



**PARANTA BIOSCIENCES LTD  
ABN: 75 141 027 107**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2012**

PARANTA BIOSCIENCES LIMITED  
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30 JUNE 2012

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**PARANTA BIOSCIENCES LIMITED  
DIRECTORS' REPORT**

The directors present their report together with the financial report of Paranta Biosciences Limited for the financial year ended 30 June 2012 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

**Principal activities**

The principal activities of the Company during the financial year were related to the development and commercialisation of recombinant human follistatin as a bio-therapeutic drug for human use. There were no significant changes in the nature of these activities during the financial year.

**Results**

The net loss after income tax was \$457,919.

**Review of operations**

Paranta Biosciences is an innovative drug development company established to develop and commercialise research and intellectual property that originated from Monash University relating to clinical uses of recombinant human follistatin.

During the 2012 financial year, the Company made significant progress towards its objectives of undertaking formal toxicology studies in 2013 and a Phase 1 clinical trial in 2014. All activities disclosed at the Company's 2011 AGM in October have been undertaken as planned with progress on schedule and costs within budget.

Key achievements and significant events during the year included:

Refinement of product development strategy

The treatment of respiratory diseases was identified as the Company's primary therapeutic area. Within respiratory diseases, the Company has selected Cystic Fibrosis as the lead indication for development to Phase 1 clinical trial. Idiopathic pulmonary fibrosis (IPF) and organ (lung) transplants have been identified as secondary indications.

Strengthening IP position

The Company's intellectual property (IP) position was significantly strengthened during the year by:

- The granting of the Company's second patent (Australian patent 2008202574) in January 2012. This patent covers the use of follistatin for treating a broad range of fibrotic diseases including pulmonary fibrosis and interstitial lung disease.
- The filing of two new Australian provisional patent applications; one relating to the treatment of respiratory diseases and the other relating to organ transplantation.
- Obtaining exclusive rights and title to a family of patent applications that were previously co-owned with Beckman Coulter. These rights and title were obtained at no cost to the Company.

The Company is continuing prosecution of its patent portfolio in Europe and North America and will advise shareholders of significant events as they arise.

#### Manufacture of clinical grade follistatin

In November 2011, the Company engaged a major US company to develop a follistatin cell line that will be used in the manufacture of clinical grade follistatin. This development project is progressing on schedule with performance of the cell line expected to exceed the Company's target specifications. As a complementary activity, the Company engaged CSIRO to re-design our follistatin purification process to improve yield (recovery) and to allow industrial scale-up. This project has also been successful with an almost 10-fold increase in yield demonstrated at pilot scale. Collectively, the high producing cell line and the redesigned purification process provides the Company with an excellent platform to scale-up follistatin drug manufacture.

In February 2012, the Company invited proposals from ten biopharmaceutical manufacturers for the development and scale-up of follistatin drug manufacture to support the Company's preclinical toxicology program and Phase 1 clinical trial. Detailed proposals were received from all ten manufacturers. Extensive negotiations were then undertaken with three short-listed candidates. At the time of this report, a preferred manufacturer has been selected and agreement in principle has been reached on all key commercial terms. Subject to final legal review, the Company expects to finalise contracts with the preferred manufacturer in September 2012.

#### Preclinical program

The Company undertook a number of studies in animal models of lung diseases during the year. The most significant of these was by a Monash University group, based at The Alfred Hospital and led by Professor Robyn O'Hehir. The study showed follistatin treatment significantly increased survival rates of Cystic Fibrosis transgenic mice as well as having a pronounced effect on a number of biological markers associated with the disease.

The Company is planning to undertake two further studies (a dose-response study and a systemic bioavailability study) before entering formal toxicology testing in the third quarter of 2013.

#### Support of Cystic Fibrosis Australia

The Company was involved in an application for a major new 5-year Cystic Fibrosis research initiative sponsored by Cystic Fibrosis Australia (CFA) in collaboration with Cystic Fibrosis Western Australia. The initiative sought proposals for projects with potential to significantly advance the care and treatment of Cystic Fibrosis with applications reviewed by an international panel of scientific experts. Our application was successful and the Company is delighted by the prospect of having CFA's support as we move forward. Whilst the details of CFA's support need to be determined over the coming months, at a minimum it will involve CFA's endorsement of the Company's development of a follistatin therapeutic for Cystic Fibrosis and we are hopeful that their support will lead to future funding.

#### **Significant changes in the state of affairs**

During the financial year, net assets decreased from \$4.65 million to \$4.19 million. During the same period, the Company has made significant and tangible forward progress towards developing a follistatin biotherapeutic as well as consolidating and improving the Company's intellectual property portfolio.

#### **After balance date events**

No significant events have occurred since 30 June 2012 and the Company remains on schedule to finalise an agreement with its preferred biopharmaceutical manufacturer by October 2012.

#### **Likely developments**

The Company will continue to pursue its operating strategy to create shareholder value. Further details will be disclosed at the Company's Annual General Meeting in November.

**Environmental regulation**

The Company's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

**Dividend paid, recommended and declared**

No dividends were paid, declared or recommended since the start of the financial year.

**Share options**

Options were granted during the year but subsequently cancelled. There are no outstanding options over shares.

**Shares issued on exercise of options**

No ordinary shares were issued during or since the end of the financial year as a result of the exercise of an option.

There are no amounts unpaid on shares issued on exercise of options.

**Indemnification and insurance of directors, officers and auditors**

During the financial year, the Company paid \$13,585 as a premium for Directors and Officers Liability Insurance with 12 months cover from 31 May 2012. The insurance policy does not include external auditors.

**Proceedings on behalf of the company**

No person has applied for leave of Court to bring proceedings on behalf of the Company.

**Information on directors and company secretary**

The qualifications, experience and special responsibilities of each person who is or has been a director of Paranta Biosciences Limited at any time during or since 1 July 2011 are provided below, together with details of the company secretary as at the year end.

**Peter D. Jonson** BCom, MA, PhD (Age 65)

Non-executive director  
Chairman  
Appointed 28 September 2010

*Dr Jonson has worked as a professional company director for the past decade. He holds a Bachelor of Commerce and Master of Arts degrees from Melbourne University and PhD from the London School of Economics. Following a 16 year career with the Reserve Bank of Australia including 7 years as Head of Research, Dr Jonson held senior management positions at James Capel Australia, Norwich Union Financial Services, and ANZ Funds Management. He is a Director of Village Roadshow Ltd (since 2001) and was Chairman of Bionomics Ltd (2005-2009). He was founding Chair Australian Institute for Commercialisation Ltd (2002-2007) and past Chair of Cooperative Research Centre Committee (2005-2010).*

Current directorships of listed companies:

*Village Roadshow Limited (ASX:VRL)*

Former directorships of listed companies in past 3 years:

*Bionomics Limited (ASX:BNO)  
Pro Medicus Limited (ASX:PME)*

**David M. De Kretser, AC** MBBS, MD, FRACP, HonLLD (Monash), HonLLD (Melbourne) (Age 73)

Non-executive director  
Chief Scientist  
Appointed 10 May 2011

*Professor de Kretser has a long and distinguished career in medical research and has received wide international recognition for his contributions to the fields of andrology and reproductive science. Professor de Kretser is currently holds the position of Sir John Monash Distinguished Professor at Monash University. He was the founding director of the Monash Institute of Reproduction now known as the Monash Institute of Medical Research. Professor de Kretser was Governor of Victoria from April 2006 to April 2011. He is also a recipient of Australia's highest civilian honour, a Companion of the Order of Australia. He is also a co-inventor of the patent applications acquired by Paranta from ITFP Pty Ltd.*

Current directorships of listed companies: *None*

Former directorships of listed companies in past 3 years: *None*

**John W. Raff** Dip. AgSci, BSc, PhD (Age 63)  
Non-executive director  
Appointed 28 September 2010

*Dr Raff has successfully invested in and managed a wide range of innovation-based agricultural and pharmaceutical companies. He was the founding CEO and was until June 2011 the Deputy Chairman of ASX listed Starpharma Holdings Ltd. He is also the Chairman and major shareholder of HealthFarm Fine Foods Pty Ltd, an integrated manufacturer of sesame and nut based products for domestic and international markets. He was previously the General Manager of the Biomolecular Research Institute and a past Chairman of the BioMelbourne Network.*

Current directorships of listed companies: *None*

Former directorships of listed companies in past 3 years: *Starpharma Holdings Limited (ASX:SPL)*

**Rocco C. Iannello** BSc.Hons, MBA, PhD (Age 52)  
Non-executive director  
Appointed 9 December 2009  
Resigned 14<sup>th</sup> December 2011

*Dr Iannello is a Senior Business Development Manager at Monash University working with the faculties of Medicine, Nursing and Health Sciences and Pharmacy and Pharmaceutical Sciences. He was awarded his PhD from the Faculty of Medicine, Sydney University followed by post-doc work at UCSF in the USA. Dr Iannello is currently a Director of the Cooperative Research Centre for Biomedical Imaging Development and ITFP Pty Ltd and was previously a co-Chair of the Victorian Branch of AusBiotech.*

Current directorships of listed companies: *None*

Former directorships of listed companies in past 3 years: *None*

**Dianna L. DeVore** BA, PhD, JD (Age 44)  
Non-executive director  
Appointed 9 December 2009  
Resigned 9 July 2011

*Dr DeVore is a founding partner of Convergent Law Group in California. Her previous roles include VP of IP and Legal Affairs at Alice Therapeutics and Complete Genomics, Inc; US Legal Counsel at Cambridge Antibody Technology (a subsidiary of AstraZeneca); and COO for the Australian Stem Cell Centre in Melbourne. Dr DeVore graduated from Stanford Law School in 1998 and was awarded her PhD in Genetics from Yale University. She is a member of the State Bar of California and registered to practice before the United States Patent and Trademark Office.*

Current directorships of listed companies: *None*

Former directorships of listed companies in past 3 years: *None*

**Ross Barrow** BSc.Hons, MBA (Age 49)  
 Chief Executive Officer  
 Appointed 16 August 2011

*Mr Barrow is a senior executive with over 14 years experience in the development and commercialization of clinical and biotechnology products. This includes 10 years as COO and a Director of Vision BioSystems Limited, during which time the company became a leader in the global histopathology market. Prior to Vision, Ross spent 11 years with BHP. Ross joined Paranta Biosciences in January 2011 and was appointed as a director in August 2011. He currently serves as a non-executive director of ASX listed pharmaceutical company Acrux Ltd.*

Current directorships of listed companies: *Acrux Limited (ASX:ACR)*

Former directorships of listed companies in past 3 years: *None*

**Brendan E. Brown** B.Bus CA (Age 35)  
 Company secretary  
 Appointed 29 April 2011

*Mr Brown is a Chartered Accountant and principal of MPR Group Pty Ltd with over 16 years experience in the industry. Brendan has worked with a range of businesses covering diverse industries to successfully support them in their financial and business advisory needs.*

**Directors' meetings**

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were:

	<b>Board of Directors</b>	
	<b>Eligible to attend</b>	<b>Attended</b>
<i>Peter Jonson</i>	13	13
<i>David de Kretser</i>	13	13
<i>Dianna DeVore<sup>(#)</sup></i>	0	0
<i>Rocco Iannello</i>	8	7
<i>John Raff</i>	13	11
<i>Ross Barrow</i>	11	11

<sup>#</sup> *Dr DeVore resigned as a director on 9 July 2011, prior to the first scheduled meeting.*

**Directors' interests in shares or options**

Directors' relevant interests in shares of Paranta Biosciences Limited in the Company (or a related body corporate) are detailed below. There are no outstanding options over shares.

<b>Directors' relevant interests in:</b>	<b>Ordinary shares of Paranta Biosciences Ltd</b>
<i>Peter Jonson</i>	50,000
<i>David de Kretser<sup>(a)</sup></i>	200,000
<i>Rocco Iannello<sup>(a)</sup></i>	0
<i>John Raff</i>	50,000
<i>Dianna DeVore</i>	0
<i>Ross Barrow</i>	0

<sup>(a)</sup> Professor de Kretser and Dr Iannello are shareholders of ITP Pty Ltd, a company that holds 2.5 million shares in Paranta Biosciences Limited.

Directors including the CEO will shortly be issued shares altogether totalling approximately 3% of the Company's current shares on issue. These shares will be issued to the directors in lieu of salary and in the case of the CEO as a performance bonus. Directors including the CEO all chose shares rather than cash in order to conserve cash in the business. Members of the Scientific Advisory Group will be offered the choice of a small cash payment or a small share issue as compensation for valuable advice tendered in the past year.

**Directors' interests in contracts**

No contracts were awarded during the financial year to any party related to the Directors. During the coming financial year, the Company intends to award research contracts to Monash University and affiliates of Monash University. Professor de Kretser is a current employee of Monash University.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

**Non-audit services**

No non-audit services were provided by the auditors of Paranta Biosciences Limited during the year.

Signed in accordance with a resolution of the directors.

.....  
Peter D. Jonson, Chairman

Melbourne  
11 September 2012

**PARANTA BIOSCIENCES LIMITED**  
**ABN 75 141 027 107**

**AUDITOR'S INDEPENDENCE DECLARATION**  
**To the Directors of Paranta Biosciences Limited**

In relation to the independent audit for the year ended 30 June 2012, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*;  
and
- (ii) No contraventions of any applicable code of professional conduct.

S SCHONBERG  
Partner  
11<sup>th</sup> September 2012

PITCHER PARTNERS  
Melbourne

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2012**

	<b>Notes</b>	<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>			
Other revenue	4	<u>222,650</u>	<u>69,540</u>
		<u>222,650</u>	<u>69,540</u>
<b>Less: Expenses</b>			
Employee benefits expense	5	368,994	130,982
Occupancy expense		6,150	1,753
Legal expenses and Intellectual Property		74,961	132,583
Audit Fees		9,685	9,500
Research Costs		495,576	66,884
Depreciation and amortisation expenses	5	421	181
Finance costs		8,721	2,073
Other expenses		<u>84,531</u>	<u>31,316</u>
		<u>1,049,040</u>	<u>375,272</u>
<b>Loss before income tax</b>		(826,390)	(305,732)
Income tax benefit	6	<u>368,471</u>	<u>65,819</u>
<b>Loss for the year</b>		<u>(457,919)</u>	<u>(239,913)</u>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>(457,919)</u>	<u>(239,913)</u>

The above statement should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2012**

	Notes	2012 \$	2011 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	4,131,960	4,669,770
Other current assets	8	<u>459,806</u>	<u>83,338</u>
<b>TOTAL CURRENT ASSETS</b>		<u>4,591,766</u>	<u>4,753,108</u>
 <b>NON-CURRENT ASSETS</b>			
Plant and equipment	9	<u>752</u>	<u>1,173</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u>752</u>	<u>1,173</u>
<b>TOTAL ASSETS</b>		<u>4,592,518</u>	<u>4,754,281</u>
 <b>CURRENT LIABILITIES</b>			
Payables	10	341,576	63,126
Payroll liabilities	11	35,172	30,210
Provisions	12	<u>20,030</u>	<u>8,056</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>396,778</u>	<u>101,392</u>
 <b>NON-CURRENT LIABILITIES</b>			
Provisions	12	<u>860</u>	<u>89</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>860</u>	<u>89</u>
<b>TOTAL LIABILITIES</b>		<u>397,637</u>	<u>101,481</u>
 <b>NET ASSETS</b>		 <u>4,194,881</u>	 <u>4,652,800</u>
<b>EQUITY</b>			
Contributed capital	13	4,892,713	4,892,713
Retained losses	14	<u>(697,832)</u>	<u>(239,913)</u>
<b>TOTAL EQUITY</b>		<u>4,194,881</u>	<u>4,652,800</u>

The above statement should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2012**

	Contributed equity \$	Retained earnings \$	Total Equity \$
<b>Balance as at 30 June 2011</b>	<b>4,892,713</b>	<b>(239,913)</b>	<b>4,652,800</b>
Profit for the year	-	(457,919)	(457,919)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(457,919)</b>	<b>(457,919)</b>
<b>Transactions with owners in their capacity as owners:</b>			
Contributions			
Less Capital Raising Costs	-	-	-
	-	-	-
<b>Balance as at 30 June 2012</b>	<b>4,892,713</b>	<b>(697,832)</b>	<b>4,194,881</b>

	Contributed equity \$	Retained earnings \$	Total Equity \$
<b>Balance as at 30 June 2010</b>	-	-	-
Profit for the year	-	(239,913)	(239,913)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(239,913)</b>	<b>(239,913)</b>
<b>Transactions with owners in their capacity as owners:</b>			
Contributions	5,130,000	-	5,130,000
Less Capital Raising Costs	(237,287)	-	(237,287)
	<b>4,892,713</b>	<b>-</b>	<b>4,892,713</b>
<b>Balance as at 30 June 2011</b>	<b>4,892,713</b>	<b>(239,913)</b>	<b>4,652,800</b>

The above statement should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	2012	2011
		\$	\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(826,279)	(291,129)
Interest received		222,650	69,540
Income tax refunded		65,819	-
<b>Net cash used in operating activities</b>	15(a)	<u>(537,810)</u>	<u>(221,589)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payment for plant and equipment		-	(1,354)
<b>Net cash used in investing activities</b>		<u>-</u>	<u>(1,354)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from share issue		-	4,892,713
<b>Net cash provided by financing activities</b>		<u>-</u>	<u>4,892,713</u>
<b>Net increase in cash and cash equivalents</b>		(537,810)	4,669,770
Cash and cash equivalents at beginning of year		<u>4,669,770</u>	-
<b>Cash and cash equivalents at end of the year</b>	15(b)	<u><u>4,131,960</u></u>	<u><u>4,669,770</u></u>

The above statement should be read in conjunction with the accompanying notes.

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**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 30 JUNE 2012**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies adopted by the entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Basis of preparation of the financial report**

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Paranta Biosciences Ltd. Paranta Biosciences Ltd is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the directors on 13<sup>th</sup> September 2012.

*Compliance with IFRS*

The financial statements of Paranta Biosciences Ltd also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

*Critical accounting estimates*

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

**(b) Going concern**

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

In common with biotechnology and drug development companies the Company's operations are subject to considerable risks and significant uncertainty due primarily to the nature of the development and commercialisation undertaken. To allow the Company to execute its near term and longer term plans, it will be necessary to raise additional capital in the future.

Based on anticipated cash flow requirements of the Company's planned research and development activities, the directors consider that the Company will run out of funds by September 2013, however the Company is actively involved in capital raising activities to secure additional funds to support operations beyond this period. The directors are confident of raising such additional funds through multiple sources and believe the recent independent endorsement of the Company's research and development program by Cystic Fibrosis Australia increases the likelihood of securing the required funds.

The directors and management closely monitor the Company's cash position and forecast cash requirements. If it appears that sufficient funds are unlikely to be secured in a timely manner, the Company will take actions to defer expenditure on research and development activities to ensure financial obligations are met as and when they fall due.

The Company had \$4.13 million in cash assets at the 30<sup>th</sup> June 2012. Based on the above the directors consider the going concern basis to be appropriate.

**(c) Revenue**

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

**(d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

**(e) Plant and equipment**

*Cost and valuation*

Plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

*Depreciation*

The depreciable amounts of all other fixed assets are calculated using the diminishing balance method over their estimated useful lives commencing from the time the asset is held ready for use.

The useful lives for each class of assets are:

	<b>2012</b>
Plant and equipment:	<i>3 to 10 years</i>

**(f) Intangibles**

*Research and development*

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when technical feasibility studies demonstrate that the project will deliver future economic benefits and these benefits can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost of the intangible assets over their estimated useful lives. Amortisation commences when the intangible asset is available for use.

Other development expenditure is recognised as an expense when incurred.

**(g) Impairment**

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

**(h) Income tax**

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

*Deferred tax balances*

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(i) Provisions**

Provisions are recognised when the entity has a legal or constructive obligation, as a result of past events, for which it is probable that an out flow of economic benefits will result and that outflow can be reliably measured.

**(j) Employee benefits**

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

**(k) Financial instruments**

*Classification*

The entity classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

*Non-derivative financial instruments*

Non-derivative financial instruments consist of investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any), except for instruments recorded at fair value through profit and loss. After initial recognition, non-derivative financial instruments are measured as described below.

*Loans and receivables*

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

*Financial liabilities*

Financial liabilities include trade payables, other creditors, loans from third parties and loans or other amounts due to director-related entities.

**(l) Foreign currency translations and balances**

*Functional and presentation currency*

The financial statements of the entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The financial statements are presented in Australian dollars which is the entity's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies of entities are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

**(m) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(n) New accounting standards and interpretations**

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

**NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Certain accounting estimates include assumptions concerning the future, which, by definition, will seldom represent actual results. Estimates and assumptions based on future events have a significant inherent risk, and where future events are not as anticipated there could be a material impact on the carrying amounts of the assets and liabilities discussed below:

*(a) Impairment of non-financial assets other than goodwill*

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant and as such all assets have been tested for impairment during the current financial year.

*(b) Income tax*

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**NOTE 3: FINANCIAL RISK MANAGEMENT**

The entity is exposed to a variety of financial risks comprising:

- (a) Interest rate risk
- (b) Credit risk
- (c) Liquidity risk

The board of directors has overall responsibility for identifying and managing operational and financial risks.

**(a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The exposure to interest rate risks in relation to future cash flows and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

<b>Financial instruments</b>	<b>Interest bearing</b>	<b>Non-interest bearing</b>	<b>Total carrying amount</b>	<b>Weighted average effective interest rate %</b>	<b>Fixed / variable rate</b>
<b>2012</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>	
<i>(i) Financial assets</i>					
Cash	4,131,960	-	4,131,960	4.35	Variable
Total financial assets	4,131,960	-	4,131,960		
<i>(ii) Financial liabilities</i>					
Trade creditors	-	376,748	376,748	-	
Total financial liabilities	-	376,748	376,748		
<b>Financial instruments</b>	<b>Interest bearing</b>	<b>Non-interest bearing</b>	<b>Total carrying amount</b>	<b>Weighted average effective interest rate %</b>	<b>Fixed / variable rate</b>
<b>2011</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>	
<i>(i) Financial assets</i>					
Cash	4,669,770	-	4,669,770	4.73	Variable
Total financial assets	4,669,770	-	4,669,770		
<i>(ii) Financial liabilities</i>					
Trade creditors	-	63,126	63,126	-	
Total financial liabilities	-	63,126	63,126		

***Sensitivity***

If interest rates were to increase/decrease by 1% from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

	<b>2012</b>
+/- 1%	<b>\$</b>
Impact on profit after tax	41,340
Impact on equity	41,340
	<b>2011</b>
+/- 1%	<b>\$</b>
Impact on profit after tax	32,689
Impact on equity	32,689

**(b) Credit risk exposures**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in statement of financial position and notes to the financial statements.

The entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the entity.

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

**Maturity analysis**

The tables below represents the undiscounted contractual settlement terms for financial instruments and managements expectation for settlement of undiscounted maturities.

<b>Year ended 30 June 2012</b>	<b>&lt; 6 Months</b>	<b>6-12</b>	<b>1-5 years</b>	<b>Total</b>	<b>Carrying</b>
	<b>\$</b>	<b>Months</b>	<b>\$</b>	<b>contractual</b>	<b>amount</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	4,131,960	-	-	-	4,131,960
Payables	(376,748)	-	-	-	(376,748)
Net maturities	3,755,212	-	-	-	3,755,212

<b>Year ended 30 June 2011</b>	<b>&lt; 6 Months</b>	<b>6-12</b>	<b>1-5 years</b>	<b>Total</b>	<b>Carrying</b>
	<b>\$</b>	<b>Months</b>	<b>\$</b>	<b>contractual</b>	<b>amount</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	4,669,770	-	-	-	4,669,770
Payables	(93,336)	-	-	-	(93,336)
Net maturities	4,576,434	-	-	-	4,576,434

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>

**NOTE 4: REVENUE**

**Revenues from continuing operations**

*Other revenue*

Interest	222,650	69,540
	222,650	69,540

**NOTE 5: PROFIT FROM CONTINUING OPERATIONS**

Profit from continuing operations before income tax has been determined after the following specific expenses:

*Employee benefits expense*

Other employee benefits	368,994	130,982
	368,994	130,982

*Depreciation of non-current assets*

Plant and equipment	421	181
	421	181

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>NOTE 6: INCOME TAX</b>		
<b>(a) Components of tax expense:</b>		
Current tax	368,471	65,819
	<u>368,471</u>	<u>65,819</u>
 <b>(b) Prima facie tax payable</b>		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit/(loss) before tax from continuing operations	(826,390)	(305,732)
Total profit/loss before income tax	<u>(826,390)</u>	<u>(305,732)</u>
 Prima facie income tax payable on profit before income tax at 30%	 (247,917)	 (91,720)
Add tax effect of:		
- non-deductible expenses	24,781	46,707
- Research & Development Costs (subject to R&D tax offset)	245,647	52,655
- capital raising costs written off	(14,237)	(14,237)
- super carried forward from 2011	(1,925)	-
- accrued interest	(15,325)	-
- Increase in provisions	3,823	2,443
- Losses not recognised	5,153	4,152
	<u>-</u>	<u>-</u>
Less tax effect of:		
- R&D Tax Rebate	368,471	65,819
	<u>-</u>	<u>-</u>
Income tax benefit / (expense) attributable to profit	<u>368,471</u>	<u>65,819</u>
 <b>(c) Current tax</b>		
Current tax relates to the following:		
Current tax assets	-	-
Opening balance	-	-
R&D Tax Rebate	368,471	65,819
Current tax assets	<u>368,471</u>	<u>65,819</u>
 <b>NOTE 7: CASH AND CASH EQUIVALENTS</b>		
Cash at bank and on hand	4,131,960	4,669,770
	<u>4,131,960</u>	<u>4,669,770</u>

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>NOTE 8: OTHER CURRENT ASSETS</b>		
Prepayments	11,402	11,265
GST Receivable	28,851	6,255
Interest Receivable	51,082	-
R & Tax Rebate Receivable	368,471	65,818
	459,806	83,338

**NOTE 9: PLANT AND EQUIPMENT**

Plant & equipment		
At cost	1,354	1,354
Accumulated depreciation	(602)	(181)
	752	1,173

**(a) Reconciliations**

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year

*Plant and equipment*

Carrying amount at beginning of year	1,173	-
Additions	-	1,354
Depreciation expense	(421)	(181)
Carrying amount end of year	752	1,173

**NOTE 10: PAYABLES**

CURRENT

Trade payables	325,076	46,626
Other payables	16,500	16,500
	341,576	63,126

**NOTE 11: PAYROLL LIABILITIES**

CURRENT

Amounts withheld	27,818	23,794
Superannuation	7,354	6,416
	35,172	30,210

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>NOTE 12: PROVISIONS</b>		
CURRENT		
Employee benefits	20,030	8,056
	20,030	8,056
NON-CURRENT		
Employee benefits	860	89
	860	89
Aggregate employee benefits liability	20,890	8,145

**NOTE 13: CONTRIBUTED CAPITAL**

**(a) Issued and paid up capital**

Ordinary shares fully paid	4,892,713	4,892,713
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		

**(b) Movements in shares on issue**

	<b>2012</b>	
	No of Shares	\$
Beginning of the financial year	7,630,000	4,892,713
Issued during the year		
– Shares issued	-	-
– Capital raising costs	-	-
End of the financial year	7,630,000	4,892,713

	<b>2011</b>	
	No of Shares	\$
Beginning of the financial year	-	-
Issued during the year		
– Shares issued	7,630,000	5,130,000
– Capital raising costs	-	(237,287)
End of the financial year	7,630,000	4,892,713

**(c) Rights of each type of share**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called.

**(d) Capital management**

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows. The Board and the Company are currently working on a range of strategies to fund activities through to completion of a Phase 1 clinical trial.

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>NOTE 14:      <b>RETAINED LOSSES</b></b>		
<b>(e) Retained losses</b>		
Balance at the beginning of year	(239,913)	-
Net loss attributable to members of Paranta Biosciences Ltd	(457,919)	(239,913)
	(697,832)	(239,913)
Balance at end of year	(697,832)	(239,913)

**NOTE 15:      **CASH FLOW INFORMATION****

**(a) Reconciliation of cash flow from operations with profit after income tax**

Profit from ordinary activities after income tax	(457,919)	(239,913)
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**Non-Cash Items**

Depreciation and amortisation	421	181
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**Changes in assets and liabilities**

Increase in other current assets	(376,467)	(83,338)
Increase in trade and other payables	278,450	63,126
Increase in payroll liabilities	4,961	30,210
Increase in provisions	12,744	8,145
Net cash flow from operating activities	(537,810)	(221,589)

**(b) Reconciliation of cash**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position is as follows:

– Cash at bank	4,131,960	4,669,770
Closing cash balance	4,131,960	4,669,770

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 16: AUDITORS REMUNERATION</b>		
Amounts received or due and receivable by Pitcher Partners for:		
An audit or review of the financial report of the entity and any other entity	9,900	9,500
	<u>9,900</u>	<u>9,500</u>

**NOTE 17: SUBSEQUENT EVENTS**

There has been no matter or circumstance, which has arisen since 30 June 2012 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2012, of the entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2012, of the entity.

**NOTE 18: SEGMENT REPORTING**

The entity operates exclusively in the pharmaceutical drug development segment with all operations based in Australia.

**DIRECTORS DECLARATION**

The directors declare that the financial statements and notes set out on pages 10 to 26 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b) As stated in Note 1(a) the financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the entity as at 30 June 2012 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Paranta Biosciences Ltd will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Peter Jonson  
Director

Melbourne

11<sup>th</sup> September 2012

**PARANTA BIOSCIENCES LIMITED  
ABN 75 141 027 107****INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
PARANTA BIOSCIENCES LIMITED****Report on the Financial Report**

We have audited the accompanying financial report of Paranta Biosciences Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

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

**PARANTA BIOSCIENCES LIMITED  
ABN 75 141 027 107****INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
PARANTA BIOSCIENCES LIMITED***Opinion*

In our opinion:

- (a) the financial report of Paranta Biosciences 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 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

S SCHONBERG  
Partner  
11<sup>th</sup> September 2012

PITCHER PARTNERS  
Melbourne