Biotron

BIOTRON LIMITED ABN 60 086 399 144

Annual Report 2011

CONTENTS

OPERATING AND FINANCIAL REVIEW

Review of Operations

The period under review has seen significant advances on the clinical progression of Biotron's antiviral drug development program, with continued focus on the clinical development of the Company's lead drug, BIT225, for treatment of Hepatitis C virus (HCV).

Significant events achieved in this financial year include:

- Commencement of a Phase IIa clinical trial of BIT225 in a combination study with current approved drugs in HCV-infected patients. This marked a major milestone for the Company.
- Finalisation of design of proposed Phase Ib/IIa clinical trial of BIT225 in HIV-infected patients, completion of documentation for ethics and regulatory submissions and submission of documentation to relevant authorities for approval for trial.
- An independent, international published study provided strong support for the Company's HIV drug development program.
- Presentation of data from the Company's HIV and HCV programs at international scientific conferences as well as showcasing the Company to the international investment community at several high profile events.
- Initiation and successful completion of a $2.4 million capital raising via a rights issue and share placement.

Hepatitis C Virus Clinical Program

Biotron has an impressive pipeline of world class clinical programs developing new drugs to treat significant viral diseases including HCV and HIV. During the financial year ended 30 June 2011, Biotron commenced the third human trial of its lead drug, BIT225 - an investigational, orally-administered, novel antiviral compound in development for treatment of HCV and HIV infections.

Since the end of the financial year, Biotron has announced the dosing of the final patient in this landmark trial.

This trial follows on from the successful completion of the two preceding human trials of BIT225. These previous trials included a 48 person first-in-human safety study in healthy volunteers in late 2007 and a Phase Ib/IIa trial of the drug in people infected with HCV, completed in late 2009.

This latest trial was a Phase IIa trial of BIT225 in combination with the current approved treatment for HCV - interferon and ribavirin. The trial was designed to assess the safety of Biotron's drug when given daily for 28 days, as well to assess its effect on the level of virus in the blood of the patients and to see whether BIT225 can improve the efficacy of interferon and ribavirin.

During this trial, twenty four patients infected with genotype 1 HCV were dosed twice daily with BIT225 or placebo for 28 days at the commencement of a standard course of treatment of interferon and ribavirin.

Genotype 1 patients make up the majority of HCV infections in the Western world, and are the hardest to treat, with less than half responding to current approved treatment. There is an unmet medical need for drugs that will improve treatment outcomes for this group of patients.

This trial is a crucial step in the development path of BIT225. We have previously shown that BIT225 is able to significantly improve the activity of interferon and ribavirin in laboratory-based studies, and a previous clinical trial of BIT225 in HCV-positive patients showed promising results.

Now that all 24 patients have completed dosing with BIT225, samples from all patients are being analysed and collated for review by an independent data and safety monitoring committee (DSMC). It is anticipated that preliminary headline data will be available by the end of September 2011.

The HCV Phase IIa combination trial has been specifically designed with the aim of providing the information that potential partners are likely to require in order to form a partnership with an international pharmaceutical company for continued development. Antiviral drugs cannot be used on their own to treat chronic infections due to development of drug resistance, so this combination study reflects how BIT225 would be most likely to be used in a clinical setting, subject to continuing positive results and approvals.

These existing drugs, interferon and ribavirin, are often associated with severe side effects and have limited benefit in a large percentage of patients. BIT225 has been shown to be highly synergistic with these drugs in preclinical laboratory testing, which means that greater reductions in virus levels can be achieved using smaller quantities of the drugs in combination than if they were used individually.

BIT225 represents a first-in-class drug for treatment of HCV, targeting the p7 protein of HCV. It is estimated that in the USA alone, some 4 million people have been infected with Hepatitis C with 2.7 million suffering from chronic infection. Worldwide, 170 million people are infected. HCV causes inflammation of the liver, which may lead to fibrosis and cirrhosis, liver cancer and, ultimately, liver failure. Existing drugs for HCV have limited effectiveness and toxicity issues, leaving a significant need for new therapies. The worldwide market is currently almost US$3.0 billion, but it is estimated that this market will expand to over US$10.0 billion as safe, effective therapies enter the market.

The pharmaceutical industry is particularly interested in new drugs that specifically target the replication cycle of the Hepatitis C virus and there is considerable interest in the outcomes of Biotron's combination trial.

HIV CLINICAL PROGRAM

BIT225 also works against HIV, the virus that causes AIDS.

While HCV remains our primary focus, the opportunity presented by BIT225 in HIV is equally ground breaking. BIT225 specifically stops the virus growing in reservoir cells, where until now the virus has been able to hide from the body's immune system.

We are currently progressing through the ethics and regulatory approval process for a Phase Ib/IIa HIV study at the same Bangkok hospital which has conducted the HCV trial.

Twenty four HIV positive subjects with high virus levels in their blood will be randomly assigned to receive BIT225 or placebo twice daily for 10 days. The aim of the trial is to determine if BIT225 can reduce or eliminate HIV in the cells that establish reservoirs of virus, compared to placebo.

We anticipate commencement of this trial (named BIT225-004) in September 2011, after receipt of ethics and importation approvals. Our goal is to see the HIV trial completed by the end of the year but this is dependent, as always, on suitable patient recruitment.

If successful, we anticipate that BIT225 could be used in future combination therapies for HIV alongside other approved drugs, complementing their activity by BIT225's ability to clear virus from cells that are inaccessible to other drugs.

In July 2010, Biotron scientists presented a paper at the XVIII International AIDS conference in Vienna, demonstrating that BIT225 has the potential to prevent the establishment of HIV infection in the first cells to encounter the virus at the point of infection. These cells, called dendritic cells, act as the 'watch dogs' of the immune system, so reach the virus first when it gets into the body. Within approximately 24 hours of first infection, HIV starts replicating in these dendritic cells and is then transmitted to the body's T cells where the virus establishes a more explosive infection.

Delegates at the conference heard that BIT225 was able to significantly reduce levels of HIV in dendritic cells in the laboratory, with up to 89% reduction in virus transferred to uninfected T cells.

The results are significant as prevention or minimisation of the establishment of HIV infection would potentially ameliorate the devastating effects of HIV infection in the body. The finding opens up a new avenue for potential exploitation of BIT225 in addition to its potential use in controlling viral reservoirs in patients with established infection.

In November 2010, an independent, international published study provided further strong support for Biotron's HIV drug development program. The study demonstrated how the deadly HIV virus manages to avoid the human body's natural defence mechanisms, showing that the Vpu protein of HIV is central to this process. BIT225 specifically targets the Vpu protein of HIV. The study on Vpu, published in the prestigious peer-reviewed journal Cell Host & Microbe, showed that Vpu stops cells infected with HIV from triggering an immune reaction, 'hiding' the infected cells so that immune cells are unable to seek them out and destroy them. The study infers that drugs targeting Vpu could potentially 'wake up' the cells, making them susceptible to destruction by the body's defence system. The study provides solid evidence of the importance of Vpu as a potential major target for therapeutic intervention.

These trials in HIV and HCV patients are critical steps in the Company's development. Demonstration that BIT225 can attack these viruses in patients will be a major advance in terms of Company and technology valuations. The Company is focused on achieving a successful outcome and has been engaging with pharmaceutical companies in anticipation of partnering the technology once these trials have been completed.

The proposed trials are designed to benefit shareholders through significantly increasing the value of Biotron in the market and to its future pharmaceutical company partners.

OTHER VIRAL PROGRAMS

The Company has an impressive portfolio of clinical and preclinical antiviral programs developing drugs targeting HCV, HIV, Dengue virus and Influenza virus. At present, focus is on development of the HCV and HIV programs into trials in infected patient populations. Additional resources will be committed to these additional programs once the more advanced programs have been successfully commercialised or as resources become available. Right now, the clearer commercial path for Biotron is firstly focusing on its Hepatitis C program and secondly exploiting BIT225 to reduce the viral reservoirs in HIV infected patients.

PATENTS

Biotron is focused on progressing patents related to its antiviral programs through the international patenting process. The Company recognises that the key to establishment of partnerships is the expansion and continued strengthening of Biotron's intellectual property portfolio. Strong, defensible international patents are essential to attract partners and to ensure a competitive advantage for the Company's products in the marketplace. Biotron continues to build a strong wall of patents around its intellectual property to maximise the value of the technologies and to ensure its competitive position.

A SUMMARY OF BIOTRON'S PATENT PORTFOLIO IS SET OUT BELOW:

TITLE	STATUS
WO0021538 Method of modulating ion channel functional activity Priority - 12 October 1998	Granted in Australia, Canada, China, Japan New Zealand, and USA Under examination elsewhere (Hong Kong and Europe)
WO9813514 Method of determining ion channel activity of a substance Priority - 27 September 1996	Granted in Australia, Canada, China, Japan, New Zealand, Europe, and USA
WO04112687 Antiviral compounds and methods Priority - 26 June 2003	Granted in India, New Zealand, Singapore and South Africa Under examination elsewhere
WO6135978 Antiviral compounds and methods Priority - 24 June 2005	Granted in South Africa Waiting for or under examination elsewhere
WO2009/018609 Hepatitis C antiviral compounds and methods Priority - 3 August 2007	Waiting for or under examination in all jurisdictions

CAPITAL RAISING

In February 2011, the Company initiated a capital raising via a share purchase plan (SPP) to eligible shareholders, followed by a placement under the same terms as the SPP, raising $2.4 million.

The directors would like to thank all those shareholders who supported the Company by participating in this capital raising.

On behalf of the Board we would like to thank the dedicated Biotron staff for their commitment and efforts during the year. Biotron is poised to achieve the outcome that we have all been working towards – demonstration that its antiviral drug development program can produce new, novel drugs which can attack virus infections in humans, resulting in significant clinical benefit to patients, and generating major financial benefits to our shareholders.

We look forward to the next year with confidence.

Michael J. Hoy
Chairman

Michelle Miller
Managing Director

STATEMENT OF CORPORATE GOVERNANCE

The role and responsibilities of the Board of Directors is for the overall Corporate Governance of the Company and oversight of management, protecting the rights and interests of the shareholders, by adopting systems of control and managed risk as the basis for the administration.

CORPORATE GOVERNANCE STATEMENT

The Board is committed to maintaining the highest standards of Corporate Governance. Corporate Governance is about having a set of core values and behaviours that underpin the Company's activities and ensure transparency, fair dealing and protection of the interests of stakeholders.

The Board of Directors supports the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council (Council). Whilst the Company's practices are largely consistent with the Council's guidelines, the Board considers that the implementation of some recommendations are not appropriate having regard to the nature and scale of the Company's activities and size of the Board. The Board uses its best endeavours to ensure exceptions to the Council's guidelines do not have a negative impact on the Company and the best interests of shareholders as a whole. When the Company is not able to implement one of the Council's recommendations the Company applies the 'if not, why not' explanation approach by applying practices in accordance with the spirit of the relevant principle.

The following discussion outlines the ASX Corporate Governance Council's eight principles and associated recommendations and the extent to which the Company complies with those recommendations.

Details of all of the Council's recommendations can be found on the ASX website at http://www.asx.com.au

PRINCIPLE 1

Lay solid foundations for management and oversight

BOARD OF DIRECTORS

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. The Board is also responsible for the overall corporate governance and management oversight of the Company, and recognises the need for the highest standards of behaviour and accountability in acting in the best interests of the Company as a whole.

The Board also ensures that the Company complies with all of its contractual, statutory and any other legal or regulatory obligations. The Board has the final responsibility for the successful operations of the Company.

Where the Board considers that particular expertise or information is required, which is not available from within their members, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

Without intending to limit the general role of the Board, the principal functions and responsibilities of the Board include the following:

- formulation and approval of the strategic direction, objectives and goals of the Company;
- the prudential control of the Company's finances and operations and monitoring the financial performance of the Company;
- the resourcing, review and monitoring of executive management;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the timeliness, accuracy and effectiveness of communications and reporting to shareholders and the market; and
- the establishment and maintenance of appropriate ethical standards.

The Company has adopted Recommendation 1.2 of evaluating the performance of senior executives. The Board reviewed face to face the performance of its senior executives.

The Company has taken the appropriate measure to provide each director and senior executive with a copy of the Company's policies which spells out the rights, duties and responsibilities that they should follow.

The Company has adopted Recommendation 1.3 by conducting the evaluations of senior executives in accordance with the process described above. The small size of the Company does not warrant the need of a Board Charter and thus no Board Charter is posted on the Company's website.

The performance evaluation for the Managing Director was conducted on the process described in Recommendation 1.2 by the Chairman of the Board. No other evaluation was carried out.

PRINCIPLE 2

Structure the Board to add value

BOARD OF DIRECTORS - COMPOSITION, STRUCTURE AND PROCESS

The Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given the Company's current size, scale and nature of its activities.

Independent directors

Due to the small size of the Company, the Board is made up of five directors. The Company has adopted Recommendations 2.1, 2.2 and 2.3 as only the Managing Director is an executive director.

Regular assessment of independence

An independent director, in the view of the Company, is a non-executive director who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional advisor or a material consultant to the Company, or an employee materially associated with a service provider;
- is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company other than as a director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The composition of the Board is reviewed periodically with regards to the optimum number and skills of directors required for the Board to properly perform its responsibilities and functions.

Having regard to the current membership of the Board and the size, organisational complexity and scope of operation of the Company, a Nomination Committee has not been established and therefore Recommendation 2.4 has not been adopted.

Performance review and evaluation

The Company follows Recommendations 2.5 and 2.6 by disclosing the process for evaluating the performance of the Board, and disclosure requirements under Principle 2 in the following paragraphs.

It is the policy of the Board to ensure that the directors and executives of the Company are equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed. Although the Company is not of a size to warrant the development of formal processes for evaluating the performance of its Board, individual directors and executives, there is on-going monitoring by the Chairman and the Board. The Chairman also speaks to directors individually regarding their role as a director.

Induction and education

The Company has the policy to provide each new director or officer with a copy of the following documents:

- Code of Conduct;
- Continuous Disclosure Policy;
- Share Trading Policy; and
- Shareholders Communication Policy.

Access to information

Each director has access to Board papers and all relevant documentation.

Skills, knowledge and experience

Directors are appointed based on the specific corporate and governance skills and experience required by the Company. The Board consists of a relevant blend of personal experience in accounting and finance, law, financial and investment markets, financial management and public company administration, and, director-level business or corporate experience required by the Company.

Professional advice

Board members, with the approval of the Chairman, may seek from time to time external professional advice.

Term of appointment as a director

The Constitution of the Company provides that a director, other than the Managing Director, may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting himself or herself for re-election. One third of the directors (excluding the Managing Director) must retire each year and are eligible for re-election. The directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

Remuneration

The remuneration of the directors is determined by the Board as a whole, with the director to whom a particular decision relates being absent from the meeting during the time that the remuneration level is discussed and decided upon.

For details on the amount of remuneration and any amount of equity based executive remuneration payment for each director, refer to the Key Management Personnel note to the financial statements and the Remuneration Report in the Directors' Report.

Internal controls

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The system of internal control adopted by the Company seeks to provide an appropriate division of responsibility and careful selection and training of personnel relative to the level of activities and size of the Company.

PRINCIPLE 3

Promote ethical and responsible decision making

CODE OF CONDUCT AND ETHICAL STANDARDS

All directors, executives and employees act with the utmost integrity and objectivity in carrying out their duties and responsibilities, endeavouring at all times to enhance the reputation and performance of the Company. Every employee has direct access to a director to whom they may refer any ethical issues that may arise from their employment. Given the size of the Company, a formal code of conduct has not been adopted and therefore Recommendation 3.1 has not been adopted.

Access to company information and confidentiality

All directors have the right of access to all relevant Company books and to the Company's executive management. In accordance with legal requirements and agreed ethical standards, directors and executives of the Company have agreed to keep confidential information received in the course of exercising their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

Share dealings and disclosures

The Company has adopted a policy relating to the trading of Company securities. The Board restricts directors, executives and employees from acting on material information until it has been released to the market. Executives, employees and directors are required to consult the Chairman and the Board respectively, prior to dealing in securities in the Company or other companies in which the Company has a relationship.

Share trading by directors, executives or employees is not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act prohibits the purchase or sale of securities whilst a person is in possession of inside information.

As at the date of this report the Company has modified its share trading policy as follows:

- the trading windows for restricted persons are 60 days after the release of the following:
    - o the half year results;
    - o the full year results; or
    - o the holding of the Annual General Meeting
- restricted persons are prohibited from trading in the Company's securities unless in special circumstances and with the approval of the Chairman.

Conflicts of interest

To ensure that directors are at all times acting in the best interests of the Company, directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a director cannot, or is unwilling to remove a conflict of interest then the director must, as required by the Corporations Act, absent himself from the room when Board discussion and/or voting occurs on matters about which the conflict relates.

Related party transactions

Related party transactions include any financial transaction between a director and the Company as defined in the Corporations Act or the ASX Listing Rules. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction. The Company also discloses related party transactions in its financial statements as required under relevant Accounting Standards.

Board diversity
Given the small size of the Company, Recommendations 3.2, 3.3, 3.4 and 3.5 were not adopted for the year ended 30 June 2011 as the Company has not set a policy concerning diversity. However, the Company's Board does take into account the gender, age, ethnicity and cultural background of potential Board members.

PRINCIPLE 4
Safeguard integrity in financial reporting

AUDIT AND RISK COMMITTEE

The Company has not established an Audit and Risk Committee or a corresponding charter.

The objective of a committee is to make recommendations to the Board regarding among various matters the adequacy of the external audit, risk management and compliance procedures. A committee is asked to evaluate from time to time the effectiveness of the financial statements prepared for the Board and to ensure that independent judgement is always exercised.

The functions of an Audit and Risk Committee are performed by the full Board because of the small size of the Company. Therefore Recommendation 4.2 has not been adopted.

The duties and responsibilities of Recommendation 4.3 were not adopted because the Company does not have an Audit and Risk Committee. However, all the normal duties and responsibilities of an Audit and Risk Committee are presently carried out by the full Board.

Because the functions of an Audit and Risk Committee are performed by the full Board, Recommendation 4.4 provides the name and qualification of all directors as detailed in the Directors' Report.

PRINCIPLE 5
Make timely and balanced disclosure

The Company has not adopted Recommendations 5.1 and 5.2 given the current membership of the Board, organisational complexity and scope of operations of the Company.

CONTINUOUS DISCLOSURE TO THE ASX

The Board has designated the Company Secretary as the person responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communicating with the ASX. Accordingly the Company will notify the ASX promptly 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;

Announcements are made in a timely manner, are factual and do not omit material information in order to avoid the emergence of a false market in the Company's securities.

PRINCIPLE 6
Respect the rights of shareholders

COMMUNICATIONS

The Company has not adopted Recommendation 6.1 by establishing a formal Shareholders' Communication Policy due to the size of the Company, the effectiveness of current shareholder communications and the level of shareholder participation at general meetings.

Communication to the market and shareholders
The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Company's state of affairs. The Board considers that information will be communicated to shareholders and the market through:

- the Annual Report which is distributed to shareholders (usually with the Notice of Annual General Meeting);
- the Annual General Meeting and other general meetings called to obtain shareholder approvals as appropriate;
- the half-yearly financial statements;
- quarterly cash flow reports; and
- other announcements released to the ASX as required under the continuous disclosure requirements of the ASX Listing Rules and other information that may be mailed to shareholders or made available through the Company's website.

The Company actively promotes communication with shareholders through a variety of measures, including the use of the Company's website and email. The Company's reports and ASX announcements are made available on the Company's website, www.biotron.com.au, and on the ASX website, www.asx.com.au, under ASX code 'BIT'. The Company also maintains an email list for the distribution of the Company's announcements via email.

PRINCIPLE 7

Recognise and manage risk

The Board is responsible for the identification, monitoring and management of significant business risks and the implementation of appropriate levels of internal control, recognising however that no cost effective internal control system will preclude all errors and irregularities. The Board regularly reviews and monitors areas of significant business risk.

Due to the size of the Company, Recommendation 7.2 is not relevant for Biotron because the Board has the oversight function of risk management and internal control systems. Therefore, the risk management functions and oversight of material business risks are performed directly by the Board and not by management. The paragraph below contemplates the principles incorporated in the Company's Audit and Risk Committee Charter.

INTERNAL CONTROL AND RISK MANAGEMENT

The primary vehicle for managing corporate risks is the Audit Committee appointed by the Board (currently performed by the full Board). The Committee/Board reviews systems of external and internal controls and areas of significant operational, financial and property risk and ensures arrangements are in place to contain such risks to acceptable levels.

The Company ensures that appropriate insurance policies are kept current to cover all potential risks and maintaining Directors' and Officers' professional indemnity insurance.

INTERNAL AUDIT FUNCTION

The internal audit function is carried out by the Board. The Company does not have an internal audit department nor has an internal auditor. The size of the Company does not warrant the need or the cost of appointing an internal auditor.

CEO AND CFO DECLARATIONS

The Company has adopted and complied with Recommendation 7.3. The Board has determined that the Managing Director and the Company Secretary are the appropriate persons to make the CEO and CFO declarations in respect of the year ended 30 June 2011, as required under section 295A of the Corporations Act and recommended by the ASX Corporate Governance Council. The Board is also satisfied that the internal control system is operating effectively in all material respects.

The Company has adopted and complied with Recommendation 7.4 as follows:

- the Board conducts evaluations regarding internal control and risk management;
- the Board has received the assurance from the Managing Director and Company Secretary;
- the Company does not have a written policy on risks oversight management of business material risks because the number of people engaged in the Company's operations is minimal; and
- all directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors, subject to prior consultation with the Chairman.

PRINCIPLE 8

Remunerate fairly and responsibly

Due to the size of the Company, Recommendation 8.1 has not been adopted and the Company does not have a Remuneration Committee. However, for the year ended 30 June 2011 the functions and responsibilities listed below were carried out by the full Board.

REMUNERATION RESPONSIBILITIES

The role and responsibility of the Board is to review and make recommendations in respect of:

- executive remuneration policy;
- executive director and senior management remuneration;
- executive incentive plan;
- non-executive directors' remuneration;
- performance measurement policies and procedures;
- termination policies and procedures;
- equity based plans; and
- required remuneration and remuneration benefits public disclosure.

REMUNERATION POLICY

The directors' remuneration is adopted by shareholders at the Annual General Meeting. The salary and emoluments paid to officers are approved by the Board. Consultants are engaged as required pursuant to service agreements. The Company ensures that fees, salaries and emoluments are in line with general standards for publicly listed companies of the size and type of the Company. All salaries of directors and statutory officers are disclosed in the Annual Report of the Company each year.

In line with Recommendation 8.2, the Company has a policy to remunerate its directors and officers based on fixed and incentive component salary packages to reflect the short and long term objectives of the Company.

The salary component of the CEO's remuneration is made up of:

- fixed remuneration; and
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Company.

The salary component of non-executive and executive directors is made up of:

- fixed remuneration; and
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Company.

The Company has not adopted Recommendation 8.3 because it does not have a Remuneration Committee.

DIRECTORS' REPORT

The directors present their report together with the financial report of Biotron Limited ('the Company') for the year ended 30 June 2011 and the auditor's report thereon.

Directors

The names and particulars of the directors of the Company at any time during or since the end of the financial year are:

Mr Michael J. Hoy
Independent and Non-Executive Chairman

Mr Hoy has more than 30 years' corporate experience in Australia, the United Kingdom, USA and Asia. He is Chairman of CityPrint Holdings Pty Limited, Chairman of Tellesso Technologies Limited and a former director of John Fairfax Holdings Limited and FXF Trust.

He has been a director since 7 February 2000 and Chairman since 16 March 2000.

Dr Michelle Miller
BSc, MSc, PhD, GCertAppFin (Finsia)
Managing Director

Dr Miller has worked for over 20 years in the bioscience industry, with extensive experience in managing commercial bioscience research. She completed her PhD in the Faculty of Medicine at Sydney University investigating molecular models of cancer development. Her experience includes a number of years at Johnson and Johnson developing anti-HIV gene therapeutics through preclinical research to clinical trials. She has experience in early-stage start-ups from time spent as Investment Manager with a specialist bioscience venture capital fund.

She was appointed as Managing Director on 21 June 2002.

Dr Michael S. Hirshorn
MBA, MB, BS
Independent and Non-Executive Director

Dr Hirshorn has 30 years experience in founding, building, managing and investing in technology companies. He played a major role in all commercial aspects of Cochlear Limited's development, was a founding director of Resmed Inc., and Chief Executive Marketing for Polartechnics Limited.

He has over eight years of private equity experience, raising funds, investing and developing companies. He has served on numerous government advisory committees, including the Start IT and T Committee, the Start Grants Biological Sciences Committee of the Department of Industry, Science and Resources. He is currently a director of Dynamic Hearing and TGR BioSciences.

Dr Hirshorn was appointed as a director on 16 March 2000.

Mr Bruce Hundertmark
Independent and Non-Executive Director

Mr Hundertmark is an independent businessman and company director with a wide range of experience in diverse business operations. He has specialised in recent years in high technology based company start-up operations and in promoting the formation of venture capital companies including News Datacom Research Limited in Israel, News Datacom Limited in Hong Kong and both PT Indo Bio Products and PT Indo Bio Fuels in Indonesia.

He has been a director of numerous private and publicly listed companies including News International PLC, Sky Television PLC, Prudential Cornhill Insurance Limited, Harris Scarfe Limited, Bernkastel Wines Limited, Codan Limited, Samic Limited and Investment & Merchant Finance Corporation Limited.

Mr Hundertmark was appointed as a director on 16 March 2000.

Dr Denis N. Wade

Independent and Non-Executive Director

Dr Denis Wade has been involved for over 40 years with the development of research-based pharmaceuticals and medical devices in both industry and academia. He has been a director of several private and public companies in the Health-care sector, including Heartware Limited and subsequently HeartWare International Inc., since December 2004. He was a director and Chairman of Gene Shears Pty Limited and, from 1987 until his retirement in 2002, Dr. Wade was Managing Director and Chairman of Johnson & Johnson Research Pty Ltd, a research and development company of Johnson and Johnson Inc. He was also a member of the J&J Corporate Office of Science and Technology. Prior to that, Dr. Wade was the Foundation Professor of Clinical Pharmacology at the University of New South Wales and served as a member of a number of State and Federal bodies related to the drug industry, including the P3 Committee.

He is a former Chairman of the Australian Academy National Committee for Pharmacology, the Australasian Society for Clinical and Experimental Pharmacology and Toxicology and a former Chairman of the Clinical Pharmacology Section of the International Union of Pharmacology.

Dr Wade holds a First Class Honours degree in Medicine and Science from the University of Sydney and a Doctorate of Philosophy from the University of Oxford. He was awarded an Honorary Doctorate of Science by the University of New South Wales and is a Fellow of the Royal Australasian College of Physicians and of the Australian Academy of Technological Sciences and Engineering. In 1999 he was made a Member of the Order of Australia.

Dr Wade was appointed as a director on 30 April 2010.

Peter J. Nightingale

Company Secretary

Mr Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

As a director or company secretary Mr Nightingale has, for more than 20 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L., Mogul Mining N.L. and Bolnisi Gold N.L.. Mr Nightingale is currently Chairman of ASX listed Callabonna Uranium Limited and a director of Augur Resources Ltd, Cockatoo Coal Limited and Sumatra Copper & Gold plc and unlisted public companies Equus Resources Limited and Nickel Mines Limited.

Mr Nightingale has been Company Secretary since 23 February 1999.

Directors' Meetings

The number of directors' meetings held and number of meetings attended by each of the directors of the Company, while they were a director, during the year are:

Director	Directors' Meetings	
	No. of Eligible Meetings to Attend	No. of Meetings Attended
Michael J. Hoy	6	6
Michelle Miller	6	6
Michael S. Hirshorn	6	5
Bruce Hundertmark	6	5
Denis N. Wade	6	6

Directors' Interests

At the date of this report, the beneficial interests of each director of the Company in the issued share capital of the Company and options, each exercisable to acquire one fully paid ordinary share of the Company are:

	Fully Paid Ordinary Shares	Options	Option Terms (Exercise Price and Term)
Michael J. Hoy	1,566,108	1,408,214	$0.10 at any time up to 30 December 2011
Michelle Miller	-	1,000,000	$0.22 at any time up to 30 October 2015
	-	1,000,000	$0.22 from 30 October 2011 to 30 October 2015
	-	3,000,000	$0.25 from 30 October 2012 to 30 October 2015
Michael S. Hirshorn	130,000	-	-
Bruce Hundertmark	-	-	-
Denis N. Wade	475,000	162,500	$0.20 at any time up to 30 March 2012

Option Holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each specified director and executive, including their personally-related entities, is as follows:

Option holdings - 2011

	Held at 1 July 2010	Purchased/ Granted	Expired	Held at 30 June 2011	Vested and Exercisable at 30 June 2011
Directors					
Michael J. Hoy	1,908,214	1,408,214	500,000	1,408,214	1,408,214
Michelle Miller	1,500,000	5,000,000	1,500,000	5,000,000	1,000,000
Michael S. Hirshorn	200,000	-	200,000	-	-
Bruce Hundertmark	200,000	-	200,000	-	-
Denis N. Wade	162,500	-	-	162,500	162,500
Executives					
Peter J. Nightingale	2,487,785	-	200,000	2,287,785	2,287,785

Option holdings - 2010

	Held at 1 July 2009	Purchased/ Granted	Expired	Held at 30 June 2010	Vested and Exercisable at 30 June 2010
Directors					
Michael J. Hoy	500,000	1,408,214	-	1,908,214	1,908,214
Michelle Miller	1,500,000	-	-	1,500,000	1,500,000
Michael S. Hirshorn	200,000	-	-	200,000	200,000
Bruce Hundertmark	200,000	-	-	200,000	200,000
Denis N. Wade*	-	-	-	162,500	162,500
Peter G. Scott**	-	500,000	-	-	-
Executives					
Peter J. Nightingale	200,000	2,287,785	-	2,487,785	2,487,785

* *Dr Denis N. Wade held 162,500 options at the time of becoming a director.*

** *Mr Peter G. Scott held 500,000 options when he resigned from office on 1 April 2010.*

REMUNERATION REPORT - AUDITED

The policy of remuneration of directors and senior executives is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the executive directors who, in turn, evaluate the performance of all other senior executives. The evaluation process is intended to assess the Company's business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives.

Remuneration generally comprises salary and superannuation. Longer term incentives are able to be provided through the Company's Incentive Option Plan which acts to align the directors and senior executives' actions with the interests of the shareholders. The remuneration disclosed below represents the cost to the Company for the services provided under these arrangements.

No directors or senior executives receive performance related remuneration. Options issued in current and prior periods as remuneration were subject to service conditions due to the nature of the Company's operations.

Details of director and senior executive remuneration and the nature and amount of each major element of the remuneration of each director and senior executive of the Company are:

	Year	Primary Salary and Fees $	Post-Employment Superannuation Benefits $	Fair Value of Options $	Total $	Options as % of Remuneration
Directors						
Non-executive Michael J. Hoy (Chairman)	2011	55,046	4,954	-	60,000	-
	2010	55,046	4,954	-	60,000	-
Michael S. Hirshorn	2011	27,523	2,477	-	30,000	-
	2010	27,523	2,477	-	30,000	-
Bruce Hundertmark	2011	27,523	2,477	-	30,000	-
	2010	27,523	2,477	-	30,000	-
Denis N. Wade	2011	27,523	2,477	-	4,587	-
	2010	4,587	-	-	-	-
Executive Michelle Miller (Managing Director)	2011	240,385	21,635	255,446	517,466	49%
	2010	219,230	19,731	-	238,961	-
Executives						
Peter J. Nightingale (Company Secretary)	2011	75,000	-	-	75,000	-
	2010	75,000	-	-	75,000	-

OPTIONS GRANTED AS COMPENSATION - AUDITED

Details of options that were granted as compensation to each key management person:

Director	Grant Date	Number of Options Granted	Fair Value at Grant Date	Option Terms (Exercise Price and Term)
Michelle Miller	24 December 2010	1,000,000	$105,000	$0.22 at any time up to 30 October 2015
Michelle Miller	24 December 2010	1,000,000	$105,000	$0.22 at any time from 30 October 2011 up to 30 October 2015
Michelle Miller	24 December 2010	3,000,000	$312,000	$0.25 at any time from 30 October 2012 up to 30 October 2015

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs of the options issued, were the Company's share price of $0.12 at the grant date, a volatility factor of 141% based on historic share price performance, a risk free interest rate of 5.47% based on the 10 year government bond rate and no dividends paid.

The number of options that had vested as at 30 June 2011 is 1,000,000 (2010 – 2,400,000). No options were granted subsequent to year end 2,400,000 options lapsed during the year.

CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH - AUDITED

In considering the Company's performance and benefits for shareholders wealth, the Board have regard to the following indices in respect of the current financial year and the previous four financial years.

	2011	2010	2009	2008	2007
Net loss attributable to equity holders of the Company	$1,907,527	$1,872,244	$1,776,099	$1,882,093	$3,234,004
Dividends paid	-	-	-	-	-
Change in share price	4.8 cents	(0.02) cents	0.0 cents	(9.0) cents	4.5 cents

The overall level of key management personnel's compensation is assessed on the basis of market conditions, status of the Company's projects, and financial resources of the Company.

SERVICE CONTRACTS - AUDITED

There are no service contracts for the key management personnel.

NON-EXECUTIVE DIRECTORS - AUDITED

Total compensation for all non-executive directors is determined by the Board based on market conditions.

OPTIONS

At the date of this report, unissued ordinary shares of the Company under option are:

Number of Options	Exercise Price	Expiry Date
108,014,737	$0.10	30 December 2011
6,418,049	$0.20	30 March 2012
2,000,000	$0.22	30 October 2015
3,000,000	$0.25	30 October 2015

The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

During the year, the Company issued 104,529 ordinary shares as a result of the exercise of $0.10 options. There is no amount unpaid on the shares issued.

Number of Shares	Amount Paid on Each Share
104,529	$0.10

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year were the funding and management of intermediate and applied biotechnology research and development projects.

FINANCIAL RESULT AND REVIEW OF OPERATIONS

The operating loss of the Company for the financial year after income tax was $1,907,527 (2010 loss - $1,872,244).

A review of the Company's operations for the year is set out in the Operating and Financial Review.

IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Company.

DIVIDENDS

The directors recommend that no dividend be paid by the Company. No dividend has been paid or declared since the end of the previous financial year.

STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

ENVIRONMENTAL REGULATION

The Company's operations are not subject to significant environmental regulations under Commonwealth or State legislation in relation to its research projects.

EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

LIKELY DEVELOPMENTS

During the year ended 30 June 2011, the Company continued to fund and manage its research and development projects. The success of these research projects, which cannot be assessed on the same fundamentals as trading and manufacturing enterprises, will determine future likely developments.

In the opinion of the directors, it would prejudice the interests of the Company to provide additional information, except as reported in this Annual Report, relating to likely developments in the operations of the Company.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During or since the end of the financial year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company against a liability incurred by such an officer or auditor. In addition, the Company has not paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, performed no other services in addition to their statutory duties.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act 2001 is included in the Directors' Report.

Details of the amounts paid and accrued to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

STATUTORY AUDIT

	2011 $	2010 $
- Audit and review of financial reports	30,500	34,375

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 19 and forms part of the Directors' Report for the year ended 30 June 2011.

This report has been signed in accordance with a resolution

of the directors and is dated 29 August 2011:

Michael J. Hoy

Chairman

Michelle Miller

Managing Director

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Biotron Limited:

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

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and;

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Adam Twemlow
Partner
29 August 2011

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011	2010
		$	$
Other income	2	447,490	-
Administration and consultants' expenses		(195,000)	(196,335)
Depreciation	3	(14,438)	(23,122)
Employee and director expenses		(701,084)	(380,171)
Direct research and development expenses	3	(1,159,336)	(965,313)
Rent and outgoings expenses		(65,083)	(58,233)
Travel expenses		(56,390)	(48,748)
Other expenses from ordinary activities		(229,892)	(243,328)
Operating loss before financing income		(1,973,733)	(1,915,250)
Interest income		66,206	43,006
Net financing income		66,206	43,006
Loss before tax		(1,907,527)	(1,872,244)
Income tax expense	5	-	-
Loss for the year		(1,907,527)	(1,872,244)
Other comprehensive income		-	-
Total comprehensive loss for the year		(1,907,527)	(1,872,244)
Basic loss per share attributable to ordinary equity shareholders	4	(1.49) cents	(1.61) cents
Diluted loss per share attributable to ordinary equity shareholders	4	(1.49) cents	(1.61) cents

The above statement of comprehensive income should be read in conjunction with the accompanying notes

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011	2010
		$	$
Current assets			
Cash and cash equivalents		2,144,831	1,780,567
Trade and other receivables	6	452,524	9,471
Other	7	15,655	23,577
Total current assets		2,613,010	1,813,615
Non-current assets			
Plant and equipment	8	31,610	44,230
Total non-current assets		31,610	44,230
Total assets		2,644,620	1,857,845
Current liabilities			
Trade and other payables	9	140,544	62,212
Employee entitlements	10	103,776	78,075
Total current liabilities		244,320	140,287
Total liabilities		244,320	140,287
Net assets		2,400,300	1,717,558
Equity			
Issued capital	11	23,087,673	20,750,759
Reserves		2,171,485	2,277,738
Accumulated losses		(22,858,858)	(21,310,939)
Total equity		2,400,300	1,717,558

The above statement of financial position should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES OF EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

Attributable to equity holders of the Company	Notes	Issued Capital	Option Premium Reserve	Accumulated Losses	Total
		$	$	$	$
Balance at 1 July 2009		19,920,593	359,608	(19,438,695)	841,506
Total comprehensive income for the year					
Loss for the year		-	-	(1,872,244)	(1,872,244)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	-	(1,872,244)	(1,872,244)
Transactions with owners, recorded directly in equity					
Contribution by and distribution to owners					
Ordinary shares issued		641,805	2,290,746	-	2,932,551
Cost of the option issue		-	(244,255)	-	(244,255)
Share based payment transaction		60,000	-	-	60,000
Exercise of options		128,361	(128,361)	-	-
Balance at 30 June 2009	11	20,750,759	2,277,738	21,310,939	1,717,558
Balance at 1 July 2010		20,750,759	2,277,738	21,310,939	1,717,558
Total comprehensive income for the year					
Loss for the year		-	-	(1,907,527)	(1,907,527)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	-	(1,907,527)	(1,907,527)
Transactions with owners, recorded directly in equity					
Contribution by and distribution to owners					
Ordinary shares/options issued		2,490,453	-	-	2,490,453
Cost of the share issue		(155,630)	-	-	(155,630)
Share based payment transaction		-	255,446	-	255,446
Transfer expired options		-	(359,608)	(359,608)	-
Exercise of options		2,091	(2,091)	-	-
Balance at 30 June 2011	11	23,087,673	2,171,485	(22,858,858)	2,400,300

The statement of changes in equity is to be read in conjunction with the accompanying notes

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011	2010
		$	$
Cash flows from operating activities			
Payments for research and development		(1,159,336)	(1,138,088)
Cash payments in the course of operations		(875,611)	(765,239)
Cash used in operations		(2,034,947)	(1,903,327)
Interest received		66,206	45,017
Net cash used in operating activities	12	(1,968,741)	(1,858,310)
Cash flows from investing activities			
Payments for plant and equipment		(1,818)	-
Net cash used in investing activities		(1,818)	-
Cash flows from financing activities			
Proceeds from issue of shares and options		2,490,453	2,932,551
Cost of issue of shares and options		(155,630)	(244,255)
Net cash from financing activities		2,334,823	2,688,296
Net increase in cash and cash equivalents held		364,264	829,986
Cash and cash equivalents at the beginning of the financial year		1,780,567	950,581
Cash and cash equivalents at the end of the financial year	12	2,144,831	1,780,567

The above statement of cash flows should be read in conjunction with the accompanying notes

1. REPORTING ENTITY

Biotron Limited (the 'Company') is a company domiciled in Australia.

BASIS OF PREPARATION

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report of the Company also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors on 29 August 2011.

Basis of measurement
The financial statements have been prepared on the historical cost basis.

Functional and presentation currency
These financial statements are presented in Australian dollars, which is the Company's functional currency.

Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

Going concern
The financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their amortised cost less impairment losses.

PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment are stated at their historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised in profit or loss using the reducing balance method from the date of acquisition at rates between 13% and 40% per annum.

RESEARCH AND DEVELOPMENT

Grants
Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue when the grant becomes receivable.

Costs
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit and loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

TRADE AND OTHER PAYABLES

Trade and other payables are stated at their amortised cost, are non-interest bearing and are normally settled within 60 days.

EMPLOYEE ENTITLEMENTS

Wages, salaries, annual leave and sick leave

Liabilities for employee entitlements for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wages and salary rates that the company expect to pay as at reporting date including related on-costs, such as workers compensation insurance and superannuation.

Long service leave

Liabilities for employee entitlements for long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs, that benefit is discounted to determine its present value.

SHARE CAPITAL

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

TAXATION

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are temporary differences and are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, 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 ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

REVENUE RECOGNITION

Finance income

Interest revenue is recognised as it accrues using the effective interest rate method.

Earnings per share

The Company presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

INCENTIVE OPTION PLAN

The Incentive Option Plan allows the Company's employees or directors, or individuals whom the Plan Committee determine to be employees for the purposes of the Plan, with the opportunity to acquire options over unissued shares in the Company. The fair value of options granted is measured at grant date and spread as an expense over the period during which the employees or directors become unconditionally entitled to the options. The fair value of the options granted is measured using Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

IMPAIRMENT

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if any objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments, which becomes mandatory for the Company's 2014 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

2. OTHER INCOME

	2011	2010
	$	$
Research and development rebate	447,490	-

3. LOSS FROM OPERATING ACTIVITIES

Loss from ordinary activities has been arrived at after charging the following items:		
Auditors' remuneration paid to KPMG		
- Audit and review of financial reports	30,500	34,375
Depreciation		
- Office equipment	9,127	14,995
- Plant and equipment	5,311	8,127
Direct research and development expenditure expensed as incurred	1,159,336	965,313
Provision for employee entitlements	(25,701)	(7,860)

4. LOSS PER SHARE

The calculation of basic loss per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of $1,907,527 (2010 - $1,872,244) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2011 of 127,850,937 (2010 – 116,088,866), calculated as follows:

Net loss for the year	1,907,527	1,872,244

	2011	2010
	Number	Number
Issued ordinary shares at 1 July	121,755,364	114,537,315
Effect of shares issued on 8 April 2010	-	1,477,030
Effect of shares issued on 28 May 2010	-	74,521
Effect of shares issued on 17 November 2010	61,353	-
Effect of shares issued on 2 March 2011	1,644	-
Effect of shares issued on 28 March 2011	2,087,370	-
Effect of shares issued on 11 April 2011	3,945,205	-
Weighted average number of ordinary shares	127,850,937	116,088,866

Options disclosed in the Issued Capital note 11 are potential ordinary shares, but are not included in the calculation of diluted loss per share as they are not dilutive.

	2011	2010
	$	$

5. INCOME TAX EXPENSE

	2011 $	2010 $
Numerical reconciliation between tax expense and pre-tax net profit		
Loss before tax - continuing operations	(1,907,527)	(1,872,244)
Income tax using the domestic corporation tax rate of 30%	(572,258)	(561,673)
Increase in income tax expense due to:		
- Adjustments not resulting in temporary differences	79,437	295
- Unrecognised temporary differences	521,363	(42,527)
- Effect of tax losses not recognised	(28,542)	603,905
Income tax expense current and deferred	-	-
Deferred tax assets have not been recognised in respect of the following items:		
Deductible temporary differences (net)	133,007	114,386
Tax losses	7,609,592	7,431,227
Net	7,742,600	7,545,613

The deductible temporary differences and tax losses do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits of the deferred tax asset.

6. RECEIVABLES

	2011 $	2010 $
Current		
Other debtors	447,490	1,875
GST receivable	5,034	7,596
	452,524	9,471

7. OTHER

	2011 $	2010 $
Current prepayments	524	8,447
Security deposits	15,131	15,130
	15,655	23,577

	2011	2010
	$	$

8. PLANT AND EQUIPMENT

	2011 $	2010 $
Office equipment - at cost	137,695	157,439
Accumulated depreciation	(121,174)	(133,610)
	16,521	23,829
Plant and equipment - at cost	506,463	594,490
Accumulated depreciation	(491,374)	(574,089)
	15,089	20,401
Total plant and equipment - net book value	31,610	44,230

Reconciliations

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

	2011 $	2010 $
Office equipment		
Balance at 1 July	23,829	38,824
Additions	1,819	-
Depreciation	(9,127)	(14,995)
Carrying amount at the end of the financial year	16,521	23,829
Plant and equipment		
Balance at 1 July	20,401	28,528
Depreciation	(5,312)	(8,127)
Carrying amount at the end of the financial year	15,089	20,401
Total carrying amount at the end of the financial year	31,610	44,230

9. TRADE AND OTHER PAYABLES

	2011 $	2010 $
Current		
Creditors	88,544	32,324
Accruals	52,000	29,888
	140,544	62,212

10. EMPLOYEE ENTITLEMENTS

	2011 $	2010 $
Current		
Employee annual leave provision	50,163	34,047
Long service leave provision	53,613	44,028
	103,776	78,075
Number of employees at the end of the financial year	4	4

	2011	2010
	$	$
11. ISSUED CAPITAL		
Issued and paid up capital		
147,965,108 (2010 - 121,755,364) fully paid ordinary shares	23,087,673	20,750,759
Fully paid ordinary shares		
Balance at the beginning of the financial year	20,750,759	19,920,593
Issue of shares	2,490,453	641,805
Share base payment transaction	-	60,000
Exercise of options	2,091	128,361
Costs of issue	(155,630)	-
Balance at the end of financial year	23,087,673	20,750,759

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

During the year ended 30 June 2011, the Company issued 26,105,215 ordinary shares through a Share Purchase Plan and placement for cash totalling $2,480,000. Total issue costs of $155,630 were recognised as a reduction of the proceeds of issue of these shares.

During the year ended 30 June 2011, the Company issued 104,529 ordinary shares through the exercise of options for cash totalling $10,453.

During the year ended 30 June 2010, the Company issued 114,537,315 options at $0.02. Total issue costs of $244,255 were recognised as a reduction of the proceeds of the issue of these options. Also during the year ended 30 June 2010, a further 6,418,049 options were issued for no consideration as a result of the early exercise of these options.

During the year ended 30 June 2010, the Company issued 6,418,049 ordinary shares through the exercise of options for cash totalling $641,805.

During the year ended 30 June 2010, the Company issued 800,000 shares for $60,000 in consideration for the provision of market research services. The shares issued were valued by reference to the closing share price on the date of issue.

The following options, which were issued during the year ended 30 June 2010 for cash consideration or as a 'piggyback option' upon the early exercise of an existing option, were on issue at 30 June 2011:

- 108,014,737 (2010 –108,119,266) options, each exercisable at 10 cents to acquire one fully paid ordinary share at any time up to 30 December 2011.
- 6,418,049 options, each exercisable at 20 cents to acquire one fully paid ordinary share at any time up to 30 March 2012.

The following options were issued during the year ended 30 June 2011 and were on issue at 30 June 2011:

- 1,000,000 options with a fair value at grant date of 10.5 cents, each exercisable at 22 cents to acquire one fully paid ordinary share at any time up to 30 October 2015.
- 1,000,000 options with a fair value at grant date of 10.5 cents, each exercisable at 22 cents to acquire one fully paid ordinary share at any time after 30 October 2011 up to 30 October 2015.
- 3,000,000 options with a fair value at grant date of 10.4 cents, each exercisable at 25 cents to acquire one fully paid ordinary share at any time after 30 October 2012 up to 30 October 2015.

The fair value of the options at each grant date was determined based on the Black-Scholes formula. The model inputs for those options issued during the year ended 30 June 2011 were the Company's share price of $0.12 at the grant date, a volatility factor of 141% based on historic share price performance, a risk free interest rate of 5.47% based on the 10 year government bond rate and no dividends paid.

Total expense arising from share based payment transactions recognised during the year ended 30 June 2011 was $255,446 (2010 – $60,000).

During the year ended 30 June 2011, the following options lapsed (2010 – nil).

- 1,000,000 options, each exercisable at 35 cents to acquire one fully paid ordinary share at any time up to 30 September 2010.
- 4,450,000 options, each exercisable at 35 cents to acquire one fully paid ordinary share at any time up to 30 September 2010 (of which certain options contained service conditions).
- 750,000 options, each exercisable at 40 cents to acquire one fully paid ordinary share at any time up to 30 September 2010 (of which certain options contained service conditions).
- 500,000 options, each exercisable at 45 cents to acquire one fully paid ordinary share at any time up to 30 September 2010 (of which certain options contained service conditions).

The weighted average exercise price of options at year end was $0.11 (2010 – $0.12). The weighted average life of options at year end was 0.68 years (2010 – 1.45 years).

	2011	2010
	$	$

12. STATEMENT OF CASH FLOWS

	2011 $	2010 $
Reconciliation of cash flows from operating activities		
Loss for the period	(1,907,527)	(1,872,244)
Adjustments for:		
Depreciation of plant and equipment	14,438	23,122
Provisions	25,701	(7,860)
Share based payment	255,446	60,000
Changes in assets and liabilities		
Decrease in receivables	(443,053)	18,049
(Increase) / decrease in prepayments	7,923	(5,192)
(Decrease) / increase in payables	78,331	(74,185)
Net cash used in operating activities	(1,968,741)	(1,858,310)

Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and cash on deposit net of bank overdrafts and excluding security deposits. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2011	2010
Cash and cash equivalents in the statement of cash flows	2,144,831	1,780,567

13. KEY MANAGEMENT PERSONNEL DISCLOSURES

The policy of remuneration of directors and senior executives is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the executive directors who, in turn, evaluate the performance of all other senior executives. The evaluation process is intended to assess the Company's business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives.

Remuneration generally comprises salary and superannuation. Longer term incentives are able to be provided through the Company's Incentive Option Plan which acts to align the directors and senior executives' actions with the interests of the shareholders. The remuneration disclosed below represents the cost to the Company for the services provided under these arrangements.

No directors or senior executives receive performance related remuneration. No bonuses were paid during the year. During the year ended 30 June 2011 compensation of key management personnel totalled $742,466 (2010 – $438,548), which comprised primary salary and fees of $453,000 (2010 – $408,909), superannuation of $34,020 (2010 – $29,639), and share based payments with a fair value of $255,446 (2010 – nil).

During 2011 and 2010, no long term benefits or termination benefits were paid.

Individual directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each specified director and executive, including their personally-related entities, is as follows:

Fully paid ordinary shareholdings and transactions - 2011

	Held at 1 July 2010	Purchased	Received on exercise of options	Sales	Held at 30 June 2011
Directors					
Michael J. Hoy	1,408,214	157,894	-	-	1,566,108
Michelle Miller	-	-	-	-	-
Michael S. Hirshorn	130,000	-	-	-	130,000
Bruce Hundertmark	-	-	-	-	-
Denis N. Wade	475,000	-	-	-	475,000
Executives					
Peter J. Nightingale	1,702,397	-	-	-	1,702,397

Fully paid ordinary shareholdings and transactions - 2010

	Held at 1 July 2009	Purchased	Received on exercise of options	Sales	Held at 30 June 2010
Directors					
Michael J. Hoy	1,408,214	-	-	-	1,408,214
Michelle Miller	-	-	-	-	-
Michael S. Hirshorn	-	130,000	-	-	130,000
Bruce Hundertmark	-	-	-	-	-
Denis N. Wade*	-	-	-	-	475,000
Peter Scott**	9,014,000	-	-	-	-
Executives					
Peter J. Nightingale	1,702,397	-	-	-	1,702,397

** Dr Denis N. Wade held 475,000 shares at the time of becoming a director.*
*** Mr Peter G. Scott held 9,014,000 shares when he resigned as director on 1 April 2010.*

During the year ended 30 June 2011, Michael J. Hoy had an interest in an entity, CityPrint Holdings Pty Limited, which provided printing services to the Company. Payments to CityPrint Holdings Pty Limited, which were in the ordinary course of business and on normal terms and conditions, amounted to $25,089 (2010 – $21,239). Outstanding amounts at 30 June 2011 total $746 (2010 – nil).

During the year ended 30 June 2011, Peter J. Nightingale had an interest in an entity, MIS Corporate Pty Limited, which provided full administrative services, including rental accommodation, administrative staff, services and supplies, to the entity. Fees paid to MIS Corporate Pty Limited during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to $120,000 (2010 – $121,526). Outstanding amounts at 30 June 2011 total $11,000 (2010 – nil).

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

OPTION HOLDINGS

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each specified director and executive, including their personally-related entities, is as follows:

Option holdings - 2011

	Held at 1 July 2010	Purchased/ Granted	Expired	Held at 30 June 2011	Vested and exercisable at 30 June 2011
Directors					
Michael J. Hoy	1,908,214	-	500,000	1,408,214	1,408,214
Michelle Miller	1,500,000	5,000,000	1,500,000	5,000,000	1,000,000
Michael S. Hirshorn	200,000	-	200,000	-	-
Bruce Hundertmark	200,000	-	200,000	-	-
Denis N. Wade	162,500	-	-	162,500	162,500
Executives					
Peter J. Nightingale	2,487,785	-	200,000	2,287,785	2,287,785

Option holdings - 2010

	Held at 1 July 2009	Purchased	Expired	Held at 30 June 2010	Vested and exercisable at 30 June 2010
Directors					
Michael J. Hoy	500,000	1,408,214	-	1,908,214	1,908,214
Michelle Miller	1,500,000	-	-	1,500,000	1,500,000
Michael S. Hirshorn	200,000	-	-	200,000	200,000
Bruce Hundertmark	200,000	-	-	200,000	200,000
Denis N. Wade*	-	-	-	162,500	162,500
Peter Scott**	-	500,000	-	-	-
Executives					
Peter J. Nightingale	200,000	2,287,785	-	2,487,785	2,487,785

** Dr Denis N. Wade held 162,500 options at the time of becoming a director.*
*** Mr Peter G. Scott held 500,000 options when he resigned from office on 1 April 2010.*

14. EMPLOYEE AND DIRECTOR INCENTIVE OPTION PLAN

At 30 June 2011, the Company had 4 employees (2010 – 4). All other personnel are contracted by the Company on a consultancy basis.

The Company has an Incentive Option Plan to provide eligible persons, being employees or directors, or individuals whom the Plan Committee determine to be employees for the purposes of the Plan, with the opportunity to acquire options over unissued ordinary shares in the Company. The number of options granted or offered under the Plan will not exceed 10% of the Company's issued share capital and the exercise price of options will be the greater of the market value of the Company's shares as at the date of grant of the option or such amount as the Plan Committee determines. Options have no voting or dividend rights.

In the event that the employment or office of the optionholder is terminated, any options which have not reached their exercise period will lapse and any options which have reached their exercise period may be exercised within three months of the date of termination of employment. Any options not exercised within this three month period will lapse.

During the year ended 30 June 2011, 5,000,000 options were issued to the Managing Director as detailed in note 11 (2010 – nil). No ordinary shares have been issued as a result of the exercise of any option granted pursuant to the Incentive Option Plan during the years ended 30 June 2011 and 30 June 2010.

15. FINANCIAL INSTRUMENTS DISCLOSURE

The Board has overall responsibility for the establishment and oversight of the risk management framework. Informal risk management policies are established to identify and analyse the risks faced by the Company.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The summaries below present information about the Company's exposure to each of these risks, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of the following assets represent the Company's maximum exposure to credit risk in relation to financial assets:

	Notes	Carrying Amount	Carrying Amount
		2011	2010
		$	$
Cash and cash equivalents		2,144,831	1,780,567
Trade and other receivables	6	452,524	9,471
Security deposits	7	15,131	15,130
		2,612,486	1,805,168

The Company mitigates credit risk on cash and cash equivalents by dealing with regulated banks in Australia. Credit risk of trade and other receivables is very low as it consists predominantly of amounts recoverable from taxation and other government authorities in Australia.

Impairment losses

No impairment has been taken up against the Company's financial assets.

None of the Company's trade and other receivables are past due and no amount receivable has been renegotiated.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Company	Carrying Amount $	Contractual Cash Flows $	Less Than One Year $	Between One and Five Years $	Interest $
30 June 2011					
Trade and other payables	140,544	(140,544)	(140,544)	-	-
30 June 2010					
Trade and other payables	62,212	(62,212)	(62,212)	-	-

Ultimate responsibility for liquidity management rests with the Board. The Company manages liquidity risk by maintaining adequate funding and monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of expected settlement of financial assets and liabilities.

Interest rate risk

The Company's income statement is affected by changes in interest rates due to the impact of such changes on interest income from cash and cash equivalents and interest bearing security deposits. The average interest rate on funds held during the year was 4.13% (2010 – 3.75%).

At balance date, the Company had the following mix of financial assets exposed to variable interest rate risk that are not designated as cash flow hedges:

	Note	2011 $	2010 $
Financial Assets			
Cash and cash equivalents		2,144,831	1,780,567
Security deposits	7	15,131	15,130
Net exposure		2,159,962	1,795,697

Sensitivity analysis

An increase of 100 basis points in interest rates throughout the reporting period would have decreased the loss for the period by the amounts shown below, whilst a decrease would have increased the loss by the same amount. The Company's equity consists of fully paid ordinary shares. There is no effect on fully paid ordinary shares by an increase or decrease in interest rates during the period.

	$
30 June 2011	16,049
30 June 2010	11,276

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board ensures costs are not incurred in excess of available funds and will seek to raise additional funding through issues of shares for the continuation of the Company's operation. There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair values, given the short time frames to maturity and or variable interest rates.

16.FINANCIAL REPORTING BY SEGMENTS

The Company operates in the biotechnology industry in Australia.

17.OPERATING LEASE

The Company leases an office in North Ryde Sydney. The lease is for a period of 3 years starting from November 2010 with an option to renew lease after that 3 years.

During the year ended 30 June 2011, $65,083 was recognised as an expense in the income statement in respect of the operating lease (2010 – $58,233).

	2011	2010
	$	$
Less than one year	51,629	24,871
Between one and five years	68,839	-
More then five years	-	-

DIRECTORS' DECLARATION

1. In the opinion of the directors of Biotron Limited:
   a) the financial statements and notes set out on pages 20 to 37, and the Remuneration Report in the Directors' Report, set out on pages 15 to 17, are in accordance with the Corporations Act 2001, including:
      (i) giving a true and fair view of the Company'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 Australian Accounting Interpretations) and the Corporations Regulations 2001;
   b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1;
   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.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2011.

This report has been signed in accordance with a resolution

of the directors and is dated 29 August 2011:

Michael J. Hoy
Chairman

Michelle Miller
Managing Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERSOF BIOTRON LIMITED

KPMG

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Biotron 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 statement of cash flows for the year ended on that date, notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of Biotron Limited 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 Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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.

Auditor's opinion

In our opinion:

a) the financial report of Biotron Limited is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company'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 and the Corporations Regulations 2001.

b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 17 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 auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Biotron Limited for the year ended 30 June 2011 complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Adam Twemlow
Partner
29 August 2011

Additional Stock Exchange Information

HOME EXCHANGE

The Company is listed on the ASX Limited. The home exchange is Sydney.

USE OF CASH AND ASSETS

Since the Company's listing on the ASX, the Company has used its cash and assets in a way consistent with its stated business objectives.

CLASS OF SHARES AND VOTING RIGHTS

There is only one class of shares in the Company, fully paid ordinary shares.

The rights attaching to shares in the Company are set out in the Company's Constitution. The following is a summary of the principal rights of the holders of shares in the Company.

Every holder of shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of shares who is present in person or by proxy, attorney or representative has one vote for every fully paid share registered in the shareholder's name on the Company's share register.

A poll may be demanded by the chairperson of the meeting, by at least 5 shareholders entitled to vote on the resolution or shareholders with at least 5% of the votes that may be cast on the resolution on a poll.

DISTRIBUTION OF EQUITY SECURITYHOLDERS

As at 31 July 2011, the distribution of each class of equity was as follows:

Range	Fully Paid Ordinary Shares	30 December 2011 $0.10 Options	30 March 2012 $0.20 Options	30 October 2015 $0.22 Options	30 October 2015 $0.25 Options
1 - 1,000	62	2	-	-	-
1,001 - 5,000	374	37	20	-	-
5,001 - 10,000	312	47	21	-	-
10,001 - 100,000	649	187	58	-	-
100,001 and over	216	122	11	1	1
	1,613	**395**	**110**	**1**	**1**

At 31 July 2011, 358 shareholders held less than a marketable parcel of shares.

TWENTY LARGEST QUOTED SHAREHOLDERS

At 31 July 2011 the twenty largest fully paid ordinary shareholders held 37.79% of fully paid ordinary as follows:

	Name	Fully Paid Ordinary Shares	%
1	Dr Angela Fay Dulhunty	9,968,362	6.74
2	Scott's A V Pty Ltd <Scotts Acorn Emp S/F A/C>	9,014,000	6.09
3	Rigi Investments Pty Ltd	4,492,645	3.04
4	Twynam Agricultural Group Pty Ltd	3,700,000	2.50
5	Prof Alan Jonathan Berrick	3,150,000	2.13
6	CBDF Pty Limited <Canberra Bus Dev Fund A/C>	2,875,254	1.94
7	Pathold No 222 Pty Ltd	2,655,000	1.79
8	Mrs. Narelle Fay	2,105,000	1.42
9	Linkenholt Pty Ltd <Grant Austin Family A/C>	2,100,000	1.42
10	JP Morgan Nominees Australia Limited <Cash Income A/C>	1,777,063	1.20
11	Warman Investments Pty Ltd	1,675,000	1.13
12	Mr. Christopher Parish + Mrs. Bhama Parish	1,600,000	1.08
13	Mr. Philip Board + Mrs. Marylyn Board	1,599,950	1.08
14	Umbiram Pty Ltd <Michael Hoy Superfund A/C>	1,566,108	1.06
15	LSAF Holdings Pty Ltd <Owen Family A/C>	1,550,000	1.05
16	Lenvat Pty Ltd Lenvat Super Fund A/C	1,300,000	0.88
17	Ramsab Pty Ltd <L Hamby & I Neering S/F A/C>	1,300,000	0.88
18	Rigi Investments Pty Ltd	1,300,000	0.88
19	Edstop Pty Limited <Superannuation Fund A/C>	1,285,312	0.87
20	Mr. Ian Gavin Platt- Hepworth + Mrs. Marion Platt- Hepworth <Platt-Hepworth Fam S/F A/C>	1,228,420	0.83

There are no current on-market buy-backs.

Corporate Directory

Directors:

Mr Michael J. Hoy (Chairman)
Dr Michelle Miller (Managing Director)
Dr Michael S. Hirshorn
Mr Bruce Hundertmark
Dr Denis N. Wade

Company Secretary:

Mr Peter J. Nightingale

Registered Office:

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E-mail: enquiries@biotron.com.au
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NORTH RYDE NSW 2113
Phone: 61-2 9805 0488
Fax: 61-2 9805 0688

Share Registrar:

Computershare Investor Services Pty Limited

117 Victoria Street
West End QLD 4101

Phone: 61-7 3237 2100
Fax: 61-7 3229 9860

Auditors:

KPMG
Level 16, Riparian Plaza
71 Eagle Street
BRISBANE QLD 4000

Home Exchange:

ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Solicitors:

Minter Ellison
88 Phillip Street
SYDNEY NSW 2000

Biotron Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Biotron Limited
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Sydney NSW 2000
Australia