

## 2015 CORPORATE GOVERNANCE REPORT

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 2015 financial 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.

The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director. Patrys provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The Company has written agreements with each of its directors and senior executives.

The Company Secretary supports the effective functioning of the Board and its committees. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters related to the proper functioning of the Board. The specific responsibilities of the Company Secretary are detailed in the Board Charter.

A copy of the Board Charter is available on the Company's website at [www.patrys.com](http://www.patrys.com).

### *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. This performance evaluation took place in FY15.

### *Executive performance evaluation*

The Nomination & Remuneration Committee (refer to Principle 8 for more detail) is responsible for evaluating the performance of the Managing Director and Chief Executive Officer and of the other senior executives. The Managing Director and 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 Managing Director and 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 FY15 by the Nomination & Remuneration Committee. This review was in accordance with the process outlined in the "Remuneration Report" section of the Directors' Report which can be found on pages 9 to 16 of the 2015 Annual Report.

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### *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 the ASX Corporate Governance Principles and Recommendations, it is suggested that the Company disclose in its Corporate Governance 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 and has 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](http://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 the 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 Number	Total Number of Female Employees	% of Female Employees
Employees (inc. Board)	9	4	44
Senior Management	1	-	-
Board	4	1	25

### *Principle 2: Structure the board to add value*

The Company's Board currently comprises four Directors including an independent Non-Executive Chairman who was appointed to the position in 2007. In addition to the Non-Executive Chairman, there are two Non-Executive Directors. The Board has a program to review its current composition having regard to the Company's size and stage of development.

### *Nomination & remuneration committee*

The Board has established a Nomination & 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 & Remuneration Committee on a regular basis at the full Board during its regular meetings.

During the year ended 30 June 2015, the Nomination & Remuneration Committee met 3 times. Details of the attendance of each of the Committee members at these meetings is included in the Directors' Report.

The Charter of the Nomination & Remuneration Committee is available on the Company's website – [www.patrys.com](http://www.patrys.com).

At the date of this report the Nomination & Remuneration Committee comprises three Directors as follows:

Name	Position
John Read	Independent Chairman
Suzy Jones	Independent Member
Michael Stork	Member

### *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.

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### Board Skills Matrix

The Composition of the Board is determined with a view to ensuring that it is comprised of the appropriate skills and experience.

The particular skills and experience considered are outlined in the matrix below:

<i>Professional Director Skills:</i>	
Risk & Compliance:	Ability to monitor risk and compliance and knowledge of legal and regulatory requirements.
Financial & Audit:	Experience in accounting and finance to analyse statements, assess financial viability, contribute to financial planning, oversee budgets and oversee funding arrangements.
Strategy:	Ability to identify and critically assess strategic opportunities and threats to the organisation and develop strategies in context to Company policies and business objectives.
Policy Development:	Ability to identify key issues for the organisation and develop appropriate policy parameters within which the organisation should operate.
Executive Management:	Experience in evaluating performance of senior management, and oversee strategic human capital planning.
Previous Board Experience:	The board's directors should ideally have extensive director experience and have completed formal training in governance and risk.
<i>Industry Specific Skills:</i>	
Product Manufacturing Experience	Relevant and technical expertise and experience gained in the biotech/pharmaceutical industry.
Regulatory Experience	Relevant technical expertise and experience gained in the biotech/pharmaceutical industry.
Clinical Experience	Relevant technical expertise and experience gained in the biotech/pharmaceutical industry.
Product In/Out Licensing Experience	Relevant commercial expertise and experience gained in the biotech/pharmaceutical industry.
<i>Interpersonal Skills (all board members should have these skills):</i>	
Leadership:	Ability to make decisions and take necessary actions in the best interest of the organisation, and represent the organisation favourably. Ability to analyse issues and contribute at board level to solutions.
Ethics and Integrity:	Understanding of the role of a director and continue to self-educate on legal responsibility. Ability to maintain board confidentiality and declare any conflicts.
Contribution:	Ability to constructively contribute to board discussions and communicate effectively with management and other directors.
Negotiation:	Possess excellent negotiation skills, with the ability to drive stakeholder support for board decisions.
Crisis Management:	Ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders.

Due to the current size and composition of the organisation the Board does not consider it practical or prudent to expand its size to ensure all the required skills are included on the Board. The Company appoints industry specialist consultants to advise it in these areas.

### 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
- Suzy Jones

There are currently four Directors on the Board of whom half are independent.

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	8 years and 4 months
James Campbell	Managing Director and Chief Executive Officer	10 months
Michael Stork	Non-Executive Director & Deputy Chairman	8 years and 7 months
Suzy Jones	Independent Non-Executive Director	3 year and 9 months

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## *Director induction and professional development*

The Nomination & Remuneration Committee oversees, reviews and makes recommendations to the Board in relation to the induction, training and development of Non-Executive Directors, to ensure they have access to appropriate learning and development opportunities to develop and maintain the skills and knowledge required to effectively perform in their role as a Director.

The Board receives regular updates at board meetings which assist directors in keeping up to date with relevant market and industry developments.

There are also 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.

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

### *Code of conduct*

As part of its commitment to recognise the legitimate interests of stakeholders, the Company has established certain Codes of Conduct to guide all employees, particularly Directors, the Managing Director and Chief Executive Officer, the Chief Operating Officer 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](http://www.patrys.com).

## **Principle 4: Safeguard integrity in financial reporting**

### *Audit & 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 & 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.

At the date of this report 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
Suzy Jones	Independent Non-Executive Member
John Read	Independent Non-Executive Member

During the year ended 30 June 2015, the Audit & Risk Committee met 3 times. Details of the attendance of each of the Committee members at these meetings is included in the Directors' Report.

The Charter of the Audit & Risk Committee is available on the Company's website – [www.patrys.com](http://www.patrys.com).

The Managing Director and Chief Executive Officer and Chief Operating Officer attend each Audit & 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 and attends the AGM each year.

### *Declaration of the Managing Director and Chief Executive Officer and Chief Operating Officer(in his capacity as Chief Financial Officer)*

The Managing Director and Chief Executive Officer and Chief Financial Officer 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 have received the following declaration from the Managing Director and Chief Executive Officer and Chief Financial Officer for the year ended 30 June 2015.

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### **"STATEMENT TO THE BOARD OF DIRECTORS OF PATRYS LIMITED**

The Chief Executive Officer and the Chief Financial Officer state that:

- (a) with regard to the integrity of the financial statements of Patrys Limited for the financial year ended 30 June 2015 that:
- (i) the financial records of the company have been properly maintained in accordance with section 286 of the Corporations Act 2001; and
  - (ii) the financial statements and notes thereto comply with Accounting Standards in all material respects;
  - (iii) the financial statements and notes thereto give a true and fair view, in all material respects, of the financial position and performance of the company and the consolidated entity;
  - (iv) in our opinion, the financial statements and notes thereto are in accordance with the Corporations Act 2001; and
  - (v) in our opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) with regard to risk management and internal control systems of Patrys Limited for the year ended 30 June 2015:
- (i) the statements made in (a) above regarding the integrity of the financial statements and notes thereto is founded on a sound system of risk management and internal control which, in all material respects, implements the policies adopted by the board of directors;
  - (ii) the risk management and internal control systems to the extent they relate to financial reporting are operating effectively, in all material respects, based on the risk management model adopted by the company; and
  - (iii) nothing has come to our attention since 30 June 2015 that would indicate any material change to the statements in (i) and (ii) above.

Dr. James Campbell  
Chief Executive Officer  
10 September 2015  
Melbourne

Roger McPherson  
Chief Financial Officer  
10 September 2015  
Melbourne"

The Managing Director and Chief Executive Officer and Chief Financial Officer will also provide a similar declaration for the half year ending 31 December 2015, all future half year reporting periods and for each other financial period for which financial statements are prepared.

### **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 Managing Director and Chief Executive Officer or the Chief Operating Officer. All ASX announcements of a non procedural nature are approved by the Board 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;
- 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; and
- to correct or prevent a false market in 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 Managing Director and Chief Executive Officer 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](http://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.

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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 new 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](mailto:info@patrys.com)) for shareholders to make enquiries of the Company.

The Communications Policy is available on the Company's website – [www.patrys.com](http://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 Managing Director and Chief Executive Officer, 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 & 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 & 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.

Given the size of the company, there is no internal audit function. Detailed risk assessments are carried out in respect of a wide range of items, and where appropriate and possible, risk mitigation strategies are implemented to minimise the chance of the risks occurring, and to minimise any impact where a risk eventuates.

The Managing Director and Chief Executive Officer and Chief Financial Officer provide written confirmation to the Board in accordance with the requirements of Section 295A (2) of the Corporations Act 2001. 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.

Details of the material economic risks that the Board considers are faced by the Company are outlined in the *Business Strategies and Prospects* section of the Directors' Report. The Board does not consider that the Company has any material environmental or social sustainability risks or exposures.

### **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 & 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 which the Board, key executives and committees will be assessed are 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 currently operates an Executive Share Option Plan (ESOP) and a Loan Share Plan (LSP). The Nomination and Remuneration Committee review and make recommendations about performance criteria for each equity based plan. Participants in equity based plans are not permitted to enter into transactions which limit the economic risk of participating in the plan save in relation to the Company's. As noted, the Company operates a Loan Share Plan (LSP) which allows participants access to a limited recourse loan to fund the acquisition of any shares issued under the LSP.

Non-Executive Directors receive fees for their services which are determined by reference to industry standards. Components of the remuneration package include a cash element together with medium term equity instruments.

At the 2009 AGM a Non-Executive Directors' Fee Pool of \$250,000 was approved by shareholders.



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The Company 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.

Further information on Directors' and Executives' remuneration, including principles used to determine remuneration, is set out in the "Remuneration Report" section of the Directors' Report which can be found on pages 9 to 16 of the 2015 Annual Report.

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.

This Corporate Governance Statement is effective as at the date of this statement and made in accordance with a resolution of the Board of Directors.

On behalf of the directors by:



Mr. John Read  
Director

Date: 10 September 2015