored on an informal basis throughout the year. The Board also undertakes an annual self-assessment of its performance. Directors consider matters such as composition, structure and role of the Board, and performance of individual directors. The Chairman then meets individually with each director. During the year an assessment of the Director performance was conducted by the Board.

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

### Code of Conduct

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 CEO, 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. **A copy of the Code of Conduct is available on the Company's website www.patrys.com**

### Diversity policy

The Company's workforce including employees, management, and the Board is made up of individuals with diverse skills, values, backgrounds and experiences that bring to the Company the skills and expertise that is required for the Company to enhance its performance.

Under changes to the ASX Corporate Governance Principles and Recommendations published on 30 June 2010, it is suggested that the Company disclose in its annual report:

(a) the measurable objectives for achieving gender diversity that have been set by the Board in accordance with its diversity policy and report on the progress that has been made in achieving those objectives; and

(b) disclose the proportion of female employees in the whole organisations, the proportion in senior executive positions and the proportion of women on its Board.

The Company values diversity and recognises the benefits it can bring in achieving its goals so while the changes do not take effect until the financial year ending 30 June 2012, the Company has already taken steps to adopt some of the provisions of the amended ASX Corporate Governance Principles and Recommendations. The Company has also established a diversity policy which reflects the commitments and objectives of the Company. **A copy of the Diversity Policy is available on the Company's website www.patrys.com**

Under recommendations 3.3 and 3.4 of the Corporate Governance Principles and Recommendations the Company should disclose the measurable objectives for achieving gender diversity and the progress that has been made towards achieving those objectives, as well as disclose the proportion of women employees in the whole organisation, in senior executive positions and on the Board.

Due to current size and composition of the organisation the Board does not consider it appropriate to provide measurable objectives in relation to gender. The Company is committed to ensuring that the appropriate mix of skills, experience, expertise and diversity are considered when employing staff at all levels of the organisation and when making new senior executive and Board appointments and is satisfied that the composition of employees, senior executives and members of the Board is appropriate.

The proportion of women employees in the organisation, in senior executive positions and on the Board as at the date of this report is outlined in the table below:

| | Total no. | Total no. of female employees | % of female employees |
|---|---|---|---|
| Employees (inc. Board) | 17 | 8 | 47 |
| Senior Management | 6 | 2 | 33 |
| Board | 3 | 0 | 0 |

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Audit and Risk Committee

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 established an Audit and Risk Committee, which operates under a formal charter approved by the Board, to which it has delegated the responsibility to establish and maintain the framework of internal control and ethical standards for the management of the company.

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

The Committee comprises of 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 | Non Executive Chairman |
| Alan Robertson | Independent Non Executive Member |
| John Read | Independent Non Executive Member |

The Charter of the Audit and Risk Committee is available on the Company's website **www.patrys.com**

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:

» 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

» 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.

The Company has also developed a Communications Policy which covers the basics of how to handle contact with the news media and other external enquiries (received verbally or electronically). The Company recognises that the media is an important vehicle to raise its profile and the work that it is undertaking so the general policy is to actively seek to respond quickly to opportunities. The CEO is the nominated spokesperson and understands the Company's continuous disclosure obligations when communicating with the media and responding to other external enquiries.

**The Continuous Disclosure Policy and Communications Policy are available on the Company's website www.patrys.com**

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights has developed a Communications Policy. The Communications Policy is designed to describe the processes Patrys has in place to promote communication with its investors and encourage shareholder participation at AGMs. 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.

The policy provides for the use of systems involving technologies that ensure a regular and timely release of information about the Company. Mechanisms employed include:

1. all information released to the ASX (including annual reports, half-yearly reports, and notices of general meetings and their associated explanatory material) is posted on the Company's website as soon as practicable following confirmation of receipt by the ASX;

2. annual reports (if requested) and notices of general meetings with explanatory material are mailed to investors; and

3. copies of presentations to be made to investors, potential investors and analysts are posted on both the ASX and Patrys websites prior to being delivered.

In addition, the Company makes available a telephone number (+61 3 9670 3273) and email address (info@patrys.com) for shareholders to make enquiries of the Company.

**The Communications Policy is available on the Company's website www.patrys.com**

## 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 Nomination 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.

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 2011*

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $ | 2010 $ |
| Revenues from continuing operations | 2(a) | 1,067,756 | 941,662 |
| Other income | 2(b) | - | 587,158 |
| Expenses from continuing operations | 2(c) | | |
| Research & development | | (6,299,205) | (6,976,925) |
| Management & administration | | (1,951,885) | (2,062,541) |
| Finance costs | | (222,601) | (2,693) |
| Loss from continuing operations before tax | | (7,405,935) | (7,513,339) |
| Income tax (expense) | 3 | (15,735) | (21,784) |
| **Loss for the year from continuing operations after income tax** | | **(7,421,670)** | **(7,535,123)** |
| Other comprehensive income | | | |
| Exchange differences on translating foreign operations | 15(a) | (27,677) | (63,462) |
| **Total comprehensive income for the year attributable to members of the Company** | | **(7,449,347)** | **(7,598,585)** |
| Earnings per share: | | | |
| Basic earnings per share - from continuing operations | 5 | (3.39¢) | (4.15¢) |
| Diluted earnings per share - from continuing operations | 5 | (3.39¢) | (4.15¢) |

*The accompanying notes form part of these financial statements.*

# Statement of Changes in Equity

*for the year ended 30 June 2011*

| 2011 | Fully paid ordinary shares $ | Foreign currency translation reserve $ | Share option reserve $ | Share loan plan reserve $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|---|---|
| **At 1 July 2010** | **39,634,530** | **(53,769)** | **760,597** | **61,588** | **(25,170,180)** | **15,232,766** |
| Loss for the period | - | - | - | - | (7,421,670) | (7,421,670) |
| Other comprehensive income | - | (27,677) | - | - | - | (27,677) |
| Total comprehensive income for the period | - | (27,677) | - | - | (7,421,670) | (7,449,347) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Issued capital | 5,780,500 | - | - | - | - | 5,780,500 |
| Transaction costs related to shares issued | (339,828) | - | - | - | - | (339,828) |
| Cost of share based payment | - | - | 81,600 | 159,796 | - | 241,396 |
| **At 30 June 2011** | **45,075,202** | **(81,446)** | **842,197** | **221,384** | **(32,591,850)** | **13,465,487** |

| 2010 | | | | | | |
|---|---|---|---|---|---|---|
| **At 1 July 2009** | **34,677,027** | **9,693** | **665,913** | **-** | **(17,635,057)** | **17,717,576** |
| 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) |
| Transactions with owners in their capacity as owners: | | | | | | |
| 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 |
| **At 30 June 2010** | **39,634,530** | **(53,769)** | **760,597** | **61,588** | **(25,170,180)** | **15,232,766** |

*The accompanying notes form part of these financial statements.*

# Statement of Financial Position

*as at 30 June 2011*

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $ | 2010 $ |
| Current assets | | | |
| Cash and cash equivalents | 6 | 6,203,135 | 6,783,233 |
| Trade and other receivables | 7 | 43,991 | 681,417 |
| Other current assets | 8 | 88,062 | 105,195 |
| **Total current assets** | | **6,335,188** | **7,569,845** |
| Non current assets | | | |
| Property, plant and equipment | 9 | 475,598 | 676,409 |
| Intangible assets | 10 | 8,035,441 | 8,060,622 |
| **Total non current assets** | | **8,511,039** | **8,737,031** |
| **Total assets** | | **14,846,227** | **16,306,876** |
| Current liabilities | | | |
| Trade and other payables | 11 | 1,196,931 | 864,404 |
| Current tax liabilities | 3 | 6,399 | 17,558 |
| Borrowings | 12 | - | 4,217 |
| Provisions | 13 | 77,410 | 73,177 |
| **Total current liabilities** | | **1,280,740** | **959,356** |
| **Non current liabilities** | | | |
| Trade and other payables | 11 | 100,000 | 100,000 |
| Borrowings | 12 | - | 14,754 |
| **Total non current liabilities** | | **100,000** | **114,754** |
| **Total liabilities** | | **1,380,740** | **1,074,110** |
| **Net assets** | | **13,465,487** | **15,232,766** |
| Equity | | | |
| Issued capital | 14(a) | 45,075,202 | 39,634,530 |
| Reserves | 15(a)(b)(c) | 982,135 | 768,416 |
| Accumulated losses | 15(d) | (32,591,850) | (25,170,180) |
| **Total equity** | | **13,465,487** | **15,232,766** |

*The accompanying notes form part of these financial statements.*

# Statement of Cash Flows

*for the year ended 30 June 2011*

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $ | 2010 $ |
| Cash flows from operating activities | | | |
| Receipts from customers | | 500,000 | - |
| Payments to suppliers and employees | | (6,496,318) | (7,401,977) |
| Finance costs | | (222,601) | (2,693) |
| Income tax paid | | (26,895) | (29,898) |
| Interest received | | 423,955 | 354,774 |
| R & D tax concession | | 703,547 | - |
| Government grants | | - | 19,110 |
| Other income | | 4,805 | 6,005 |
| **Net cash used in operating activities** | 16(b) | **(5,113,507)** | **(7,054,679)** |
| Cash flows from investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | 53,349 | - |
| Payments for property, plant and equipment | | (7,956) | (82,613) |
| Payments for intangible assets | | (909,501) | (919,447) |
| Payments for other assets | | - | (326,869) |
| **Net cash used in investing activities** | | **(864,108)** | **(1,328,929)** |
| Cash flows from financing activities | | | |
| Net proceeds from issue of shares | | 5,780,500 | 5,036,687 |
| Payment for share issue expenses | | (339,828) | (60,027) |
| Repayment of borrowings | | (18,971) | (5,959) |
| **Net cash provided by financing activities** | | **5,421,701** | **4,970,701** |
| Net (decrease)/increase in cash and cash equivalents | | (555,914) | (3,412,907) |
| Effects of exchange rate changes on the balance of assets held in foreign currencies | | (24,184) | 600,471 |
| Cash and cash equivalent at beginning of year | | 6,783,233 | 9,595,669 |
| **Cash and cash equivalent at end of year** | 16(a) | **6,203,135** | **6,783,233** |

*The accompanying notes form part of these financial statements*

# Notes to the Financial Statements

*for the year ended 30 June 2011*

## 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 AIFRS 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.

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

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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 incurred a net consolidated loss for the year of $7,421,670 (2010: $7,535,123) and had a net cash consolidated outflow from operations of $5,113,507 (2010: $7,054,679). At 30 June 2011, the Company had net current assets of $5,054,448 (2010: $6,610,489). The Group does not yet have a source of income sufficient to meet operating costs and is reliant on equity capital to fund its operations. For the period covering the twelve months from the date of the financial report, the Group expects this trend to continue. These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the Group to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. The Company has a history of successfully raising funds and during the year under review has raised capital in the amount of $5,780,500 (2010: $5,036,687). It is the Company's intention to raise further capital in the next twelve months. The Group also has the ability to downscale its operations and discontinue programmes should the need arise.

Cash flow forecasts prepared by management demonstrate that with a modest fund raising the Group has sufficient funds to meet commitments over the next twelve months based on these factors. For this reason the financial statements have been prepared on the basis that the Group is a going concern, which contemplates normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

### (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 2011 is $233,542 (2010: $233,542) and the carrying amount of intangibles at 30 June 2011 is $8,035,441 (2010: $8,060,622).

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 is recognised at cost and 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 Group currently has no associates.

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.

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

### (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 their intended use or sale. No borrowing costs were capitalised during the financial year ended 30 June 2011 (2010: 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, is 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.

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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 9 to 20 years.

**(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:

» has been acquired principally for the purpose of selling in the near future;

» 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

» 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.

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

*(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) Recently issued accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the year ended 30 June 2011, but will be applicable to the Patrys in future reporting periods, are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Patrys.

*(i) Transfer of financial assets disclosures*

AASB 2010-6: "Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets" was issued in November 2010. AASB 2010-6 adds and amends existing disclosure requirements for transfers of financial assets in AASB 7: "Financial Instruments: Disclosures".

The amendments increase the disclosure requirements for financial assets that are either (legally) transferred but not derecognised (due to not meeting the accounting requirements) or derecognised but the transferor retains some level of continuing involvement in the financial assets.

The amendments to AASB 7 are applicable to annual reporting periods beginning on or after 1 July 2011, with early adoption permitted. It is anticipated that these amendments will have no impact on Patrys as we do not have such complex financial assets.

*(ii) Financial instruments - classification, measurement and derecognition*

AASB 9: "Financial Instruments" was re-issued in December 2010 to include the accounting requirements for classifying and measuring financial liabilities and the derecognition requirements for financial assets and liabilities. Two related omnibus standards AASB 2010-7 ; "Amendments to Australian Accounting Standards arising from AASB-9 (December 2010)" and AASB 2009-11: "Amendments to Australian Accounting Standards arising from AASB 9" make a number of amendments to other accounting standards as a result of the amendments to AASB 9 and must be adopted at the same time.

Most of the added requirements on the classification and measurement of financial liabilities and all of the added requirements on the derecognition of financial instruments have been carried forward unchanged from the existing standard AASB 139: "Financial Instruments - Classification and Measurement". The only change made relates to the requirements for the fair value option for financial liabilities, to address the issue of own credit risk. For financial liabilities designated at fair value due to changes in own credit risk now generally must be presented in other comprehensive income, rather than within profit or loss.

The amendments to AASB 9 are applicable to annual reporting periods beginning on or after 1 January 2013, with early adoption permitted. It is anticipated that this change will have no impact on Patrys as we do not have complex financial liabilities.

*(iii) Consolidated financial statements*

AASB 10: "Consolidated Financial Statements" is a new standard that revises the definition of control and related application guidance so that a single control model can be applied to all entities. This standard will apply to Patrys from 1 July 2013 and we are currently assessing the impact on Patrys. Early adoption is permitted.

*(iv) Disclosure of interests in other entities*

AASB 12: "Disclosure of Interests in other Entities" is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is applicable from 1 July 2013 and management is currently assessing the impacts of the standard, which will be limited to disclosure impacts only.

*(v) Fair value measurement*

AASB 13: "Fair Value Measurement" provides a precise definition of fair value as a single source of fair value measurement and prescribes disclosure requirements for use across Accounting Standards. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards. The standard will apply to Patrys from 1 July 2013, although early adoption is permitted. We are currently assessing the impacts of this standard on Patrys.

*(vi) Other*

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards are applicable in future years:

» AASB 124: "Related Party Disclosures";

» AASB 2009-12: "Amendments to Australian Accounting Standards";

» AASB 2009-14: "Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement";

» AASB 2010-4: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project";

» AASB 2010-5: "Amendments to Australian Accounting Standards";

» AASB 2010-8: "Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets";

» AASB 2010-9: "Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"; and

» AASB 2011-4: "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements".

We do not expect these accounting standards to materially impact our financial results upon adoption.

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 2: REVENUE AND EXPENSES FROM CONTINUING OPERATIONS

| | Consolidated | |
|---|---|---|
| | **2011 $** | **2010 $** |
| (a) Revenue | | |
| Licensing revenue | - | 500,000 |
| Interest received – bank deposits | 326,029 | 397,414 |
| Interest received – other | 30,581 | 20,484 |
| R & D tax concession | 703,547 | - |
| Government grants | - | 19,110 |
| Other | 7,599 | 4,654 |
| **Total revenue from continuing operations** | **1,067,756** | **941,662** |
| (b) Other income | | |
| Foreign currency exchange gain | - | 587,158 |
| **Total other income** | **-** | **587,158** |
| (c) Expenses | | |
| *Employee salary and benefit expenses:* | | |
| Salary and employee benefit expenses | 2,434,877 | 2,489,688 |
| Defined contribution superannuation expenses | 89,309 | 120,673 |
| Share based payments | 241,396 | 156,272 |
| **Total employee salary and benefit expenses** | **2,765,582** | **2,766,633** |
| *Depreciation and amortisation of non current assets:* | | |
| Plant and equipment | 102,259 | 139,277 |
| License and registered patents | 906,818 | 946,515 |
| **Total depreciation and amortisation** | **1,009,077** | **1,085,792** |
| *Finance costs:* | | |
| Interest expense | 5,101 | 2,693 |
| Cost associated with funding facility | 217,500 | - |
| **Total finance costs** | **222,601** | **2,693** |
| *Foreign currency exchange differences:* | | |
| Foreign currency exchange losses | 205,224 | 881,771 |
| **Total foreign currency exchange differences** | **205,224** | **881,771** |
| *Operating expenses:* | | |
| Research and development expenses | 6,299,205 | 6,976,925 |
| Operating lease expenses | 97,141 | 118,173 |
| Loss on disposal of non current assets | 25,262 | - |
| Provision for non-recovery of other debtors | 30,581 | 347,353 |

## NOTE 3: INCOME TAXES

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| (a) Income tax expense | | |
| **Current tax expense in respect of current year** | **15,735** | **21,784** |
| (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: | | |
| **Loss from continuing operation** | **(7,405,935)** | **(7,513,339)** |
| Income tax calculated at 30% | (2,221,781) | (2,254,002) |
| Effect of revenue that is not assessable in determining taxable loss | (211,064) | - |
| Effect of expenses that are not deductible in determining taxable loss | 72,419 | 46,882 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 609 | 535 |
| Deferred tax assets not brought into account | 2,375,552 | 2,228,369 |
| **Income tax expense** | **15,735** | **21,784** |
| Current tax liabilities | | |
| Income tax payable attributable to subsidiaries | 6,399 | 17,558 |
| Unrecognised deferred tax assets | | |
| The following deferred tax assets have not been brought to account as assets: | | |
| Tax losses – revenue | 10,041,631 | 8,151,703 |

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.

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 4: REMUNERATION OF AUDITORS

| | Consolidated | |
|---|---|---|
| | 2011<br>$ | 2010<br>$ |
| 1. Audit services | | |
| PKF Chartered Accountants: | | |
| - Audit and review of financial reports and other audit work under the *Corporations Act 2001* | 57,406 | 52,000 |
| Non PKF Audit Firm (Verhulsdonk & Partner): | | |
| - Review of financial reports for Patrys GmbH | - | 18,883 |
| **Total remuneration for audit services** | **57,406** | **70,883** |
| 2. Other advisory services | | |
| PKF Chartered Accountants: | | |
| - Advice on taxation matters and review and lodgement of corporate tax returns | 10,745 | 9,708 |
| Non PKF Audit Firm (Verhulsdonk & Partner): | | |
| - General taxation and accounting advice for Patrys GmbH | 831 | 2,492 |
| **Total remuneration for other advisory services** | **11,576** | **12,200** |
| **Total remuneration** | **68,982** | **83,083** |

## NOTE 5: EARNINGS PER SHARE

| | | |
|---|---|---|
| Net loss used in calculating basic earnings per share: | 7,421,670 | 7,535,123 |
| Net loss used in calculating diluted earnings per share: | 7,421,670 | 7,535,123 |

| | Number of Shares | Number of Shares |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 218,828,753 | 181,483,196 |
| Dilutive potential ordinary shares | - | - |
| Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share | 218,828,753 | 181,483,196 |

### 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.

**(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 2,997,140 shares currently on issue that were granted under the LSP are not included in the calculation of diluted earnings per share because they are anti dilutive for the year ended 30 June 2011. 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 because they are anti-dilutive for the year ended 30 June 2011. Details relating to the options are set out in note 20.

## NOTE 6: CASH AND CASH EQUIVALENTS

| | Consolidated | |
|---|---|---|
| | **2011 $** | **2010 $** |
| Cash at bank | 48,970 | 31,691 |
| Deposit at call | 1,974,165 | 975,738 |
| Term deposits | 4,180,000 | 5,775,804 |
| **Total** | **6,203,135** | **6,783,233** |

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 7: TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | **2011 $** | **2010 $** |
| Current | | |
| Trade debtors | - | 550,000 |
| Other debtors | 43,991 | 478,770 |
| Provision for non-recovery | - | (347,353) |
| **Total** | **43,991** | **681,417** |

The balance of trade and other receivables of $43,991 (2010: $681,417) is not past due and not considered impaired.

## NOTE 8: OTHER CURRENT ASSETS

| | | |
|---|---|---|
| Prepayments | 70,240 | 78,330 |
| Security deposits | 17,822 | 26,865 |
| **Total** | **88,062** | **105,195** |

## NOTE 9: PROPERTY, PLANT AND EQUIPMENT

| | | |
|---|---|---|
| Plant and equipment | | |
| At cost | 743,737 | 936,967 |
| Accumulated depreciation | (268,139) | (288,212) |
| **Net plant and equipment** | **475,598** | **648,755** |
| Plant and equipment – finance lease | | |
| At cost | - | 42,189 |
| Accumulated depreciation | - | (14,535) |
| **Net plant and equipment – finance lease** | **-** | **27,654** |
| **Total net plant and equipment** | **475,598** | **676,409** |
| 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 | 648,755 | 796,577 |
| Additions | 7,956 | 82,613 |
| Disposals | (56,496) | - |
| Depreciation expense and loss on disposal | (96,721) | (133,733) |
| Foreign exchange increment/(decrement) | (27,896) | (96,702) |
| **Carrying amount at the end of year** | **475,598** | **648,755** |
| (ii) Plant and equipment – finance lease: | | |
| Balance at the beginning of year | 27,654 | 33,198 |
| Disposals | (22,116) | - |
| Depreciation expense and loss on disposal | (5,538) | (5,544) |
| **Carrying amount at the end of year** | **-** | **27,654** |

## NOTE 10: INTANGIBLE ASSETS

| | Consolidated | |
|---|---|---|
| | 2011<br>$ | 2010<br>$ |
| Intellectual property establishment and licenses acquired at cost (ii) | 10,714,269 | 9,832,632 |
| Less: Accumulated amortisation | (2,678,928) | (1,772,010) |
| **Total net intangible assets** | **8,035,341** | **8,060,622** |
| 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 | 8,060,622 | 8,411,142 |
| Additions – acquisitions | 881,637 | 595,995 |
| Amortisation expense (i) | (906,818) | (946,515) |
| **Carrying amount at the end of year (iii)** | **8,035,441** | **8,060,622** |

(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 4 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 20 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 20 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).

Management undertakes this analysis on a regular basis. At 30 June 2011 there were no indications of impairment as outlined in AASB 136.

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 11: TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | **2011 $** | **2010 $** |
| Current | | |
| Trade creditors | 330,669 | 173,523 |
| Payables associated with acquisition of IP | - | 100,000 |
| Other creditors and accruals | 866,262 | 590,881 |
| **Total current** | **1,196,931** | **864,404** |
| Non current | | |
| Payables associated with acquisition of IP | 100,000 | 100,000 |
| **Total non-current** | **100,000** | **100,000** |
| **Total trade and other payables** | **1,296,931** | **964,404** |

## NOTE 12: BORROWINGS

| | | |
|---|---|---|
| Current | | |
| Finance lease liabilities (i) | - | 4,217 |
| **Total current** | **-** | **4,217** |
| Non current | | |
| Finance lease liabilities (i) | - | 14,754 |
| **Total non-current** | **-** | **14,754** |

(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.

## NOTE 13: PROVISIONS

| | | |
|---|---|---|
| Annual leave | 77,410 | 73,177 |
| **Total** | **77,410** | **73,177** |

## 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:

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | No. of shares | | $ | $ |
| Issued shares | | | | |
| At the beginning of the reporting period | 186,267,371 | 164,151,475 | 39,634,530 | 34,677,027 |
| Share Placement shares issued at 10 cents per share | 37,750,000 | - | 3,775,000 | - |
| Share Purchase Plan shares issued at 10 cents per share | 5,054,000 | - | 505,400 | - |
| Shares issued on conversion of Notes | 19,114,537 | - | 1,500,100 | - |
| Rights Issue shares issued at 25 cents per share | - | 20,146,746 | - | 5,036,687 |
| Transaction costs arising on issue of shares | - | - | (339,828) | (79,184) |
| Shares issued pursuant to the Loan Share Plan (LSP) (refer Note 20(a)) | 1,296,084 | 1,969,150 | - | - |
| Shares brought back pursuant to the LSP | (268,094) | - | - | - |
| **At end of the reporting period** | **249,213,898** | **186,267,371** | **45,075,202** | **39,634,530** |
| Issued shares are comprised as follows: | | | | |
| Ordinary shares | 246,216,758 | 184,298,221 | | |
| Restricted shares issued under the LSP | 2,997,140 | 1,969,150 | | |
| **Balance at end of the year** | **249,213,898** | **186,267,371** | | |

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

| | Consolidated | |
|---|---|---|
| | 2011<br>No. | 2010<br>No. |
| Balance at beginning of the year | 29,809,651 | 29,043,530 |
| Granted during the year | 525,011 | 1,184,129 |
| Exercised during the year | - | - |
| Lapsed during the year | (256,878) | (418,008) |
| **Balance at end of the year** | **30,077,784** | **29,809,651** |

## NOTE 14: CONTRIBUTED EQUITY CONTINUED

| 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 | 125,000 | 06/07/2007 | 31/12/2011 | 0.46 | - |
| Granted 6 July 2007 | 125,000 | 06/07/2007 | 05/07/2012 | 0.46 | - |
| Granted 6 July 2007 | 125,000 | 06/07/2008 | 31/12/2011 | 0.56 | - |
| Granted 6 July 2007 | 125,000 | 06/07/2008 | 05/07/2013 | 0.56 | - |
| Granted 31 October 2007 | 260,000 | 31/01/2008 | 31/01/2013 | 0.56 | - |
| Granted 1 July 2008 | 50,000 | 01/07/2009 | 31/12/2011 | 0.33 | - |
| Granted 1 July 2008 | 311,669 | 01/07/2009 | 01/07/2014 | 0.33 | - |
| Granted 1 July 2008 | 50,000 | 01/07/2010 | 31/12/2011 | 0.33 | - |
| Granted 1 July 2008 | 261,666 | 01/07/2010 | 01/07/2015 | 0.33 | - |
| Granted 1 July 2008 | 50,000 | 02/09/2010 | 31/12/2011 | 0.33 | - |
| Granted 1 July 2008 | 261,665 | 01/07/2011 | 01/07/2016 | 0.33 | 261,665 |
| 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 | - |
| Granted 2 December 2009 | 305,579 | 27/11/2010 | 27/11/2015 | 0.144 | - |
| Granted 2 December 2009 | 305,582 | 27/11/2011 | 27/11/2016 | 0.144 | 305,582 |
| Granted 2 December 2009 | 305,582 | 27/11/2012 | 27/11/2017 | 0.144 | 305,582 |
| Granted 1 July 2010 | 175,003 | 01/07/2011 | 01/07/2016 | 0,106 | 175,003 |
| Granted 1 July 2010 | 175,004 | 01/07/2012 | 01/07/2017 | 0.106 | 175,004 |
| Granted 1 July 2010 | 175,004 | 01/07/2013 | 01/07/2018 | 0.106 | 175,004 |
| | **30,077,784** | | | | **1,397,840** |

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

## NOTE 15: RESERVES AND ACCUMULATED LOSSES

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011<br>$ | 2010<br>$ |
| Foreign currency translation reserve | (a) | (81,446) | (53,769) |
| Share options reserve | (b) | 842,197 | 760,597 |
| Share loan plan reserve | (c) | 221,384 | 61,588 |
| **Total reserves** | | **982,135** | **768,416** |
| (a) Foreign currency translation reserve | | | |
| Opening balance 1 July | | (53,769) | 9,693 |
| Net adjustment arising from the translation of foreign controlled entities' financial statements | | (27,677) | (63,462) |
| **Closing balance** | | **(81,446)** | **(53,769)** |
| Exchange differences relating to translation from functional currencies of the Group's foreign controlled entities into Australian Dollars are bought to account by entries made directly to the foreign currency translation reserve | | | |
| (b) Share options reserve | | | |
| Opening balance 1 July | | 760,597 | 665,913 |
| Value of options issued recognised over vesting period | | 81,600 | 94,684 |
| **Closing balance** | | **842,197** | **760,597** |
| (c) Share loan plan reserve | | | |
| Opening balance 1 July | | 61,588 | - |
| Value of shares issued recognised over vesting period | | 159,796 | 61,588 |
| **Closing balance** | | **221,384** | **61,588** |
| 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. | | | |
| (d) Movement in accumulated losses | | | |
| Opening balance 1 July | | (25,170,180) | (17,635,057) |
| Net loss attributable to the members of the parent entity for the period | | (7,421,670) | (7,535,123) |
| **Closing balance** | | **(32,591,850)** | **(25,170,180)** |

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 16: CASH FLOW INFORMATION

| | Consolidated | |
|---|---|---|
| | 2011<br>$ | 2010<br>$ |
| (a) Reconciliation of cash | | |
| Cash at bank | 48,970 | 31,691 |
| Deposit at call | 1,974,165 | 975,738 |
| Term deposits | 4,180,000 | 5,775,804 |
| **Total cash and cash equivalents** | **6,203,135** | **6,783,233** |
| (b) Reconciliation of cash flow used in operations with loss after income tax | | |
| Loss from ordinary activities | (7,421,670) | (7,535,123) |
| Non cash movements: | | |
| Depreciation and amortisation | 1,009,077 | 1,085,792 |
| Equity settled share based payment | 241,396 | 156,272 |
| Unrealised foreign exchange (gains)/losses | 24,403 | (587,094) |
| Loss on disposal of non current assets | 25,262 | - |
| (Increase)/decrease in trade and other receivables | 637,427 | (237,100) |
| (Increase)/decrease in prepaid expenses | 17,133 | 65,909 |
| Increase/(decrease) in trade creditors and accruals | 349,232 | (18,432) |
| Increase/(decrease) in provisions | 4,233 | 15,097 |
| **Cash flows used in operations** | **(5,113,507)** | **(7,054,679)** |

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

There were no non cash financing activities during the year.

## 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.

**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.

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 17: COMMITMENTS AND CONTINGENCIES CONTINUED

### (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 comitted 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 license 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 license 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 had been committed to with suppliers and 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 $263,926 (2010: $447,958).

## NOTE 18: LEASES

### Finance leases

**Leasing arrangements**

The finance lease related to a motor vehicle which had a lease term of three years when renewed in November 2009. The lease was repaid in full during the year and the motor vehicle was sold.

*Finance lease liabilities*

| | Consolidated | |
|---|---|---|
| | **2011 $** | **2010 $** |
| Present value of minimum future lease payments | | |
| No later than 1 year | - | 7,280 |
| - Later than 1 year and not later than 5 years | - | 17,706 |
| Minimum future lease payments* | - | 24,986 |
| Less future finance charges | - | (6,015) |
| **Present value of minimum lease payments** | **-** | **18,971** |
| Included in the financial statements as: (Note 12) | | |
| Current borrowings | - | 4,217 |
| Non current borrowings | - | 14,754 |
| **Total** | **-** | **18,971** |

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

### Operating leases

**Lease arrangements**

Patrys' office space at 343 Little Collins Street, Melbourne, Australia, has a lease term extending to 1 December 2011. The lease for the Group's laboratory in Würzburg, Germany (Patrys GmbH) is currently on a month to month basis following the expiry of the previous lease. 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**

| | | |
|---|---|---|
| Not longer than 1 year | 14,953 | 14,241 |
| Longer than 1 year and not longer than 5 years | - | - |
| **Total** | **14,953** | **14,241** |

## 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:

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $ | 2010 $ |
| Financial assets | | | |
| Debt (i) | 12 | - | (18,971) |
| Cash and cash equivalents | 6 | 6,203,135 | 6,783,233 |
| **Net cash/(debt)** | | **6,203,135** | **6,764,262** |
| | | | |
| Equity (ii) | 14, 15 | 13,465,487 | 15,232,766 |
| 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.*

### (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:

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $ | 2010 $ |
| Financial assets | | | |
| Cash and cash equivalents | 6 | 6,203,135 | 6,783,233 |
| Trade and other receivables | 7, 8 | 43,991 | 681,417 |
| **Total** | | **6,247,126** | **7,464,650** |
| Financial liabilities | | | |
| Trade and other payables | 11 | 1,296,931 | 964,404 |
| Borrowings | 12 | - | 18,971 |
| **Total** | | **1,296,931** | **983,375** |

### (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:

| | 30 June 2011 | | 30 June 2010 | |
|---|---|---|---|---|
| **Consolidated** | **USD** | **Euro** | **USD** | **Euro** |
| Financial assets | | | | |
| Cash and cash equivalents | 484,450 | 283,793 | 21,521 | 483,465 |
| Trade and other receivables | 3,755 | 14,707 | 7,646 | 12,589 |
| Financial liabilities | | | | |
| Trade and other payables | 426,734 | 135,841 | 251,043 | 159,969 |
| Borrowings | - | - | - | - |

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 19: FINANCIAL INSTRUMENTS CONTINUED

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 2011, 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:

| | -10% | | +10% | |
|---|---|---|---|---|
| **Consolidated** | **Profit $** | **Equity $** | **Profit $** | **Equity $** |
| 30 June 2011 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 92,706 | 92,706 | (75,851) | (75,851) |
| Trade and other receivables | 2,595 | 2,595 | (2,123) | (2,123) |
| Financial liabilities | | | | |
| Trade and other payables | (51,620) | (51,620) | 42,234 | 42,234 |
| Borrowings | - | - | - | - |
| **Total increase/(decrease)** | **43,681** | **43,681** | **(35,740)** | **(35,740)** |
| 30 June 2010 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 79,777 | 79,777 | (65,272) | (65,272) |
| Trade and other receivables | 3,001 | 3,001 | (2,455) | (2,455) |
| Financial liabilities | | | | |
| Trade and other payables | (42,694) | (42,694) | 34,931 | 34,931 |
| Borrowings | - | - | - | - |
| **Total increase/(decrease)** | **40,084** | **40,084** | **(32,796)** | **(32,796)** |

### (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 2011, 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:

| | -10% | | +10% | |
|---|---|---|---|---|
| Consolidated | Profit $ | Equity $ | Profit $ | Equity $ |
| 30 June 2011 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | (23,676) | (23,676) | 23,676 | 23,676 |
| 30 June 2010 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | (35,294) | (35,294) | 35,294 | 35,294 |

### (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 $ |
|---|---|---|---|
| 2011 | | | |
| Financial liabilities | | | |
| Payables | 1,296,931 | - | 1,296,931 |
| Borrowings | - | - | - |
| **Total financial liabilities** | **1,296,931** | **-** | **1,296,931** |
| 2010 | | | |
| Financial Liabilities | | | |
| Payables | 964,404 | - | 964,404 |
| Borrowings | 4,217 | 14,754 | 18,971 |
| **Total financial liabilities** | **968,621** | **14,754** | **983,375** |

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

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 19: FINANCIAL INSTRUMENTS CONTINUED

### (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 equity

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. When an issue is made it is 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 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 are bought back by the Company and cancelled along with the loan. In respect of shares that have vested, generally, the loan balance must be paid in full within six months of termination of appointment or the shares are 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, generally, 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 Nomination and Remuneration Committee. In accordance with the rules of both the LSP and ESOP the Board has the ability to vary the terms in respect of issues in circumstances it considers appropriate.

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

| **Loan Share Plan (LSP) - Series** | | | | **Fair value at grant date** | |
|---|---|---|---|---|---|
| | **Number** | **Issue date** | **Loan expiry date** | **Unit price $** | **Amount $** |
| Employees LSP Tranche 1a | 262,090 | 02/12/2009 | 27/11/2015 | 0.0935 | 24,517 |
| Employees LSP Tranche 2a | 262,092 | 02/12/2009 | 27/11/2016 | 0.1003 | 26,302 |
| Employees LSP Tranche 3a | 262,092 | 02/12/2009 | 27/11/2017 | 0.1060 | 27,799 |
| Employees LSP Tranche 1b | 50,018 | 02/12/2009 | 31/12/2011 | 0.0935 | 4,677 |
| Employees LSP Tranche 2b | 50,017 | 02/12/2009 | 31/12/2011 | 0.1003 | 5,017 |
| Employees LSP Tranche 3b | 50,017 | 02/12/2009 | 31/12/2011 | 0.1060 | 5,302 |
| Employees LSP Tranche 1c | 134,625 | 02/12/2009 | 27/11/2015 | 0.0935 | 12,587 |
| Employees LSP Tranche 2c | 134,624 | 02/12/2009 | 30/06/2016 | 0.1003 | 13,503 |
| Employees LSP Tranche 3c | 134,624 | 02/12/2009 | 30/06/2016 | 0.1060 | 14,270 |
| 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 |
| Employees LSP Tranche 4a | 180,436 | 01/07/2010 | 01/07/2016 | 0.0687 | 12,404 |
| Employees LSP Tranche 5a | 180,436 | 01/07/2010 | 01/07/2017 | 0.0728 | 13,132 |
| Employees LSP Tranche 6a | 180,436 | 01/07/2010 | 01/07/2018 | 0.0762 | 13,756 |
| Employees LSP Tranche 4b | 25,001 | 01/07/2010 | 31/12/2011 | 0.0687 | 1,718 |
| Employees LSP Tranche 5b | 25,001 | 01/07/2010 | 31/12/2011 | 0.0728 | 1,820 |
| Employees LSP Tranche 6b | 25,001 | 01/07/2010 | 31/12/2011 | 0.0762 | 1,905 |
| Employees LSP Tranche 7 | 75,000 | 18/08/2010 | 09/02/2016 | 0.0649 | 4,866 |
| Employees LSP Tranche 8 | 75,000 | 18/08/2010 | 09/08/2016 | 0.0670 | 5,032 |
| Directors LSP Tranche 4 | 176,591 | 29/10/2010 | 30/06/2016 | 0.0722 | 12,754 |
| Directors LSP Tranche 5 | 176,591 | 29/10/2010 | 30/06/2016 | 0.0757 | 13,365 |
| Directors LSP Tranche 6 | 176,591 | 29/10/2010 | 30/06/2016 | 0.0786 | 13,881 |
| **Total** | **3,265,234** | | | | **291,480** |

## NOTE 20: SHARE BASED PAYMENTS CONTINUED

| Executive Share Option Plan (ESOP) – Series | | | | Fair value at grant date | |
|---|---|---|---|---|---|
| | Number | Grant date | 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 3a | 125,000 | 06/07/2007 | 31/12/2011 | 0.2021 | 25,266 |
| Employees ESOP Tranche 3b | 125,000 | 06/07/2007 | 05/07/2012 | 0.2021 | 25,266 |
| Employees ESOP Tranche 4 | 25,000 | 06/07/2007 | 05/07/2013 | 0.2692 | 6,730 |
| Employees ESOP Tranche 5a | 125,000 | 06/07/2007 | 31/12/2011 | 0.2692 | 33,650 |
| Employees ESOP Tranche 5b | 125,000 | 06/07/2007 | 05/07/2013 | 0.2692 | 33,650 |
| 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 | 368,339 | 01/07/2008 | 01/07/2014 | 0.1738 | 64,033 |
| Employees ESOP Tranche 9 | 368,332 | 01/07/2008 | 01/07/2015 | 0.1892 | 69,702 |
| Employees ESOP Tranche 10 | 368,329 | 01/07/2008 | 01/07/2016 | 0.2024 | 74,567 |
| Employees ESOP Tranche 8 | 50,000 | 01/07/2008 | 31/12/2011 | 0.1738 | 8,690 |
| Employees ESOP Tranche 9 | 50,000 | 01/07/2008 | 31/12/2011 | 0.1892 | 9,460 |
| Employees ESOP Tranche 10 | 50,000 | 01/07/2008 | 31/12/2011 | 0.2024 | 10,120 |
| 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 |
| Employees ESOP Tranche 22 | 175,003 | 01/07/2010 | 01/07/2016 | 0.0687 | 12,030 |
| Employees ESOP Tranche 23 | 175,004 | 01/07/2010 | 01/07/2017 | 0.0728 | 12,737 |
| Employees ESOP Tranche 24 | 175,004 | 01/07/2010 | 01/07/2018 | 0.0762 | 13,341 |
| **Total** | **6,902,640** | | | | **952,458** |

The weighted average fair value of the shares and options issued during the financial year under the LSP and ESOP is $0.0729 (2010: $0.1000). 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:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number of shares | Weighted average issue price $ | Number of shares | Weighted average issue price $ |
| Balance at beginning of the financial year | 1,769,080 | 0.1440 | - | - |
| Granted during the financial year | 1,296,084 | 0.0729 | 1,969,150 | 0.1440 |
| Lapsed during the financial year | (68,024) | 0.1440 | (200,070) | 0.1440 |
| Loans repaid during the financial year | - | - | - | - |
| Loans cancelled during the financial year | - | - | - | - |
| Balance at end of the financial year | 2,997,140 | 0.1232 | 1,769,080 | 0.1440 |
| Weighted average remaining contractual life | 4.9719 years | | 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:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number of options | Weighted average issue price $ | Number of options | Weighted average issue price $ |
| Balance at beginning of the financial year | 5,363,621 | 0.3206 | 4,597,500 | 0.3607 |
| Granted during the financial year | 525,011 | 0.1060 | 1,184,129 | 0.1440 |
| Lapsed during the financial year | (256,878) | 0.3422 | (418,008) | 0.2613 |
| Exercised during the financial year | - | - | - | - |
| Expired during the financial year | - | - | - | - |
| Balance at end of the financial year | 5,631,754 | 0.2996 | 5,363,621 | 0.3206 |
| Weighted average remaining contractual life | 3.456 years | | 4.366 years | |
| Exercisable at end of the financial year | 4,233,914 | 0.3442 | 3,462,504 | 0.3745 |

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 20: SHARE BASED PAYMENTS CONTINUED

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

| 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 |
|---|---|---|---|---|---|---|---|---|
| Shares issued prior to 30 June 2010 | | | | | | | | |
| Directors LSP Tranche 1 | 0.144 | 209,651 | - | - | - | 209,651 | 209,651 | - |
| Directors LSP Tranche 2 | 0.144 | 209,650 | - | - | - | 209,650 | 134,624 | 75,026 |
| Directors LSP Tranche 3 | 0.144 | 209,650 | - | - | - | 209,650 | 134,624 | 75,026 |
| Employees LSP Tranche 1 | 0.144 | 380,043 | - | - | 22,674 | 357,369 | 357,369 | - |
| Employees LSP Tranche 2 | 0.144 | 380,043 | - | - | 22,675 | 357,368 | - | 357,368 |
| Employees LSP Tranche 3 | 0.144 | 380,043 | - | - | 22,675 | 357,368 | - | 357,368 |
| Shares issued during the year ended 30 June 2011 | | | | | | | | |
| Employees LSP Tranche 4 | 0.106 | | 205,437 | | - | 205,437 | - | 205,437 |
| Employees LSP Tranche 5 | 0.106 | | 205,437 | | - | 205,437 | - | 205,437 |
| Employees LSP Tranche 6 | 0.106 | | 205,437 | | - | 205,437 | - | 205,437 |
| Employees LSP Tranche 7 | 0.10 | | 75,000 | | - | 75,000 | 75,000 | - |
| Employees LSP Tranche 8 | 0.10 | | 75,000 | | - | 75,000 | - | 75,000 |
| Directors LSP Tranche 4 | 0.083 | | 176,591 | | - | 176,591 | 176,591 | - |
| Directors LSP Tranche 5 | 0.083 | | 176,591 | | - | 176,591 | 176,591 | - |
| Directors LSP Tranche 6 | 0.083 | | 176,591 | | - | 176,591 | 176,591 | - |
| | | **1,769,080** | **1,296,084** | | **68,024** | **2,997,140** | **1,441,041** | **1,556,099** |

## Options granted in the current and past periods:

| Option - Series | Exercise price $ | Balance at start of year | Granted during the year | Exerc-ised during the year | Lapsed during the year | Balance at end of year | Vested & exerci-sable at the end of the year | Not vested & unexerci-seable at the end of the year |
|---|---|---|---|---|---|---|---|---|
| Options granted prior to 30 June 2010 | | | | | | | | |
| 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 | 350,000 | - | - | 90,000 | 260,000 | 260,000 | - |
| Employees ESOP Tranche 8 | 0.33 | 407,504 | - | - | 45,835 | 361,669 | 361,669 | - |
| Employees ESOP Tranche 9 | 0.33 | 324,999 | - | - | 13,333 | 311,666 | 311,666 | - |
| Employees ESOP Tranche 10 | 0.33 | 324,998 | - | - | 13,333 | 311,665 | 50,000 | 261,665 |
| 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 | - |
| Employees ESOP Tranche 19 | 0.144 | 337,038 | - | - | 31,459 | 305,579 | 305,579 | - |
| Employees ESOP Tranche 20 | 0.144 | 337,041 | - | - | 31,459 | 305,582 | | 305,582 |
| Employees ESOP Tranche 21 | 0.144 | 337,041 | - | - | 31,459 | 305,582 | - | 305,582 |
| Options granted during the year ended 30 June 2011 | | | | | | | | |
| Employees ESOP Tranche 22 | 0.106 | - | 175,003 | - | - | 175,003 | - | 175,003 |
| Employees ESOP Tranche 23 | 0.106 | - | 175,004 | - | - | 175,004 | | 175,004 |
| Employees ESOP Tranche 24 | 0.106 | - | 175,004 | - | - | 175,004 | - | 175,004 |
| | | **5,363,621** | **525,011** | **-** | **256,878** | **5,631,754** | **4,233,914** | **1,397,840** |

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 20: SHARE BASED PAYMENTS CONTINUED

### (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 based payments

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.

The fair value of share based payments is calculated on the date of issue. The values are not revised if there is a subsequent change in terms. Details in respect of equity that was in existence at balance date are:

| Equity instrument | Loan/ Exercise price $ | Share price on issue date | Volatility | Vesting date | Time to maturity | Risk free interest rate | Expected dividend yield |
|---|---|---|---|---|---|---|---|
| Equity issued prior to 30 June 2010 | | | | | | | |
| 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% | - |

| Equity instrument | Loan/ Exercise price $ | Share price on issue date | Volatility | Vesting date | Time to maturity | Risk free interest rate | Expected dividend yield |
|---|---|---|---|---|---|---|---|
| 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% | - |
| 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% | - |
| Equity issued during the year ended 30 June 2011 | | | | | | | |
| Employees ESOP Tranche 22 | 0.106 | 0.100 | 75% | 01/07/2011 | 6 years | 7.00% | - |
| Employees ESOP Tranche 23 | 0.106 | 0.100 | 75% | 01/07/2012 | 7 years | 7.05% | - |
| Employees ESOP Tranche 24 | 0.106 | 0.100 | 75% | 01/07/2013 | 8 years | 7.11% | - |
| Employees LSP Tranche 4 | 0.106 | 0.100 | 75% | 01/07/2011 | 6 years | 7.00% | - |
| Employees LSP Tranche 5 | 0.106 | 0.100 | 75% | 01/07/2012 | 7 years | 7.05% | - |
| Employees LSP Tranche 6 | 0.106 | 0.100 | 75% | 01/07/2013 | 8 years | 7.11% | - |
| Employees LSP Tranche 7 | 0.100 | 0.098 | 75% | 09/02/2011 | 5.5 years | 6.35% | - |
| Employees LSP Tranche 8 | 0.100 | 0.098 | 75% | 09/08/2011 | 6 years | 6.39% | - |
| Directors LSP Tranche 4 | 0.083 | 0.090 | 75% | 29/10/2011 | 6 years | 6.58% | - |
| Directors LSP Tranche 5 | 0.083 | 0.090 | 75% | 29/10/2012 | 7 years | 6.65% | - |
| Directors LSP Tranche 6 | 0.083 | 0.090 | 75% | 29/10/2013 | 8 years | 6.69% | - |

### (d) Share based payments

The amount expensed in relation to equity settled share based payments to the profit & loss was $241,396 (2010: $156,272).

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## 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 |
| Michael Stork | Non Executive Director |
| Alan Robertson | Non Executive Director |
| Daniel Devine | Executive Director and Chief Executive Officer (Ceased 30 June 2011) |
| Marie Roskrow | Chief Medical Officer and President (Appointed CEO from 1 July 2011) |
| Frank Hensel | Vice President, Research & Development |
| Roger McPherson | Chief Financial Officer and Company Secretary |
| 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 2011 $ | 30 June 2010 $ |
|---|---|---|
| Short term employee benefits | 1,560,400 | 1,541,056 |
| Post employment benefits | 316,275 | 72,611 |
| Equity based payments | 190,351 | 134,704 |
| **Total** | **2,067,026** | **1,748,371** |

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 | |
|---|---|---|---|---|
| | | | 2011 | 2010 |
| Parent Entity: | | | | |
| Patrys Limited | Australia | | | |
| Controlled Body Corporate of: | | | | |
| 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*

Options held by key management personnel:

| 2011 | Balance at 1 July no. | Granted as compens-ation no. | Lapsed no. | Net change other no. | Balance at 30 June no. | Total vested 30 June no. | Vested & exercis-able no. | Vested but not exercis-able no. |
|---|---|---|---|---|---|---|---|---|
| John Read | 1,100,000 | - | - | - | 1,100,000 | 1,100,000 | 1,100,000 | - |
| Daniel Devine | - | - | - | - | - | - | - | - |
| Michael Stork | 300,000 | - | - | - | 300,000 | 300,000 | 300,000 | - |
| Alan Robertson | 550,000 | - | - | - | 550,000 | 550,000 | 550,000 | - |
| Marie Roskrow | - | - | - | - | - | - | - | - |
| Frank Hensel | 1,003,873 | 250,562 | - | - | 1,254,435 | 617,959 | 617,959 | - |
| Roger McPherson | 250,000 | - | - | - | 250,000 | 250,000 | 250,000 | - |
| Michael Conner | 675,104 | 150,006 | - | - | 825,110 | 391,701 | 391,701 | - |
| Amos Hedt | 130,000 | - | - | - | 130,000 | 130,000 | 130,000 | - |
| **Totals** | **4,008,977** | **400,568** | **-** | **-** | **4,409,545** | **3,339,660** | **3,339,660** | **-** |

*Note: Vic Ilag ceased to be a member of the key management personnel from 30 June 2010.*

*Shareholdings*

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

| 2011 | Balance at 1 July no. | Issued as compensation under Loan Share Plan no. | Purchased under the Share Placement or Share Purchase Plan no. | Received on exercise of options no. | Net change other no. | Balance at 30 June no. | Total vested 30 June no. |
|---|---|---|---|---|---|---|---|
| John Read | 441,722 | - | 200,000 | - | - | 641,722 | 361,688 |
| Daniel Devine | 14,811,145 | 529,773 | 20,000 | - | - | 15,360,918 | 15,360,918 |
| Michael Stork* | 57,625,000 | - | 2,000,000 | - | (2,000,000) | 57,625,000 | 57,625,000 |
| Alan Robertson | 75,026 | - | - | - | - | 75,026 | 25,008 |
| Marie Roskrow | - | 150,000 | - | | - | 150,000 | 75,000 |
| Frank Hensel | - | - | - | - | - | - | - |
| Roger McPherson | 653,873 | 250,562 | 50,000 | - | - | 954,435 | 434,625 |
| Michael Conner | - | - | - | - | - | - | - |
| Amos Hedt | 240,069 | 100,004 | 20,000 | - | - | 360,073 | 126,689 |
| **Totals** | **73,846,835** | **1,030,339** | **2,290,000** | **-** | **(2,000,000)** | **75,167,174** | **74,008,928** |

*Note: Vic Ilag ceased to be a member of the key management personnel from 30 June 2010.*

* *These shares are held by Stork Holdings 2010 Ltd (formerly PNK Holdings Ltd) (28,325,000) and Acceptys, Inc. (9,300,000). Stork Holdings 2010 Ltd has a controlling interest in Acceptys, Inc. The shares of Stork Holdings 2010 Ltd are held by a related trust in which Michael Stork in his own right does not control.*

# Notes to the Financial Statements

*for the year ended 30 June 2011* CONTINUED

## NOTE 22: RELATED PARTY TRANSACTIONS CONTINUED

*Options*

Options held by key management personnel:

| 2010 | Balance at 1 July no. | Granted as compen-sation no. | Lapsed no. | Net change other no. | Balance at 30 June no. | Total vested 30 June no. | Vested and exercis-able no. | Vested but not exercis-able 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 | - |
| **Totals** | **3,705,000** | **703,977** | **-** | **-** | **4,408,977** | **2,965,001** | **2,965,001** | **-** |

*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 no. | Issued as compen-sation under Loan Share Plan no. | Purchased under the Rights Issue &/or Share Top Up Plan no. | Received on exercise of options no. | Net change other no. | Balance at 30 June no. | Total vested 30 June 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 |
| **Totals** | **52,420,272** | **1,382,945** | **20,126,337** | **-** | **100,000** | **74,029,554** | **72,646,609** |

* *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 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.*

### (c) 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 2011 was $1,113,978 (2010: $1,617,363). An inter-Company loan balance at 30 June 2011 of $59,763 (2010: $55,687) 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 2011 was $308,257 (2010: $330,826). An inter-Company loan balance at 30 June 2011 of ($1,372) (2010: ($27,533)) 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 2011 $ | 30 June 2010 $ |
|---|---|---|
| Information relating to Patrys Limited: | | |
| Current assets | 6,328,693 | 7,538,771 |
| Total assets | 14,626,914 | 16,058,884 |
| Current liabilities | 1,189,825 | 829,511 |
| Total liabilities | 1,289,825 | 944,265 |
| **Net assets** | **13,337,089** | **15,114,620** |
| Issued capital | 45,075,202 | 39,634,530 |
| Retained earnings | (32,801,694) | (25,342,095) |
| Share option reserve | 842,197 | 760,597 |
| Loan share plan reserve | 221,384 | 61,588 |
| **Total shareholders' equity** | **13,337,089** | **15,114,620** |
| Profit or (loss) of the parent entity | (7,459,599) | (7,583,792) |
| Total comprehensive income of the parent entity | (7,459,599) | (7,583,792) |
| 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 2011* CONTINUED

## NOTE 25: EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

On 25 July 2011 the Company announced that it had commenced recruitment for the final patient group in its human clinical trial to evaluate PAT-SM6 as a treatment for melanoma. Importantly there have been no safety issues reported in any of the patients treated to date. The trial is expected to be completed prior to the end of 2011.

On 17 August 2011 the Company announced that the results of preclinical work conducted at The University Hospital of Würzburg show that a Patrys anti-cancer product offers a potential application in multiple myeloma. This data opens an opportunity to pursue key cancer market.

On 22 August 2011 the Company provided an update in respect of its PAT-SM6 human clinical trial in which it announced that the PAT-SM6 antibody had been detected in biopsies of patients after they received treatment. This provides evidence that the PAT-SM6 antibody can target and penetrate tumours at low doses which supports the ongoing trial design.

On 19 September 2011 the Company announced that the Princess Alexandra Hospital, Brisbane had joined the PAT-SM6 melanoma trial as a second clinical centre. With two active recruitment centres the trial should advance quickly.

On 20 September 2011 the Company announced that PAT-SM6 had shown promise in additional cancer indications in preclinical studies which adds breadth to the potential indications to be explored in the planned Phase I/IIa study. The best results were seen in a study that examined PAT-SM6's efficacy against ovarian cancer. A prostate cancer model also showed promise.

No other matter or circumstance has arisen since 30 June 2011 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 set out on pages 43 to 86, 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 2011 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), Corporations Regulations 2001 and other mandatory professional reporting requirements.

(b) the financial report also complies with International Financial Reporting Standards as 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 2011.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the directors.

**Mr. John Read**
Director

Melbourne
26 September 2011

# Independent Auditor's Report

Chartered Accountants
& Business Advisers

## 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 (the Company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information and the directors' declaration of the consolidated entity comprising the company 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

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

### Independence

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

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PKF | ABN 83 236 985 726
Level 14, 140 William Street | Melbourne | Victoria 3000 | Australia
GPO Box 5099 | Melbourne | Victoria 3001

PKF

Chartered Accountants
& Business Advisers

## 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 2011 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 and notes 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 or pages 19 to 31 of the directors' report for the year ended 30 June 2011. 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.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1(b) in the financial report, which indicates that the company incurred a net loss of $7,421,670 during the year ended 30 June 2011 and as of that date, the company had negative cash flow from operating cash flows of $5,113,507. These conditions, along with other matters as set forth in Note 1(b), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Auditor's Opinion

In our opinion the Remuneration Report of Patrys Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Acts 2001.

PKF

**PKF**

David Garvey

**David Garvey** - Partner

26 September 2011
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 20 September 2011 are:

| | Ordinary Shares |
|---|---|
| Stork Holdings 2010 Ltd | 57,625,000 |
| OncoMab GmbH | 20,250,000 |
| Mr. Daniel Devine | 15,360,918 |
| Citicorp Nominees Pty Limited | 14,374,025 |

## (B) NUMBER OF HOLDERS OF EQUITY SECURITIES AND VOTING RIGHTS

| | Ordinary Shares (i) | Share Options (ii) |
|---|---|---|
| Number of Holdings | 1,055 | 66 |

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

### (i) Ordinary shares

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) Options

No voting rights.

## (C) DISTRIBUTION OF EQUITY SECURITIES

Distribution of holders of equity securities as at 20 September 2011:

| No. of holders | | | Ordinary Shares | Options |
|---|---|---|---|---|
| 1 | - | 1,000 | 25 | - |
| 1,001 | - | 5,000 | 85 | - |
| 5,001 | - | 10,000 | 99 | 1 |
| 10,001 | - | 100,000 | 640 | 26 |
| 100,001 and over | | | 206 | 39 |
| | | | **1,055** | **66** |
| **Number of holders of less than a marketable parcel of shares** | | | **155** | |

## (D) 20 LARGEST HOLDERS OF QUOTED SECURITIES

The names of the 20 largest shareholders of each class of equity security as at 20 September 2011 are listed below:

| No. | Name | No. of shares Held | % of total shares |
|---|---|---|---|
| 1. | Stork Holdings 2010 Ltd | 48,325,000 | 19.39 |
| 2. | Oncomab GmbH | 20,250,000 | 8.13 |
| 3. | National Nominees Limited | 16,239,072 | 6.52 |
| 4. | Mr Daniel Devine | 15,360,918 | 6.16 |
| 5. | Citicorp Nominees Pty Limited | 14,374,025 | 5.77 |
| 6. | Acceptys Inc | 9,300,000 | 3.73 |
| 7. | ABN Amro Sydney Nominees Pty Ltd | 5,511,105 | 2.21 |
| 8. | Cogent Nominees Pty Limited | 5,059,307 | 2.03 |
| 9. | Takeda Research Investment Inc | 4,471,000 | 1.79 |
| 10. | Josaka Investments Pty Ltd | 4,397,728 | 1.76 |
| 11. | Chessari Holdings Pty Ltd | 4,288,840 | 1.72 |
| 12. | HSBC Custody Nominees (Australia) Limited | 3,622,645 | 1.45 |
| 13. | Dr Dax Marcus Calder | 3,300,000 | 1.32 |
| 14. | Asia Pac Holdings Pty Ltd | 2,984,583 | 1.20 |
| 15. | Mr Thomas Koutsoupias | 2,214,178 | 0.89 |
| 16. | Trailplus Pty Ltd | 2,200,000 | 0.88 |
| 17. | Blueflag Holdings Pty Ltd | 2,050,000 | 0.82 |
| 18. | Moore Family Nominee Pty Ltd | 2,000,000 | 0.80 |
| 19. | Mr Warwick Barnett Bowden | 1,700,000 | 0.68 |
| 20. | Equity Trustees Limited | 1,600,000 | 0.64 |
| | | **169,248,401** | **67.91** |

# Shareholder Information CONTINUED

## (E) SHARES SUBJECT TO RESTRICTION ARRANGEMENTS

The total number of shares subject to restriction arrangements is 2,997,140 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 under shares |
|---|---|---|
| 02/12/2009 | 02/09/2010 | 150,052 |
| 02/12/2009 | 27/11/2010 | 517,002 |
| 02/12/2009 | 30/06/2011 | 269,248 |
| 02/12/2009 | 27/11/2011 | 382,377 |
| 02/12/2009 | 27/11/2012 | 382,377 |
| 02/12/2009 | 02/09/2010 | 75,003 |
| 01/07/2010 | 01/07/2011 | 180,436 |
| 01/07/2010 | 01/07/2012 | 180,436 |
| 01/07/2010 | 01/07/2013 | 180,436 |
| 18/08/2010 | 09/02/2011 | 75,000 |
| 18/08/2010 | 09/08/2011 | 75,000 |
| 29/10/2010 | 30/06/2011 | 529,773 |

# Board of Directors and Company Particulars

## DIRECTORS

» John Read

» 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

## 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

123 055 363

Designed and produced by motivo

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