BIOTRON LIMITED
ABN 60 086 399 144

Biotron

ANNUAL REPORT 2014

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OPERATING AND FINANCIAL REVIEW

REVIEW OF OPERATIONS

Biotron's strategy is to work towards a commercial outcome for shareholders by demonstrating positive clinical trial data, as well as other supporting studies, that will systematically grow the value of the Company. Focus has been on the planned, step-wise progression of the clinical development of the Company's lead antiviral drug, BIT225. Significant progress has been made with all the Company's clinical programs, which include clinical trials in HIV, Hepatitis C virus ('HCV') and HIV/HCV co-infected populations. Positive data have been reported at every step. BIT225 shows encouraging efficacy against both HIV and HCV in all clinical studies completed to date.

During the period under review, significant progress has been achieved. A Phase 2 trial in patients co-infected with HIV and HCV (BIT225-006) has been completed and a Phase 2, three-month dosing trial in HCV genotype 1 and 3 patients (BIT225-008), has commenced.

Positive interim data have been reported from the HIV/HCV co-infected patient trial. All HCV genotype 3 patients who completed dosing recorded undetectable virus at the 12 and 24 week time points. Additionally, a trial comparing the new capsule formulation of BIT225 with the powder formulation used in previous trials demonstrated that the capsules delivered a significantly higher amount of drug to patients given the same dose of each. In late 2013, an independent study showed that BIT225 had good in vitro activity against all major HCV genotypes.

A summary of significant events achieved in this financial year includes:

- Completion of a Phase 2 trial (BIT225-006) of BIT225 in patients co-infected with HIV and HCV and reporting of positive interim data that showed all genotype 3 patients who completed dosing were cleared of HCV at the 12 and 24 week time points of the trial.
- Commencement of a longer term, 12 week dosing, Phase 2 trial (BIT225-008) of BIT225 in HCV genotype 1 and 3 patients.
- Demonstration that the newly developed capsule formulation of BIT225 resulted in 1.6 fold higher bioavailability of drug.
- A key patent was issued for BIT225, Biotron's lead antiviral drug, in the USA.
- Presentation of data from the Phase 2 HIV/HCV co-infected and the Phase 1b/2a HIV trials at major international scientific conferences.
- Showcasing the Company to the international investment community at various events in the USA and Asia as well as locally.
- Receipt of an R&D Tax Incentive rebate of $1.7 million for the 2012/13 financial year.

"Significant progress has been made with all the Company's clinical programs, which include clinical trials in HIV, Hepatitis C virus ('HCV') and HIV/HCV co-infected populations."

Update of Clinical Programs

HCV

The HCV field has been subject to extraordinary commercial interest over the last 2 to 3 years. Significant unmet medical need in HCV treatment options, combined with a large, and growing, patient population, has driven massive investment by the pharmaceutical industry into the development of new anti-HCV drugs.

The approval of Gilead Sciences Inc's (NASDAQ:GILD) anti-HCV drug, Sovaldi, in late 2013 was a significant step for patients, providing a shorter, safer treatment option than had previously been available. Gilead purchased Pharmasset Inc (NASDAQ:VRUS) for US$11 billion dollars in late 2011, primarily to gain access to Sovaldi, which was at that stage in Phase 2 clinical trial.

During its first quarter of sales in 2014, Sovaldi sales exceeded US$2 billion, a record for a new drug. The HCV drug market is expected to grow to more than three times its current size by 2018 and to exceed US$20 billion by the end of the decade.

No HCV drug can be used on its own to treat the virus. Chronic viral diseases, such as HCV and HIV, need to be treated with two or more different classes of drugs in combination to stop the virus mutating and becoming resistant to treatment. Thus, Sovaldi is unable to be used on its own and is currently combined with ribavirin, a less effective and more toxic HCV treatment.

Pharmaceutical and biotechnology companies must continue to develop other classes of anti-HCV drugs, with the aim of developing new, safe drug combinations which do not need long courses of treatment and are active against all the different HCV subtypes.

By targeting the HCV p7 protein, BIT225 has a unique mode of action compared to other anti-HCV drugs known to be in development. BIT225 also has activity against all major HCV subtypes, in particular the subtype known as genotype 3, against which Sovaldi is least effective.

Working in a competitive background of HCV drug development, Biotron aims to position BIT225 to ensure it has the best chance of being licensed for use in combination with other anti-HCV drugs. To this end, Biotron has undertaken a series of clinical trials in different HCV patient populations, specifically designed to determine BIT225's anti-HCV activity profile.

It is standard in HCV drug development to do a range of such studies, using small numbers of patients, before embarking on larger late stage clinical trials aimed at obtaining final drug approvals for use.

To date, trials with BIT225 in HCV-infected patients have been done in combination with interferon and ribavirin ('IFN/RBV'), as this was the approved standard of care treatment in this population when those trials were run.

In 2011/12, Biotron conducted a 28 day dosing, Phase 2a clinical trial (BIT225-005) of BIT225 in patients infected with HCV genotype 1. This trial was a crucial study for Biotron and the positive results validated the Company's approach to the treatment of this disease.

One hundred percent of patients who were treated with 400mg of BIT225 in combination with IFN/RBV had no detectable virus at 48 weeks, compared to 75% of patients who received only IFN/RBV.

In late 2013, Biotron commenced a Phase 2 HCV genotype 1 and 3 trial (BIT225-008 - 3 months dosing in combination with IFN/RBV) using the new BIT225 capsules developed during 2013. A study in healthy volunteers during 2013 showed that the bioavailability of BIT225 (i.e. the amount of drug that enters the circulation system and is able to have an active effect) increased by about 1.6 fold when delivered by the new capsules. This is likely to result in a more convenient dosing regimen and less variability in response. It is also the first time patients have been dosed for longer than 28 days.

The trial was designed to demonstrate safety and efficacy of BIT225 with longer dosing, and to extend efficacy data to HCV genotype 3. Potential opportunities and treatment gaps exist in other genotypes and it is important to assess efficacy of BIT225 against these other genotypes and, in particular, genotype 3.

The 60 patient trial is in progress at several sites in Thailand and it is expected that, subject to recruitment rates, preliminary data may be available in late 2014.

Based on current human trial data, BIT225 may further improve outcomes and shorten treatment periods in patients being treated with direct acting antiviral drugs such as Sovaldi.

Significant treatment gaps remain for HCV-infected patients, despite recent advances in the field. HCV genotype 3 and HIV/HCV co-infected patients continue to have limited treatment options and BIT225 has shown promise in both of these patient populations. These areas are the current focus of Biotron's HCV program.

OPERATING AND FINANCIAL REVIEW

HIV

BIT225 is also active against HIV, the virus that causes AIDS. Biotron has successfully completed a Phase 1b/2a clinical trial of BIT225 in HIV infected patients who have not previously received anti-retroviral drugs.

The Phase 1b/2a trial successfully demonstrated that BIT225 targets HIV replication in monocyte cells in treated patients. These cells become infected with HIV and are the seeds of hidden HIV pools in patients, setting up long lived macrophage reservoir cell populations in various sites in the body. The trial showed that BIT225 significantly reduces virus levels in these cells.

The results suggest that BIT225 has the potential to be included in future HIV eradication or cure strategies and may provide a means of halting the ongoing cycle of infection from these long lived cells.

In addition, the trial also showed for the first time that BIT225 is able to cross the blood-brain barrier. This is important as it means BIT225 may be a potential therapeutic option for the treatment of AIDS related dementia, which affects up to 24% of people in Western world HIV populations.

These results provide hope to the millions of HIV patients around the globe.

HIV/HCV Co-Infection

In late 2013, the Company completed a Phase 2 trial of BIT225 in patients co-infected with HCV and HIV. BIT225 is uniquely placed due to its dual anti-HCV and anti-HIV activity.

This trial was designed to generate efficacy data in this unique, specific population with a significant unmet medical need, as well as to extend the data to other HCV genotypes, including genotype 3. Additionally, the trial was designed to provide detailed pharmacokinetic and safety data on BIT225 in the presence of other anti-HIV drugs.

Interim data from this trial have demonstrated that all HCV genotype 3 patients were clear of HCV at the 12 and 24 time points of the trial. Patients continue to be monitored until the end of 48 weeks IFN/RBV treatment, and for a further 12 weeks drug-free follow-up period.

The proportion of patients infected with both HIV and HCV is significant and this co-infected group offers particular challenges to treatment with current therapies. HCV is a more serious disease in HIV positive patients and is a leading cause of death in these patients.

"The past 12 months has seen impressive progress across Biotron's antiviral drug development program. It is anticipated that Biotron will continue to significantly advance its activities."

It has been estimated that between 25% and 40% of HIV positive patients in the USA are co-infected with HCV. These people have a significantly worse prognosis than mono-infected patients.

There are limited classes of new drugs to use in combination in this particular population, as one of the major HCV drug classes cannot be used in patients receiving anti-HIV drugs due to adverse drug-drug interactions. BIT225 represents an additional, new class that does not appear to have these limitations in this patient population.

Biotron's trials in HCV and HIV patients are important steps in the Company's development programs. Demonstration that BIT225 has activity against these viruses in patients is a major value addition for the Company. The latest results further validate the potential of BIT225 for treatment of both patient populations.

Other Viral Programs

Biotron has a portfolio of clinical and preclinical antiviral programs developing drugs targeting HCV, HIV, Dengue virus and Influenza virus. At present, focus is on the development of HCV and HIV clinical trials. Resources will be committed to additional projects once the more advanced programs have been successfully commercialised or as resources become available.

Outlook for the Next 12 Months

As set out above, the past 12 months has seen impressive progress across Biotron's antiviral drug development program. It is anticipated that Biotron will continue to significantly advance its activities and, by 30 June 2015, we expect to have:

- released results from the 3 month dosing, Phase 2 trial (BIT225-008) of BIT225 against a wider range of HCV genotypes; and
- submitted an Investigational New Drug ('IND') application for BIT225 to the USA Federal Drug Agency.

OPERATING AND FINANCIAL REVIEW

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.

A summary of Biotron's patent portfolio is:

Title	Status
WO0021538 Method of modulating ion channel functional activity Priority - 12 October 1998	Granted in Australia, Canada, China, Germany, France, United Kingdom, The Netherlands, Japan, New Zealand, and USA
WO9813514 Method of determining ion channel activity of a substance Priority - 27 September 1996	Granted in Australia, Canada, Japan, Europe, United Kingdom and USA
WO04112687 Antiviral compounds and methods Priority - 26 June 2003	Granted in Australia, Canada, China, India, Japan, Korea, New Zealand, Singapore and South Africa Under examination elsewhere (Brazil, Europe, Hong Kong, USA)
WO06135978 Antiviral compounds and methods Priority - 24 June 2005	Granted in Australia, Canada, China, Japan, Europe and United Kingdom, New Zealand, Singapore, South Africa and USA Under examination elsewhere (Brazil, India)
WO2009/018609 Hepatitis C antiviral compounds and methods Priority - 3 August 2007	Granted in Australia, New Zealand, Singapore and South Africa Waiting for or under examination elsewhere

Corporate

In April 2014, the Company received an R&D Tax Incentive rebate of $1.7 million for the 2012/13 financial year. The R&D Tax Incentive is an Australian Government program under which companies receive cash refunds for 45% of eligible expenditure on research and development.

The incentive refund results from expenditure on Biotron's HCV and HIV drug development programs. The cash rebate is an important source of funds for the Company's ongoing research and development activities.

On behalf of the Board we would like to thank the Biotron staff for their commitment and dedication during the year. Biotron is poised to achieve the outcome that we have all been working towards - demonstration that its systematic approach to antiviral drug development can result in significant clinical benefit to patients and generate value for our shareholders.

We look forward to the next year with confidence.

Michael J. Hoy
Chairman

Michelle Miller
Managing Director

STATEMENT OF CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations, unless otherwise stated.

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 **www.asx.com.au**.

Principle 1 - Lay Solid Foundations for Management and Oversight

Board of Directors

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 followed Recommendation 1.1 by establishing the functions reserved to the Board and those delegated to senior executives as disclosed above.

The Company has followed Recommendation 1.2 by evaluating the performance of senior executives. The Board reviews the performance of the Company's senior executives on a face to face basis with the performance evaluation of the Managing Director being conducted by the Chairman of the Board.

The Company has taken the appropriate measures 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 followed Recommendation 1.3 by conducting the evaluations of senior executives in accordance with the process described above.

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.

The Company has followed Recommendations 2.1, 2.2 and 2.3 as disclosed below.

Independent directors

The Board is made up of five directors, four of whom, including the Chairman, are independent directors. The Managing Director is the only executive director. The names of the directors of the Company in office at the date of this report, specifying which are independent, are set out in the Directors' Report below.

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 operations of the Company, a Nomination Committee has not been established and therefore Recommendation 2.4 has not been followed.

Performance review and evaluation

The Company has followed Recommendations 2.5 and 2.6 by disclosing the process for evaluating the performance of the Board, and disclosure requirements under Principle 2 below.

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. The Company has followed Recommendation 3.1 and has adopted a formal Code of Conduct.

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 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.

The trading windows for restricted persons are 60 days after the release of the half year results, the full year results or the holding of the Annual General Meeting. Restricted persons are prohibited from trading in the Company's securities outside these trading windows 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, the Company has not set a policy concerning diversity and therefore Recommendations 3.2, 3.3, 3.4 and 3.5 have not been followed. 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

Having regard to the current membership of the Board and the size, organisational complexity and scope of operations of the Company, an Audit Committee has not been established and therefore Recommendations 4.1, 4.2, 4.3 and 4.4 have not been followed.

The objective of a committee is to make recommendations to the Board regarding various matters including the adequacy of the external audit, risk management and compliance procedures, 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. These functions of an Audit Committee are performed by the full Board.

Principle 5 - Make Timely and Balanced Disclosure

The Company has followed Recommendations 5.1 and 5.2 and has adopted a formal Continuous Disclosure Policy.

Continuous Disclosure to the ASX

The Board has designated the Chairman, Managing Director and Company Secretary as being 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

The Company has followed Recommendations 6.1 and 6.2 and has designed a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings as disclosed below.

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 Company has followed Recommendation 7.1 and has designed policies for the oversight and management of material business risks as disclosed below.

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.

Having regard to the current membership of the Board and the size, organisational complexity and scope of operations of the Company, Recommendation 7.2 is not relevant 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.

Internal control and risk management

The 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.

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 or 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 as required under section 295A of the Corporations Act. The Board is also satisfied that the internal control system is operating effectively in all material respects.

The Company has followed Recommendation 7.4 by disclosing the information above.

Principle 8 - Remunerate Fairly and Responsibly

Having regard to the current membership of the Board and the size, organisational complexity and scope of operations of the Company, a Remuneration Committee has not been established and therefore Recommendations 8.1, 8.2, 8.3 and 8.4 have not been followed.

However, the functions and responsibilities listed below were carried out by the 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 officers are disclosed in the Annual Report of the Company.

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 Managing Director'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.

DIRECTORS' REPORT

The directors present their report together with the financial statements of Biotron Limited ('the Company') for the year ended 30 June 2014 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 Telesso Technologies Limited and Lipotek Pty 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 & Johnson developing anti-HIV gene therapeutics through preclinical research to clinical trials. She has experience in early stage start-ups from time spent as an Investment Manager with a specialist bioscience venture capital fund.

She was appointed as Managing Director on 21 June 2002.

Dr Susan M. Pond

AM, MD DSc, FTSE

Independent and Non-Executive Director

Dr Pond has a strong scientific and commercial background having held executive positions in the biotechnology and pharmaceutical industry for 12 years, most recently as chairman and managing director of Johnson & Johnson Research Pty Limited (2003 - 2009). She has held many previous board positions including as executive director of Johnson & Johnson Pty Limited, non-executive director and chairman of AusBiotech Limited and director of the Australian Nuclear Science and Technology Organisation.

Dr Pond is currently on the boards of Centenary Institute, the Australian Academy of Technological Sciences and Engineering, of which she is vice-president, and Innovation Australia. She is a Fellow of the Australian Institute of Company Directors.

Dr Pond holds a first class honours degree in Bachelor of Medicine and Surgery from the University of Sydney and a Doctor of Medicine degree from the University of New South Wales. She obtained specialist clinical credentials in internal medicine, clinical pharmacology and clinical toxicology and has held academic appointments at the University of California, San Francisco and the University of Queensland before joining industry.

Dr Pond was appointed as a director on 7 March 2012.

Mr Robert B. Thomas

BEc, MSAA, SF Fin, FICD

Independent and Non-Executive Director

Mr Thomas has over 35 years' experience in the securities industry, with Potter Partners (now UBS), County NatWest and Citigroup.

He is the chairman of TAL Limited and Starpharma Holdings Limited and a director of Aus Bio Limited, Heartware Limited, REVA Medical Limited and Virgin Australia Limited. He chairs Grahger Capital Securities, is the president of the Library Council of NSW, a director of O'Connell Street Associates Pty Limited and a member of the Advisory Board of Inteq Limited.

Mr Thomas has a Bachelor of Economics degree from Monash University (1963 - 1966). He has been a member of the Securities Institute of Australia since 1976 and was appointed as a Fellow to the Institute in 1997. He is a Master Stockbroker and is a Fellow of the Institute of Company Directors.

Mr Thomas was appointed as a director on 7 March 2012.

Dr Denis N. Wade

Independent and Non-Executive Director

Dr 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 healthcare 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, was managing director and chairman of Johnson & Johnson Research Pty Ltd, a research and development company of Johnson & 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.

Mr Bruce Hundertmark

BE (Chemical)

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 US Consultants Inc., 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.

He holds a Bachelors Degree in Engineering (Chemical) from the University of Adelaide and has completed studies to bachelors degree level in economics at the University of Queensland and chemistry at the University of Adelaide. He has worked in the UK, the USA, Japan, Bahrain, Qatar and Indonesia for extensive periods of time in various positions.

Mr Hundertmark was a director from 16 March 2000 to 8 November 2013.

Mr 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 25 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 Bolnisi Gold N.L., Callabonna Uranium Limited, Cockatoo Coal Limited, Mogul Mining N.L., Pangea Resources Limited, Perseverance Corporation Limited, Sumatra Copper & Gold plc, Timberline Minerals, Inc. and Valdora Minerals N.L. Mr Nightingale is currently a director of ASX listed Augur Resources Ltd and Planet Gas Limited and unlisted public companies Equus Resources Limited and Nickel Mines Limited.

Mr Nightingale has been Company Secretary since 23 February 1999.

DIRECTORS' REPORT

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:

	Directors' Meetings	
Director	No. of Eligible Meetings to Attend	No. of Meetings Attended
Michael J. Hoy	6	6
Michelle Miller	6	6
Susan M. Pond	6	6
Robert B. Thomas	6	6
Denis N. Wade	6	6
Bruce Hundertmark	2	2

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)
Directors			
Michael J. Hoy	3,154,322	-	-
Michelle Miller	-	2,000,000	$0.22 at any time up to 30 October 2015
	-	3,000,000	$0.25 from 30 October 2012 to 30 October 2015
Susan M. Pond	250,000	-	-
Robert B. Thomas	5,566,666	-	-
Denis N. Wade	1,232,894	-	-

There were no options over unissued ordinary shares granted to directors or executives of the Company during or since the end of the financial year.

Unissued Shares Under Option

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

Number of Shares	Exercise Price	Expiry Date
2,000,000	$0.22	30 October 2015
3,000,000	$0.25	30 October 2015

All options expire on the earlier of their expiry date or termination of the employee's employment.

The persons entitled to exercise the options do not have, by virtue of the options, the right to participate in a share issue of the Company or any other body corporate.

DIRECTORS' REPORT

Shares Issued on Exercise of Options

The Company has not issued any ordinary shares of the Company as a result of the exercise of options during or since the end of the financial year.

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 $3,085,814 (2013 - $3,850,745 loss).

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 year ended 30 June 2014.

Environmental Regulations

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 2014, 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.

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.

Remuneration Report - Audited

Principles of compensation - Audited

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel comprise the directors of the Company and the Company Secretary. No other employees have been deemed to be key management personnel.

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 prior periods as remuneration were subject to minimum service periods being met. All outstanding options have fully vested at 30 June 2014.

There were no remuneration consultants used by the Company during the year ended 30 June 2014, or in the prior 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.

	2014	2013	2012	2011	2010
Net loss attributable to equity holders of the Company	$3,085,814	$3,850,745	$2,378,052	$1,907,527	$1,872,244
Dividends paid	-	-	-	-	-
Change in share price	(1.0) cents	(2.0) cents	(1.0) cents	4.8 cents	(0.02) 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 performance of the Company.

Details of remuneration for the year ended 30 June 2014 - Audited

Details of director and senior executive remuneration and the nature and amount of each major element of the remuneration of each director of the Company, and other key management personnel of the Company are set out below:

	Year	Primary Fees $	Superannuation $	Share Based Payments - Options $	Total $	Value of Options as a % of Remuneration
Directors						
Non-executive						
Michael J. Hoy (Chairman)	2014	68,807	6,365	-	75,172	-
	2013	68,807	6,193	-	75,000	-
Susan M. Pond	2014	36,697	3,394	-	40,091	-
	2013	36,697	3,303	-	40,000	-
Robert B. Thomas	2014	36,697	3,394	-	40,091	-
	2013	36,697	3,303	-	40,000	-
Denis N. Wade	2014	36,697	3,394	-	40,091	-
	2013	36,697	3,303	-	40,000	-
Bruce Hundertmark	2014	13,106	1,212	-	14,318	-
	2013	36,697	3,303	-	40,000	-
Executive						
Michelle Miller (Managing Director)	2014	343,254	29,885	-	373,139	-
	2013	299,999	27,000	56,308	383,307	15%
Executives						
Peter J. Nightingale (Company Secretary)	2014	75,000	-	-	75,000	-
	2013	75,000	-	-	75,000	-

No bonuses were paid during the financial year and no performance based components of remuneration exist. The Company employed no other key management personnel.

Options granted as compensation - Audited

There were no options granted to key management personnel during the 2014 and 2013 financial years.

Modification of terms of equity-settled share-based payment transactions - Audited

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the issuing entity during the 2014 and 2013 financial years.

Exercise of options granted as compensation - Audited

There were no shares issued on the exercise of options previously granted as compensation during the 2014 and 2013 financial years.

Analysis of options and rights over equity instruments granted as compensation - Audited

All options refer to options over ordinary shares of Biotron Limited, which are exercisable on a one-for-one basis.

	Options granted				
Director	Number	Date	% vested in year	% forfeited in year	Financial year in which grant vests
Michelle Miller	1,000,000	24 December 2010	-%	-%	1 July 2010
	1,000,000	24 December 2010	-%	-%	1 July 2011
	3,000,000	24 December 2010	-%	-%	1 July 2012

The number of options that had vested as at 30 June 2014 is 5,000,000 (2013 - 5,000,000). No options were granted subsequent to year end.

Analysis of movements in options - Audited

Director	Granted in the year	Valuation of options exercised in the year	Lapsed in the year
Michelle Miller	-	-	-

Options and rights over equity instruments - Audited

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their personally related entities, is as follows:

Option holdings 2014 - Audited

	Held at 1 July 2013	Exercised	Expired	Held at 30 June 2014	Vested and exercisable at 30 June 2014
Directors					
Michael J. Hoy	-	-	-	-	-
Michelle Miller	5,000,000	-	-	5,000,000	5,000,000
Susan M. Pond	-	-	-	-	-
Robert B. Thomas	-	-	-	-	-
Denis N. Wade	-	-	-	-	-
Bruce Hundertmark	-	-	-	-	-
Executives					
Peter J. Nightingale	-	-	-	-	-

Loans to key management personal and their related parties - Audited

There were no loans made to key management personnel or their related parties during the 2014 and 2013 financial years year and no amounts were outstanding at 30 June 2014 (2013 - $nil).

Other transactions with key management personnel - Audited

The following key management personnel holds a position in another entity that results in them having control or joint control over the financial or operating policies of that entity, and this entity transacted with the Company during the year as follows:

- During the year ended 30 June 2014, Peter J. Nightingale had a controlling 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 amounted to $144,000 (2013 - $144,000). There were no outstanding amounts at 30 June 2014 (2013 - $nil).

Movements in shares - Audited

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

	Held at 1 July 2013	Purchased	Received on exercise of options	Sales	Held at 30 June 2014
Directors					
Michael J. Hoy	3,154,322	-	-	-	3,154,322
Michelle Miller	-	-	-	-	-
Susan M. Pond	250,000	-	-	-	250,000
Robert B. Thomas	5,566,666	-	-	-	5,566,666
Denis N. Wade	1,232,894	-	-	-	1,232,894
Bruce Hundertmark	50,000	-	-	-	50,000*
Executives					
Peter J. Nightingale	4,348,076	-	-	-	4,348,076

* Number of shares held when ceasing to be a director.

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.

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.

	2014 $	2013 $
Statutory audit		
- Audit and review of financial reports - KPMG	31,300	30,200

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 2014.

This report has been signed in accordance with a resolution of the directors and is dated 28 August 2014:

Michael J. Hoy
Chairman

Michelle Miller
Managing Director

KPMG

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 2014, 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

KPMG

Adam Twemlow
Partner

Brisbane
28 August 2014

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $	2013 $
Continuing operations			
Other income	5	1,722,481	891,951
Administration and consultants' expenses		(302,636)	(219,000)
Depreciation	12	(11,193)	(8,213)
Employee and director expenses		(831,497)	(802,404)
Direct research and development expenses	6	(3,237,229)	(3,545,476)
Rent and outgoings expenses		(65,825)	(63,491)
Travel expenses		(90,842)	(25,025)
Other expenses from ordinary activities		(339,045)	(290,804)
Operating loss before financing income		(3,155,786)	(4,062,462)
Interest income		69,972	211,717
Net financing income		69,972	211,717
Loss before tax		(3,085,814)	(3,850,745)
Income tax expense	9	-	-
Loss for the year		(3,085,814)	(3,850,745)
Other comprehensive income		-	-
Total comprehensive loss for the year		(3,085,814)	(3,850,745)
Basic and diluted loss per share (cents)	7	(1.35) cents	(1.69) cents

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Notes	2014 $	2013 $
Current assets			
Cash and cash equivalents	8	1,764,181	4,792,437
Trade and other receivables	10	-	1,723
Other assets	11	35,033	48,518
Total current assets		1,799,214	4,842,678
Non-current assets			
Plant and equipment	12	64,726	23,511
Total non-current assets		64,726	23,511
Total assets		1,863,940	4,866,189
Current liabilities			
Trade and other payables	13	295,327	218,824
Employee entitlements	14	179,317	172,255
Total current liabilities		474,644	391,079
Total liabilities		474,644	391,079
Net assets		1,389,296	4,475,110
Equity			
Issued capital	15	32,548,656	32,548,656
Reserves		522,000	522,000
Accumulated losses		(31,681,360)	(28,595,546)
Total equity		1,389,296	4,475,110

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

Attributable to equity holders of the Company	Notes	Issued Capital $	Option Premium Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2012		32,548,656	465,692	(24,744,801)	8,269,547
Total comprehensive income for the year					
Loss for the year		-	-	(3,850,745)	(3,850,745)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	-	(3,850,745)	(3,850,745)
Transactions with owners, recorded directly in equity					
Contribution by and distribution to owners					
Share based payment transactions		-	56,308	-	56,308
Balance at 30 June 2013	15	32,548,656	522,000	(28,595,546)	4,475,110
Balance at 1 July 2013		32,548,656	522,000	(28,595,546)	4,475,110
Total comprehensive income for the year					
Loss for the year		-	-	(3,085,814)	(3,085,814)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	-	(3,085,814)	(3,085,814)
Balance at 30 June 2014	15	32,548,656	522,000	(31,681,360)	1,389,296

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $	2013 $
Cash flows from operating activities			
Cash receipts in the course of operations		1,722,481	1,395,651
Payments for research and development		(3,162,882)	(3,389,942)
Cash payments in the course of operations		(1,605,482)	(1,308,037)
Interest received		70,035	211,717
Net cash used in operating activities	16	(2,975,848)	(3,090,611)
Cash flows from investing activities			
Payments for plant and equipment		(52,408)	(8,733)
Net cash used in investing activities		(52,408)	(8,733)
Cash flows from financing activities			
Proceeds from issue of shares and options		-	-
Cost of issue of shares and options		-	-
Net cash from financing activities		-	-
Net decrease in cash held		(3,028,256)	(3,099,344)
Cash and cash equivalents at 1 July		4,792,437	7,891,781
Cash and cash equivalents at 30 June	8	1,764,181	4,792,437

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. REPORTING ENTITY

Biotron Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is at Level 2, 66 Hunter Street, Sydney, NSW 2000. The Company is a for-profit entity and is primarily engaged in the funding and management of intermediate and applied biotechnology research and development projects.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements are general purpose financial statements which have 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 statements of the Company also comply with International Financial Reporting Standards ('IFRSs') adopted by the International Accounting Standards Board ('IASB').

The financial report was authorised for issue by the directors on 28 August 2014.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 9 - Unrecognised deferred tax asset
- Note 2(e) - Going Concern

(e) Going concern

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

The Company has incurred a trading loss of $3,085,814 for the year ended 30 June 2014 and has accumulated losses of $31,681,360 at 30 June 2014. The Company has cash on hand of $1,764,181 at 30 June 2014 and used $2,975,848 of cash in operations for the year ended 30 June 2014. These conditions give rise to a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. The ongoing operation of the Company is dependent on:

- the Company raising additional funding from shareholders or other parties; and/or
- the Company reducing expenditure in line with available funding.

The directors have prepared cash flow projections that support the ability of the Company to continue as a going concern. These cash flow projections assume the Company obtains sufficient additional funding from shareholders or other parties. If such funding is not achieved, the Company plans to reduce expenditures significantly.

In the event that the Company does not obtain additional funding and/or reduce expenditure in line with available funding, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

3. 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.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(b) Trade and other receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(c) 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.

(d) Research and development

Grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as other income when the grant becomes receivable and the Company complies with all attached conditions.

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.

(e) 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.

(f) Employee entitlements

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Long term employee benefits

The Company's net obligation in respect of long term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(g) Financial Instruments

Non-derivative financial assets

The Company initially recognises loans and receivables on the date that they are originated.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company holds loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Other financial liabilities comprise trade and other payables.

Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(h) Tax

Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

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

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and 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.

(i) Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(j) 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.

(k) Impairment

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss 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 objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Financial assets measured at amortised cost

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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. Losses are recognised within profit or loss. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit ('CGU') exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of their fair value less costs to sell and value in use. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(m) Segment reporting

Determination and presentation of operating segments

The Company determines and presents operating segments based on the information that is provided internally to the Managing Director, who is the Company's chief operating decision maker.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's Managing Director to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(n) 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 2013, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting. The Company does not plan to adopt this standard early and the standard is not expected to have a significant effect on the financial statements.

4. 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 measurement date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual 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

Non-derivative financial liabilities are measured at fair value, at initial recognition, and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

	2014 $	2013 $
5. OTHER INCOME		
Research and development rebate	1,722,481	891,951
6. 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	31,300	30,200
Depreciation		
- Office equipment	9,351	5,962
- Plant and equipment	1,842	2,251
Direct research and development expenditure expensed as incurred	3,237,229	3,545,476
Provision for employee entitlements	7,062	32,941
Superannuation expense	99,464	88,253

7. LOSS PER SHARE

The calculation of basic and diluted loss per share at 30 June 2014 was based on the loss attributable to ordinary shareholders of $3,085,814 (2013 - $3,850,745 loss) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2014 of 228,296,944 (2013 - 228,296,944), calculated as follows:

	2014 $	2013 $
Net loss for the year	3,085,814	3,850,745

	2014 Number	2013 Number
Weighted average number of ordinary shares (basic and diluted)		
Issued ordinary shares at 1 July	228,296,944	228,296,944
Weighted average number of ordinary shares at 30 June	228,296,944	228,296,944

As the Company is loss making, none of the potentially dilutive securities are currently dilutive.

8. CASH AND CASH EQUIVALENTS

	2014 $	2013 $
Cash at bank	1,764,181	4,792,437
Cash and cash equivalents in the statement of cash flows	1,764,181	4,792,437

	2014 $	2013 $
9. INCOME TAX EXPENSE		
Current tax expense		
Current year	(1,459,680)	(1,418,791)
Tax losses not recognised	1,459,680	1,418,791
	-	-
Deferred tax expense		
Current year	18,570	13,713
De-recognition of temporary differences	(18,570)	(13,713)
	-	-
Numerical reconciliation between tax expense and pre-tax net profit		
Loss before tax - continuing operations	(3,085,814)	(3,850,745)
Prima facie income tax benefit at the Australian tax rate of 30% (2012 - 30%)	(925,744)	(1,155,223)
Increase in income tax expense due to:		
- Adjustments not resulting in temporary differences	(515,366)	(249,855)
- Effect of tax losses not recognised	1,459,680	1,418,791
- Unrecognised temporary differences	(18,570)	(13,713)
Income tax expense current and deferred	-	-
Deferred tax assets have not been recognised in respect of the following items		
Deductible temporary differences (net)	85,455	103,594
Tax losses	9,312,667	9,001,283
Net	9,398,122	9,104,877

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.

	2014 $	2013 $
10. TRADE AND OTHER RECEIVABLES		
Current		
Other debtors	-	1,723

	2014 $	2013 $
11. OTHER ASSETS		
Current prepayments	19,902	33,387
Security deposits	15,131	15,131
	35,033	48,518

	2014 $	2013 $
12. PLANT AND EQUIPMENT		
Office equipment - at cost	201,088	148,680
Accumulated depreciation	(143,267)	(133,915)
	57,821	14,765
Plant and equipment - at cost	506,463	506,463
Accumulated depreciation	(499,558)	(497,717)
	6,905	8,746
Total plant and equipment - net book value	64,726	23,511

Reconciliations

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

	2014 $	2013 $
Office equipment		
Balance at 1 July	14,765	11,994
Additions	52,408	8,733
Depreciation	(9,352)	(5,962)
Carrying amount at the end of the financial year	57,821	14,765
Plant and equipment		
Balance at 1 July	8,746	10,997
Depreciation	(1,841)	(2,251)
Carrying amount at the end of the financial year	6,905	8,746
Total carrying amount at the end of the financial year	64,726	23,511

13. TRADE AND OTHER PAYABLES

	2014 $	2013 $
Current		
Creditors	267,077	174,194
Accruals	28,250	44,630
	295,327	218,824

14. EMPLOYEE ENTITLEMENTS

	2014 $	2013 $
Current		
Employee annual leave provision	79,051	82,276
Long service leave provision	100,266	89,979
	179,317	172,255
Number of employees at the end of the financial year	4	7

	2014 $	2013 $
15. CAPITAL AND RESERVES		
Issued and paid up capital		
228,296,944 (2013 - 228,296,944) fully paid ordinary shares	32,548,656	32,548,656
Fully paid ordinary shares		
Balance at the beginning of the financial year	32,548,656	32,548,656
Balance at the end of financial year	32,548,656	32,548,656

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Terms and conditions - Shares

Holders of ordinary shares are entitled to receive dividends as declared 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.

Nature and purpose of reserves

Option premium reserve

The option premium reserve is used to recognise the grant date fair value of options issued but not exercised.

16. STATEMENT OF CASH FLOWS

	2014 $	2013 $
Reconciliation of cash flows from operating activities		
Loss for the period	(3,085,814)	(3,850,745)
Adjustments for:		
Depreciation of plant and equipment	11,193	8,213
Provisions	7,062	32,941
Share based payment	-	56,308
Changes in assets and liabilities		
Decrease in receivables	1,723	501,977
Decrease/(Increase) in prepayments	13,485	(5,265)
Increase in payables	76,503	165,960
Net cash used in operating activities	(2,975,848)	(3,090,611)

17. RELATED PARTIES

Key management personnel and director transactions

The following key management personnel holds a position in another entity that results in them having control or joint control over the financial or operating policies of that entity, and this entity transacted with the Company during the year as follows:

- During the year ended 30 June 2014, Peter J. Nightingale had a controlling 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, amounted to $144,000 (2013 - $144,000). There were no outstanding amounts at 30 June 2014 (2013 - $nil).

Key management personnel compensation

During the year ended 30 June 2014 compensation of key management personnel totalled $657,902 (2013 - $693,307), which comprised primary salary and fees of $610,257 (2013 - $590,594), superannuation of $47,645 (2013 - $46,405), and share based payments of Nil (2013 - $56,308). During the 2014 and 2013 financial years, no long term benefits or termination payments were paid.

18. SHARE BASED PAYMENTS

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. The vesting conditions of options issued under the plan are based on minimum service periods being achieved. There are no other vesting conditions attached to options issued under the plan.

In the event that the employment or office of the option holder 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 2014 and 2013 financial years, no options were issued under the Incentive Option Plan.

Options outstanding at 30 June 2014

Grant date	Number of options	Exercise price	Fair value at grant date	Vesting date*	Expiry date
24 December 2010	1,000,000	$0.22	$0.105	24 December 2010	30 October 2015
24 December 2010	1,000,000	$0.22	$0.105	30 October 2011	30 October 2015
24 December 2010	3,000,000	$0.25	$0.104	30 October 2012	30 October 2015

*Vesting conditions are based on minimum service periods being achieved.

Options outstanding at 30 June 2013

Grant date	Number of options	Exercise price	Fair value at grant date	Vesting date*	Expiry date
24 December 2010	1,000,000	$0.22	$0.105	24 December 2010	30 October 2015
24 December 2010	1,000,000	$0.22	$0.105	30 October 2011	30 October 2015
24 December 2010	3,000,000	$0.25	$0.104	30 October 2012	30 October 2015

* Vesting conditions are based on minimum service periods being achieved.

Movement of options during the year

	Number of options 2014	Weighted average exercise price 2014	Number of options 2013	Weighted average exercise price 2013
Outstanding at 1 July	5,000,000	$0.24	5,000,000	$0.24
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	5,000,000	$0.24	5,000,000	$0.24
Exercisable at 30 June	5,000,000	$0.24	5,000,000	$0.24

The Option Premium Reserve is used to record the options issued to directors and executives of the Company. Options are valued using the Black-Scholes option pricing model:

The weighted average remaining contractual life of share outstanding at the end of the year was 1.33 years (2013 - 2.33 years).

No ordinary shares have been issued as a result of the exercise of any option granted pursuant to the Incentive Option Plan during the current and prior financial year.

18. SHARE BASED PAYMENTS (Cont.)

Fair value of options

The fair value of options granted is measured at grant date and recognised as an expense over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation methodology, 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.

Expenses arising from share-based payment transactions

No expenses arising from share based payment transactions were recognised during the year ended 30 June 2014 (2013 - $56,308).

19. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Company's financial instruments comprise deposits with banks, receivables, trade and other payables and from time to time short term loans from related parties. The Company does not trade in derivatives or in foreign currency.

The Company manages its risk exposure of its financial instruments in accordance with the guidance of the Board of Directors. The main risks arising from the Company's financial instruments are market risk, credit risk and liquidity risks. This note presents information about the Company's exposure to each of these risks, its objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

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 primary responsibility to monitor the financial risks lies with the Managing Director and the Company Secretary under the authority of the Board.

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:

	Note	Carrying amount 2014 $	Carrying amount 2013 $
Cash and cash equivalents	8	1,764,181	4,792,437
Trade and other receivables	10	-	1,723
Security deposits	11	15,131	15,131
		1,779,312	4,809,291

19. FINANCIAL INSTRUMENTS (Cont.)

Cash and cash equivalents

The Company mitigates credit risk on cash and cash equivalents by dealing with regulated banks in Australia.

Trade and other receivables

Credit risk of trade and other receivables is very low as it usually consists predominantly of amounts recoverable from taxation and other government authorities in Australia.

All financial assets are current and are not past due or impaired and the Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

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.

Ultimate responsibility for liquidity management rests with the Board. The Company monitors rolling forecasts of liquidity on the basis of expected fund raisings, trade payables and other obligations for the ongoing operation of the Company. At balance date, the Company has available funds of $1,764,181 for its immediate use.

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 2014					
Trade and other payables	295,327	(295,327)	(295,327)	-	-
30 June 2013					
Trade and other payables	218,824	(218,824)	(218,824)	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

19. FINANCIAL INSTRUMENTS (Cont.)

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 2.41% (2013 - 3.34%).

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	2014 $	2013 $
Financial assets			
Cash and cash equivalents	8	1,764,181	4,792,437
Security deposits	11	15,131	15,131
Net exposure		1,779,312	4,807,568

The Company did not have any interest bearing financial liabilities in the current or prior year.

The Company does not have interest rate swap contracts. The Company always analyses its interest rate exposure when considering renewals of existing positions including alternative financing.

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposures at balance date.

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.

	2014	2013
	29,018	63,436

The Company is not exposed to currency or price risks.

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 operations. 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.

Estimation of fair values

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.

20. FINANCIAL REPORTING BY SEGMENTS

The Company operates in one reportable operating and geographical segment, being the biotechnology industry in Australia.

21. OPERATING LEASES

The Company leases an office in North Ryde, Sydney. The lease is for a period of 3 years starting from November 2013 with an option to renew lease after that 3 years.

During the year ended 30 June 2014, $65,825 was recognised as an expense in profit or loss in respect of the operating lease (2013 - $63,491).

The future minimum leases payments under non-cancellable operating leases are payable as follows:

	2014 $	2013 $
Less than one year	66,640	17,210
Between one and five years	90,890	-

22. COMMITMENTS AND CONTINGENCIES

There are no capital commitments, contingent assets or contingent liabilities at the date of these financial statements.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Biotron Limited:

   a) the financial statements and notes set out on pages 20 to 39, and the Remuneration Report in the Directors' Report, set out on pages 14 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 2014 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) 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 2014.

3. The directors draw attention to note 2(a) of the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

This report has been signed in accordance with a resolution of the directors and is dated 28 August 2014:

Michael J. Hoy
Chairman

Michelle Miller
Managing Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BIOTRON LIMITED

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 2014, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, notes 1 to 22 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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*.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BIOTRON LIMITED

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 2014 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 2(a).

Material uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to note 2(e), 'Going Concern' in the financial report. The conditions disclosed in note 2(e), including the need to raise additional funding from shareholders or other parties; and/or reducing expenditure in line with available funding, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the Remuneration Report included in pages 14 to 17 of the directors' report for the year ended 30 June 2014. 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 2014 complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Adam Twemlow
Partner

Brisbane
28 August 2014

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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 2014, the distribution of each class of equity was as follows:

Range	Fully Paid Ordinary Shares	30 October 2015 $0.22 Options	30 October 2015 $0.25 Options
1 - 1,000	77	-	-
1,001 - 5,000	412	-	-
5,001 - 10,000	381	-	-
10,001 - 100,000	925	-	-
100,001 and over	313	1	1
	2,108	1	1

At 31 July 2014, 376 shareholders held less than a marketable parcel of shares.

ADDITIONAL STOCK EXCHANGE INFORMATION

Twenty Largest Quoted Shareholders

At 31 July 2014 the twenty largest fully paid ordinary shareholders held 34.24% of fully paid ordinary as follows:

	Name	Fully Paid Ordinary Shares	%
1	Dr Angela Fay Dulhunty	9,968,362	4.37
2	Scott's A V Pty Ltd	9,014,000	3.95
3	CBDF Pty Limited	5,750,508	2.52
4	Rigi Investments Pty Limited	5,625,000	2.46
5	Rigi Super Fund Pty Ltd	5,399,426	2.37
6	Rob Thomas Super Fund	5,316,666	2.33
7	Pathold No 222 Pty Ltd	4,100,000	1.80
8	Mr. Russell Dean Thomson	4,000,000	1.75
9	Twynam Agricultural Group Pty Ltd	3,700,000	1.62
10	Umbiram Pty Ltd <Michael Hoy Superannuation Fund>	3,154,322	1.38
11	Fordholm Investments Pty Ltd	3,000,000	1.31
12	Mr. Peter James Nightingale	2,834,750	1.24
13	Linkenholt Pty Limited	2,500,000	1.10
14	Warman Investments Pty Ltd	2,275,000	1.00
15	Mrs. Narelle Fay	2,105,000	0.92
16	Dr. Peter Mun Sun Chan	2,000,000	0.88
17	Ramsab Pty Ltd	2,000,000	0.88
18	Jey Investment Pty Ltd	1,988,375	0.87
19	Edstop Pty Ltd	1,833,588	0.80
20	HSBC Custody Nominees Ltd	1,600,000	0.70

There are no current on-market buy-backs.

CORPORATE DIRECTORY

Directors

Mr Michael J. Hoy (Chairman)
Dr Michelle Miller (Managing Director)
Dr Susan M. Pond
Mr Robert B. Thomas
Dr Denis N. Wade

Company Secretary

Mr Peter J. Nightingale

Registered Office

Level 2, 66 Hunter Street
SYDNEY NSW 2000
Phone: + 61 2 9300 3344
Fax: + 61 2 9221 6333
E-mail: enquiries@biotron.com.au
Homepage: www.biotron.com.au

Principal Administration Office

Suite 1.9, 56 Delhi Road
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

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