

**Tyrian Diagnostics Limited**  
Annual Report 2010

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## Company Particulars

### Directors

Roger Amos FCA MAICD  
Non-Executive Chairman

Caroline Popper MD MPH  
Non-Executive Director

Merilyn Sleigh FTSE FAICD B.Sc (Hons) PhD, Dip Corp Man  
Non-Executive Director

Jenny Harry BSc (Hons) Dip Ed. PhD  
Executive Director

### Company Secretaries

Lisa Jones LLB  
Company Secretary

Michael Vamos B.Bus. CA  
Assistant Company Secretary

### Notice of Annual General Meeting of Tyrian Diagnostics Limited

Location: The Courtyard Marriott Hotel, 7-11 Talavera Road, North Ryde NSW 2113  
Date: 29 November 2010  
Time: 3:00pm

### Principal Registered Office in Australia

Unit 1/35-41 Waterloo Road  
North Ryde  
NSW 2113  
Ph: +61 2 9889 1830

### Share Registry

Link Market Services Limited  
Level 12  
680 George Street  
Sydney  
NSW 2000  
Ph: +61 2 8280 7111

### Stock Exchange Listing

Tyrian Diagnostics Limited ordinary shares are listed on the Australian Stock Exchange (Code: TDX)

### Independent Auditor

PricewaterhouseCoopers  
Darling Park Tower 2  
201 Sussex Street  
Sydney  
NSW 2000

### Patent and Trademark Attorneys

FB Rice & Co  
Level 23  
44 Market Street  
Sydney  
NSW 2000

### Lawyers

Australia  
Norton Rose  
Level 18, Grosvenor Place  
225 George Street  
Sydney  
NSW 2000

### Bankers

Australia  
Commonwealth Bank of Australia  
2<sup>nd</sup> Floor  
443 Victoria Avenue  
Chatswood NSW 2067

USA  
Bank of America  
100 Federal Street  
Boston MA 02199

## Highlights 2009-2010 Financial Year

- Revenue from continuing operations up 48% to \$1.975M resulting primarily from ten-fold increase in Sales of Goods and 33% increase in royalty and license fees
- Operating loss for the Group down 41% to \$4.156M
- Net cash outflow from operations reduced by 36% to \$4.5M
- Signed Manufacturing & Supply agreement with Bayer CropScience for the ongoing commercial supply of products in the ReadRite product portfolio
- Appointed and commissioned Pacific Biotech Co. Ltd as OEM manufacturer of Tyrian's DiagnostIQ products
- Continued commercial production and supply of ReadRite Alpha Amylase tests to support marketing and sales of product in North America
- Convincing evidence from laboratory and field trials of the second Bayer product that test performance correlates with lab-based gold standard
- Continued development of proprietary TB marker for molecular diagnostic test in collaboration with Public Health Research Institute TB Centre, US
- Signed a collaboration agreement with US-based therapeutics company Aradigm Corporation to establish rapid assays for sputum-based biomarkers of chronic respiratory disease

## Chairman's Report

Dear Shareholder,

On behalf of the Board, I am pleased to present the Company's Annual Report for the year ended 30 June 2010. Over the past year, Tyrian has pushed ahead in implementing its strategy to develop and commercialise point-of-need diagnostic products with a focus on extracting value from its intellectual property portfolio. The Company's achievements included:

- The successful commissioning of an outsourced high volume manufacturing capability in Thailand for its diagnostic products.
- The delivery of the first commercial order of the agricultural diagnostic product, ReadRite Alpha-Analyse, to Bayer CropScience AG produced at this facility.
- Progressing the company's TB programme to a point where it is now ready to engage with potential partners to licence its proprietary TB diagnostic marker as a target for a molecular diagnostic test.
- Laying the foundations for a franchise in sputum based diagnostics for respiratory disease, through internal development and collaboration with US based Aradigm Corporation.

While we are disappointed that the commercialisation of the Company's agricultural products has been slower than we would have liked, Bayer's meticulous pre-marketing activities are aimed at gaining endorsement from relevant industry and government bodies and are laying the groundwork for the future success of these products. We believe that the Company's agricultural diagnostics business offers scope for further expansion and we intend to build on our product portfolio in the agricultural market, through further partnering and/or strategic business relationships.

The directors have been very pleased with the progress made during the year on the Company's TB programme. Shareholders will recall that the Company encountered a significant set-back with its development of a protein based point-of-care TB test due to shortcomings with the available point-of-care testing technology. Management identified an attractive potential alternative for commercialisation of the Company's TB biomarkers through development of a molecular test. We were, therefore, delighted with the results of the external validation work conducted by the US Public Health Institute's TB Centre which confirmed that Tyrian's TB molecular biomarker does indeed show great promise for development of this type of product.

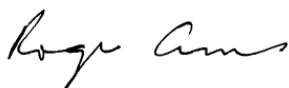
Although at an early stage, the Company's work in seeking to further exploit its intellectual property and expertise in the area of chronic respiratory disease diagnosis and monitoring is proving promising. We look forward to updating shareholder further on progress in this regard during the course of the year.

The Company has also continued to scrutinise costs and maximise operating efficiencies. Its operating loss is significantly lower than last year, resulting from the combined effects of an increase in revenue and assiduous management of the Company's costs. Further details of the Company's financial results are included in the CEO's report.

We thank all our shareholders for their ongoing support and look forward to further development and commercialisation of our agricultural diagnostic products as well as furthering our commercial partnering ambitions in our human health programmes.

Finally, the directors would like to extend their thanks to Dr Jenny Harry, the management team and the dedicated people at Tyrian for all their efforts and focus over the past year which now sees the Company closer to realising the value from its portfolio of diagnostic products.

Yours sincerely,



Roger Amos  
Chairman

Dear Shareholder,

During the year Tyrian strengthened its position as a company with the capacity to develop, manufacture and supply Point-of-Care (PoC) diagnostics, building on its core business areas in agriculture and chronic respiratory disease. We focused on achieving four key objectives;

- 1) promoting the commercial success of our co-branded agricultural products by assisting Bayer CropScience AG (Bayer) with product development and commercialisation activities,
- 2) commissioning a quality OEM manufacturer for high volume production of DiagnostIQ™ test kits,
- 3) validating our proprietary TB diagnostic marker as a target for a molecular diagnostic test, and
- 4) initiating the development of proprietary sputum-based diagnostics with a view to creating a franchise of high value products for chronic respiratory disease.

At the same time we have implemented several key actions designed to further reduce the cash burn rate, resulting in a 36% reduction in net cash outflow to A\$4.5M. The operating loss for the Group was down 41% on the previous year to A\$4.156M, further assisted by the Company's revenue from continuing operations increasing 48% on the previous year to A\$1.98M. The key outcomes for the business in 2010 are outlined below.

#### ***Development and commercialization of agriculture products***

The ReadRite Alpha Amylase (RR-AA) test was well received when introduced to the Canadian market by Bayer in late 2009, however fine weather conditions during the harvest season limited the requirement for testing pre-harvest sprouting in wheat. The wet harvest conditions in Canada this year auger well for a higher demand for testing this season. The timing is ideal as Bayer has been working with the key federal government agency in Canada on an extensive evaluation of the innovative RR-AA product, to demonstrate the accuracy and precision of Tyrian's test to the industry.

To ensure market acceptance of this new test, Bayer is planning to have the product certified by the relevant industry standards organisation in each country or market region. In May 2010 Tyrian completed a validation study and provided a technical dossier to Bayer for submission to a leading US accreditation agency, and we anticipate conducting additional studies for European markets in 2011.

Tyrian provided Bayer with 3000 beta-prototype kits for a second agricultural product in November 2009. These kits were used for field testing by grain traders and farmers at multiple sites across Europe. The prototype test performed very well, achieving a very high correlation (>95%) with the current more cumbersome and technically demanding testing procedure. Tyrian and Bayer have agreed a timetable for product development and manufacture, commencing in October 2010 with commercial launch planned for 2012.

#### ***Established contract manufacturer for DiagnostIQ™ kits***

Tyrian identified and qualified Pacific Biotechnology in Thailand as the OEM manufacturer for its DiagnostIQ™ test kits in December 2009. We successfully completed phase 1 validation of the technology transfer for the RR-AA test kit at the end of March 2010.

Pacific Biotechnology currently manufactures in excess of 10 million diagnostic tests per annum that are used for fertility, infectious disease and drugs of abuse testing. This company contracts to manufacture products that are currently marketed by large diagnostic companies in key global markets. Pacific Biotech is GMP certified to ISO 13485; the compliance standard needed to support medical diagnostic regulatory approvals in Japan, EU, Canada and Australia.

In June 2010 Bayer entered into a Manufacture and Supply agreement with Tyrian, under which Tyrian agreed to supply ReadRite products using Tyrian's DiagnostIQ™ platform to Bayer. Bayer funds the development costs of these products and also contributes to the commercial manufacturing set up costs. Pacific Biotechnology delivered the first commercial batch of RR-AA kits to Bayer in August for the 2010 wheat harvest in North America.

The ability to manufacture commercial quantities of product has strengthened Tyrian's position as a diagnostics partner for companies interested to collaborate with Tyrian on the development and commercial manufacture of tests using the DiagnostIQ™ device. Established manufacturing capability also supports the Company in the development of its pipeline of proprietary products for chronic respiratory disease.

### ***Successful validation of marker for active TB***

In October 2009 Tyrian suspended its development of a protein-based point-of-care (PoC) test for active Tuberculosis (TB) because it became evident that the current technologies for rapid PoC testing are not sufficiently sensitive to detect TB protein markers directly from a clinical sample. However, we were confident that our proprietary TB markers were suitable candidates for the diagnosis of active TB and decided to pursue the development of a more sensitive molecular (RNA-based) test. This test measures the readout from a key tuberculosis gene that occurs when the organism is in a phase of active growth. We had shown in an earlier study that the RNA readout of Tyrian's TB markers was detectable in TB-positive sputum and not detected in TB-negative sputum samples.

To confirm these results and further validate our lead TB RNA marker, in January 2010 we embarked on a collaboration with the Public Health Research Institute's TB Centre, New Jersey. We developed an assay using existing molecular technology and demonstrated direct detection of Tyrian's RNA marker in sputum from TB positive patients with competitive sensitivity to the industry standard test (which measures another RNA species, 16srRNA). Tyrian's RNA marker is conserved across different clinical strains of TB including multi-drug resistant strains, and should be present in all individuals positive for active TB.

There has been a significant increase in the development of molecular testing over the last few years, as molecular tests (DNA or RNA) are more sensitive than protein-based tests and, with the recent emergence of automated, integrated molecular testing systems, the size of the TB molecular diagnostics market is significantly increasing. Tyrian is now seeking a partner for further development and commercialization of its molecular TB diagnostic.

### ***Building a franchise in sputum-based diagnostics***

A key differentiator for Tyrian in the PoC diagnostics sector is its expertise and intellectual property in analysing and processing sputum for diagnostic test development. We have identified a significant unmet need for rapid, sputum-based testing to effectively diagnose and monitor chronic respiratory diseases.

Key opinion leaders and clinicians in Australia, US and UK have assisted us to define a number of sputum-based diagnostic products for point-of-care testing. Ongoing market research in collaboration with these key clinicians allows us to progressively refine our targeted product offerings at each stage of product development.

Initially we established diagnostic tests for a number of markers of likely relevance in respiratory conditions. In January 2010, we began a collaboration with Aradigm Corporation, a US pharmaceutical company developing and commercialising drugs delivered by inhalation for the treatment of severe respiratory disease. Clinical sputum samples provided by Aradigm have been used by Tyrian to demonstrate the potential for use of each of these markers in tests aimed at monitoring progressive lung disease and response to treatment. The next stage will focus on clinical testing to establish products for development and commercialisation.

### ***Outlook***

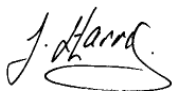
Over the coming year we will continue to develop and commercialise products with Bayer CropScience, and establish new partners to further expand our portfolio of products in agriculture.

We will progress the development of a TB molecular diagnostic with a commercial partner, and strengthen our sputum-based diagnostics programme. The company has engaged a consultant based in the US to assist Tyrian with the identification of partners for the development of selected products from its respiratory disease franchise. There is a growing opportunity, driven by regulatory requirements, for diagnostic tests as companion products for evaluating the activities of experimental drugs, in addition to diagnosing and monitoring disease. These collaborations will provide early product validation and revenue and, potentially, our first medical products for commercialisation.

We appreciate your continued support and look forward to communicating further developments and achievements to you in the months ahead.

Sincerely yours,

Jenny Harry



Chief Executive Officer and Managing Director

The Directors of Tyrian Diagnostics Limited (the "Company") present their report on the Company and the consolidated entity, being the Company and its controlled entities, for the year ending 30 June 2010 ("2010").

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

Roger Amos  
Caroline Popper  
Jenny Harry  
Merilyn Sleigh

### **Directors and Company Secretaries**

#### **ROGER AMOS FCA MAICD**

(Independent Non-Executive Chairman)

Roger was appointed to the Board in June 2007 and became Chairman six months later. Roger is an independent director of REA Group Limited and Austar United Communications Limited. He is also Chairman of Opera Foundation Australia and a Governor of the Cerebral Palsy Foundation. He previously had a long and distinguished career with the international accounting firm KPMG, retiring in June 2006 after 25 years as a partner in the Assurance and Risk Advisory Services division with various roles in KPMG Global ICE (Information, Communications and Entertainment) industry groups, including Global Chairman of the Communications Industry Group.

#### **JENNY HARRY PhD**

(Chief Executive Officer, Managing Director)

Dr Jenny Harry, a co-founder of Proteome Systems Ltd, became an executive member of the Board and Deputy Chief Executive in 2005 and was appointed Chief Executive Officer in June 2007. In 2006 she successfully completed the General Manager Programme at Harvard Business School. Over the last 4 years, she has played a central role in guiding Tyrian Diagnostics through its successful restructuring from a technology development and manufacturing business to a diagnostics business. Her effective combination of scientific and management expertise and experience has contributed strongly to the Company's strategic direction over the years and her efforts have been critical to its success in creating a strong intellectual property portfolio, a cohesive company culture and building productive relationships with corporate and technology partners. She has been responsible for initiating and negotiating agreements with a number of multinational partners critical to the future of the Company. These include Becton Dickinson, and Company, USA, the Geneva-based Foundation for Innovative New Diagnostics (FIND), supported by Bill and Melinda Gates, Bayer CropSciences AG and Aradigm Corporation.

#### **MERILYN SLEIGH FAICD PhD Dip Corp Man**

(Non-Executive Director)

Merilyn Sleigh was appointed to the Board in November 2008, chairs the Audit Committee, and is a member of the Remuneration Committee. Merilyn initially had a successful career as a scientific researcher and research manager with CSIRO. Since that time she has gained extensive experience in all aspects of the development of a successful biotechnology company. She was previously Research Director for Peptech Ltd and from 2001 to 2007 was CEO and managing director of EvoGenix Ltd. EvoGenix, initially a venture capital-backed start-up company, listed on the ASX in 2005 and in 2007 was sold to a larger company to form Arana Therapeutics. Current non-executive directorships are held with AdAlta Pty Ltd, Clover Corporation Ltd and the Rural Industries Research and Development Council. She chairs the Advisory Council for the Australian Biotechnology Resources Study and acts as an advisor on science commercialisation with the Garvan Institute for Medical Research in Sydney, and with CSIRO.

#### **CAROLINE POPPER MD MPH**

(Independent Non-Executive Director)

Dr Caroline Popper, US-based specialist bioscience executive, was appointed to the board in December 2007. Caroline, the president and co-founder of Popper and Company, has 16 years of hands-on biotech/life sciences operating experience. An internist and pathologist, she combines this perspective with that gained from managing a wide spectrum of life sciences businesses in diagnostics, devices and drug discovery. Her business management experience in both Fortune 500 and start-up settings and extensive track record creating strategic and business partnerships in the biotech arena is key to the perspective she provides to her clients. In a 10-year career at Becton Dickinson (NYSE: BDX), Caroline's global responsibilities included clinical affairs, marketing, strategy, and business development. She was the founding General Manager of BDGene; a start-up focused, with its partner Millennium Pharmaceuticals, on development of novel cancer diagnostics. From 2000 to 2002, she



## Directors' Report continued

was the Chief Business Officer for MDS Proteomics, a drug discovery company with operations in the US, Canada and Europe.

### LISA JONES LLB

(Company Secretary, Head of Business and Legal Affairs)

Lisa is Head of Business and Legal Affairs for the Company and was appointed Company Secretary in August 2004. She was formerly a senior associate in the corporate and commercial practice of Allen Allen & Hemsley. Lisa served as international legal counsel at Pirelli, one of Italy's largest listed companies. She also spent two years as an associate in the Rome office of a national Italian law firm working on cross-border mergers and acquisitions and international technology development alliances in Europe.

### MICHAEL VAMOS B.BUS CA

(Assistant Company Secretary, Chief Financial Officer)

Michael is a chartered accountant with over 15 years experience in finance operations and general management in various industries, most recently as Group Commercial Manager for Mini-Tankers Australia. Previously Michael held key leadership roles within national and international businesses across industries as diverse as business coaching, photography and petroleum. He has a proven ability to implement financial systems and processes to support businesses in a growth phase and has demonstrated his versatility in managing a range of functions including IT, human resources and quality management systems.

### Directorships of other listed companies

The following table sets out the directorships of other listed companies held by the current Directors for the three years prior to the end of the financial year.

| Director       | Directorships of Other Listed Companies                                      | Period Held                                                          |
|----------------|------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Roger Amos     | REA Group Limited<br>Espreon Limited<br>Austar United Communications Limited | Since July 2006<br>From July 2006 to 12 March 2009<br>Since May 2008 |
| Merilyn Sleigh | Clover Corporation Limited<br>EvoGenix Limited                               | Since July 2008<br>From October 2001 to August 2007                  |

### Board and committee meetings

|                 | Board              |          | Audit              |          | Remuneration & Nomination |          |
|-----------------|--------------------|----------|--------------------|----------|---------------------------|----------|
|                 | Eligible to Attend | Attended | Eligible to Attend | Attended | Eligible to Attend        | Attended |
| Roger Amos      | 12                 | 12       | 7                  | 7        | 1                         | 1        |
| Jenny Harry     | 12                 | 12       | -                  | -        | -                         | -        |
| Caroline Popper | 12                 | 11       | -                  | -        | -                         | -        |
| Merilyn Sleigh  | 12                 | 12       | 7                  | 7        | 1                         | 1        |

### Directors' interests in the shares, options and performance rights of the company

At the date of this Report, directors' interests, including their personally related entities, in shares, options and performance rights of Tyrian Diagnostics Limited are as follows:

| Director        | Ordinary Shares | Options | Performance Rights |
|-----------------|-----------------|---------|--------------------|
| Roger Amos      | 190,000         | 23,750  | -                  |
| Jenny Harry     | 3,372,921       | 62,500  | 586,666            |
| Caroline Popper | -               | -       | -                  |
| Merilyn Sleigh  | 300,000         | -       | -                  |

Shareholdings of directors and specified executives include those that have been disclosed under representation made to them by personally related entities. The directors and specified executives have relied upon the representations made as they have no control or influence over the financial affairs of the personally related entities to substantiate the holdings declared. When a personally related entity declines to provide shareholding details, the shareholding of that personally related entity is assumed to be nil, unless the company is aware of information indicating otherwise.

## Principal activities

Tyrian Diagnostics Limited ("Tyrian") is an Australian diagnostics company that develops and commercialises rapid Point-of-Care (PoC) and Point-of-Need (PoN) diagnostic tests for both clinical and non-clinical applications. During the year ended 30 June 2010 Tyrian continued development of its DiagnostIQ™ products with marketing partner Bayer CropScience, including the market launch of its first agricultural product, transferred its manufacturing process to an OEM manufacturer in South East Asia for the commercial production of its DiagnostIQ test kits, and advanced the development of its clinical diagnostic products for tuberculosis and chronic respiratory diseases.

The significant activities of Tyrian and its Controlled Entities (the Group) comprised:

- a) Validating a lead diagnostic marker for a molecular diagnostic, and developing assays for a PoC diagnostic product, for Tuberculosis
- b) Entering into a collaboration with US therapeutics company Aradigm Corporation to test potential markers for chronic respiratory disease in a clinical setting
- c) Signing a Manufacture and Supply Agreement with Bayer CropScience AG for commercial production and supply of the agricultural DiagnostIQ products
- d) Successfully completing activities and submission dossier for independent validation of RR-AA in Canada and the US
- e) Successfully completing initial validation and technology transfer of first commercial batch of RR-AA to Pacific Biotech Co Ltd.
- f) Advancing the development of a second DiagnostIQ Point-of-Need (PoN) test for crop quality management with Bayer CropScience AG.

## Review of operations

### Consolidated results

Revenue from continuing operations and other income generated by the Group for the year ended 30 June 2010 was \$2,047,808 (2009: \$1,794,238). The net loss after tax attributable to equity holders of the Parent entity for the year ended 30 June 2010 was \$4,155,911 (2009: \$6,995,002).

### Loss per share

|                                                                                                   | 2010<br>cents | 2009<br>cents |
|---------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>For loss attributable to ordinary equity holders of the Company</b>                            |               |               |
| Basic loss per share                                                                              | (0.9)         | (2.9)         |
| Diluted loss per share                                                                            | (0.9)         | (2.9)         |
| <b>For loss from continuing operations attributable to ordinary equity holders of the Company</b> |               |               |
| Basic loss per share                                                                              | (0.9)         | (2.6)         |
| Diluted loss per share                                                                            | (0.9)         | (2.6)         |

### Dividends – Tyrian Diagnostics Limited

No dividends were paid or provided for during the financial year and no dividend is recommended in respect of the year.

### Cash used in operations

Net cash outflows from operating activities for the financial year decreased significantly to \$4,512,133 (2009: \$7,067,802). The Group's continued focus on limiting activities to a few targeted research projects and commercialisation opportunities, divesting surplus assets and reducing the fixed cost base has helped to further reduce operating cash outflows from 2009 levels. Licensing income and sales from Tyrian's first commercialised product ReadRite Alpha Amylase ("RR-AA") have added to the Company's collaboration income base to help further reduce the cash outflows for the Group.

## **Operations review**

### ***Commercialising ReadRite Alpha Amylase***

During the 2010 financial year the Company has continued to provide Bayer with manufactured RR-AA product and to support Bayer's marketing strategy to achieve independent certification of this product for target markets. This has involved providing RR-AA test kits and product dossiers to industry and government organisations in Canada and the US for evaluation. This product, used to assess wheat quality for pricing at the point of sale, has to date performed at least as well as or better than the current industry gold standard test. The outcomes of these studies will assist to promote market acceptance of the Company's proprietary technology for Point-of-Need testing within the field of crop quality management.

### ***Advancing Development of a second Agricultural Product***

In November 2009, Tyrian completed the manufacture of several thousand prototype tests for a multi-site evaluation of the second commercial test for Bayer. This followed the successful completion of a proof of concept study in which several hundred prototype tests were evaluated for product feasibility for a test that measures grain contaminants. Laboratory and field-based testing has recently been performed in a multi-site evaluation across North America and Europe.

### ***Commercial Manufacturing Capability***

In 2010 Tyrian established a manufacturing partner for commercial manufacture of its DiagnostIQ products. Based in Thailand, Pacific Biotech Co. Ltd. currently manufactures in excess of 10 million diagnostic tests and devices per annum for a number of well known international medical companies, with the products marketed globally. This OEM has excellent capacity to support the manufacturing requirements for Tyrian's anticipated agricultural and medical DiagnostIQ products. Through the establishment of commercial manufacturing capability, Tyrian has not only ensured capacity for high volume product manufacture, but is now positioned to capture a greater share of the value of its products.

### ***Developing a TB molecular diagnostic***

Tyrian's collaboration with BD to develop a simple, rapid Point-of-Care (PoC) test using Tyrian's patented TB biomarkers was discontinued in October 2009. At this time, BD had completed an extended in-house study and demonstrated that the available PoC test platforms did not have the sensitivity required to detect Tyrian's TB protein biomarkers directly from a sputum sample. During the collaboration with BD Tyrian significantly advanced the development of its lead biomarkers and sputum processing methods, and retained all project intellectual property for further development of TB diagnostic products.

Tyrian identified its TB biomarkers in the sputum of TB-infected people and believes that these are highly suitable candidates for the diagnosis of active TB, if used with a diagnostic format that has a highly sensitive detection system. Molecular technology has the capacity to detect lower levels of TB than can be seen in a protein-based PoC test, and with the emergence of automated, integrated molecular testing systems the market for molecular TB testing is increasing. Consequently, the Company is developing a diagnostic for active TB based on detection of the genetic signals expressing the TB proteins rather than the proteins themselves, using a molecular detection system.

During FY2010 Tyrian has been working with Dr. Barry Kreiswirth, Director of the Public Health Research Institute TB Center, New Jersey USA, to validate its lead TB biomarker. Once this work is completed, the Company plans to partner further development of a molecular TB diagnostic test for commercialisation.

At the same time, Tyrian has engaged in discussions with several companies who are developing next generation technologies for highly sensitive detection of proteins which may be suitable for a TB PoC test using Tyrian's biomarkers.

### ***Building a Product Franchise in Respiratory Diagnostics***

Tyrian is well positioned to exploit its intellectual property portfolio to develop a diagnostic product franchise, specialising in sputum-based point-of-care diagnostics for COPD to create an attractive long term value proposition for shareholders.

Over the past 12 months, Tyrian has established relationships with key opinion leaders in the chronic lung disease field, both nationally and internationally. Feedback from these clinicians has been used as early user/market feedback to identify and refine potential diagnostic products desired by these medical practitioners and specialists.

Tyrian has established tests for what it believes will be a number of key markers for diagnosis and monitoring of different aspects of COPD, further refining its ability to utilise sputum as a source of material for such lung-specific diagnostics.

Tyrian also entered into a collaboration with US company Aradigm Corporation in February 2010. Aradigm is developing and commercialising a portfolio of drugs delivered by inhalation for the treatment of severe respiratory disease.

Aradigm is providing Tyrian with clinical sputum samples collected from patients in a Phase II trial of a treatment for bronchiectasis, a condition characterised by chronic lung infection and inflammation. Tyrian is screening these samples, using a range of its sputum-based tests, to provide Aradigm with potential markers of the severity of the disease in patients being treated with its experimental therapy. For Tyrian, this research provides the first clinical data for establishing PoC tests for diagnosing and monitoring chronic respiratory disease.

#### ***Licensed Eukarion portfolio of drug compounds***

In late 2008 Tyrian announced it was ceasing active efforts to develop and commercialise a therapeutic compound portfolio acquired through the Company's 2005 merger with Eukarion, Inc. The Company continued to maintain the patent portfolio underpinning the Eukarion compounds with a view to outlicensing the compounds. In November 2009, Tyrian entered a licensing agreement with Mindset Rx Inc, a US based company recently founded by the original founder of Eukarion, Inc, Dr Bernard Malfroy. Under this licensing agreement, if Mindset is successful in developing or licensing the compounds then Tyrian would receive license fees and royalties on sales. Tyrian will also be issued with shares in Mindset equal to 5% of the outstanding shares of common stock. While Tyrian remains the owner of the relevant patent portfolio, under the terms of the licence agreement, Mindset assumes responsibility for all costs associated with maintaining the patents.

#### **Expenses from continuing operations:**

A decrease in expenses from continuing operations reflects continuing focus of the Company on cost containment. Over the full period

- Employment costs decreased by 20% to \$3.31 million (2009: \$4.15 million)
- Negotiation of a new lease resulted in a 39% reduction in occupancy costs to \$0.7 million (2009: \$1.15 million)
- Corporate and administrative expenses reduced by 24% to \$1.07 million (2009: \$1.41 million)

Other reductions in expenditure reflect the continuing refocusing of the business towards commercialization of the Company's existing biomarker and DiagnostIQ™ platform assets. An increase in cost of goods sold is a consequence of growing supply of finished diagnostic kits for evaluation and marketing.

#### **Employees**

As at the date of this report, the consolidated entity has 23 employees. As at 30 June 2010, it had 23 employees (2009: 24 employees).

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

Significant changes in the state of affairs of the Group during the financial year were as follows:

An increase in contributed equity of \$4,494,041 (from \$115,464,260 to \$119,958,301). This occurred as a result of the issue of 248,829,011 fully paid ordinary shares at \$0.02 each through a fully under-written rights issue to existing shareholders. The Company issued one attaching option for every four new shares subscribed for at the time of this issue of new shares. These attaching options have an exercise price of \$0.03 per share and will expire on 31 December 2010. A total of 62,207,286 attaching options were issued under the offer. The increase in equity is represented by cash received from the issue, net of capital raising costs.

The cash received from the rights issue was used to further develop the Group's diagnostic business.

#### **Matters subsequent to the end of the financial year**

Since the end of the financial year, the directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

#### **Likely developments and expected results of operations**

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

### **Environmental regulations**

The Consolidated Entity is subject to environmental regulations regarding disposal of wastes generated in the operation of its laboratories in Sydney, Australia. The volume of laboratory waste has decreased to such an extent that the Company has been advised by the Environment Protection Authority (EPA) that the Company no longer requires a licence for such activities. However, such wastes are still separately collected and classified according to type, for example solvents and all other potentially hazardous material, and are collected and disposed of by an EPA-licensed waste contractor.

The Company has made an assessment of its greenhouse gas emissions, and has concluded that its emissions are of a magnitude that is well below the thresholds that would otherwise require it to register and report for the 2010 financial year under the Greenhouse Gas Reduction Scheme. The Company has a current licence with Sydney Water (Commercial Trade Wastewater Permit).

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

Under the Company's constitution, the Company must indemnify current and past directors, secretaries and officers against any liabilities incurred by that person in or arising out of the conduct of the business of the Company or the discharge of that person's duties. The Company has entered into a deed with each Director, the Chief Executive Officer, the Chief Financial Officer and the Head of Business and Legal Affairs whereby the Company:

- indemnifies the director or officer against all liabilities (including legal costs in defending proceedings) incurred by the director or officer in, or arising out of:
  - (a) the conduct of the business of the Company or of a Subsidiary; or
  - (b) any act or omission of the director or officer in their capacity as a director of the Company or a subsidiary of the Company
- must maintain an insurance policy against any liability incurred by the director or officer in their capacity as an officer during that person's term of office and for seven years after that.

Certain matters are excluded from the indemnity, including those matters prescribed by the *Corporations Act 2001* or any liability arising from the gross negligence, wilful misconduct, bad faith or fraud of a director or officer.

No liability has arisen under these indemnities to the Company's knowledge as at the date of this report.

During the financial year, Tyrian Diagnostics Limited paid a premium of \$41,977 insuring all the directors and officers against liability, except wilful breach of duty, of a nature that is required to be disclosed under section 300(8) of the *Corporations Act 2001*. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

Tyrian Diagnostics Limited has entered into an agreement to indemnify the auditor, PricewaterhouseCoopers, other PricewaterhouseCoopers Firms and their respective partners and employees from and against any liabilities, losses, claims, costs, damages or expenses (or actions that may be asserted by any third party) that may result from any third party claims arising out of or in relation to the provision of their services as auditor of Tyrian Diagnostics Limited, unless prohibited by the *Corporations Act 2001* or the regulations of the US Securities & Exchange Commission. Tyrian Diagnostics Limited has also agreed to indemnify PricewaterhouseCoopers, other PricewaterhouseCoopers Firms and their respective partners, directors and employees against all costs and expenses (including legal fees on a solicitor/client basis) incurred by PricewaterhouseCoopers in connection with any such action or claim within the scope of this indemnity.

### **Share options**

As at the date of this report, there were 62,207,286 unlisted options over the Company's ordinary shares on issue (62,207,286 at reporting date).

During the financial year:

- no options were issued to employees of the company other than those who participated in the Rights Issue;
- no options were exercised or expired;

From 1 July 2010 to the date of this report:

- no options were issued to employees of the company;

- no options were exercised or expired;

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Refer to note 21 of the financial statements for further details of options outstanding.

### Performance rights

As at the date of this report, there were 11,139,334 performance rights over the Company's ordinary shares on issue (1,370,636 at reporting date). None of these rights are listed on the Australian Stock Exchange.

During the financial year:

- no performance rights were granted to executives and employees of the company;
- 858,319 shares were issued in satisfaction of rights that had vested;
- 725,845 performance rights were forfeited.

Between 1 July 2010 and the date of this report:

- 9,768,698 performance rights were granted to employees of the company;
- no shares were issued in satisfaction of rights that had vested;
- no performance rights were forfeited.

The details of the 11,139,334 employee performance rights are summarized below:

| Right Type                 | Number on Issue | Exercise Price | Vesting Period                |
|----------------------------|-----------------|----------------|-------------------------------|
| Employee performance right | 685,319         | n/a            | October 2008 – September 2010 |
| Employee performance right | 685,317         | n/a            | October 2008 – September 2011 |
| Employee performance right | 3,256,233       | n/a            | October 2009 – September 2010 |
| Employee performance right | 3,256,233       | n/a            | October 2009 – September 2011 |
| Employee performance right | 3,256,232       | n/a            | October 2009 – September 2012 |

Performance right holders do not have any right, by virtue of the performance right, to participate in any share issue of the Company or any related body corporate.

Refer to note 33 of the financial statements for further details of performance rights outstanding.

### Remuneration report

This report provides a summary of the Company's policy for determining remuneration for directors and senior executives. The remuneration report includes a discussion of the role of the Remuneration & Nominations Committee and details of the nature and amount of remuneration for each director and each of the five most highly remunerated named executives.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service Agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

### Remuneration committee

The Remuneration & Nominations Committee operates under the delegated authority of the Board. The Remuneration & Nominations Committee makes recommendations to the Board on matters including:

- appropriate remuneration policies with respect to the CEO, executives, senior managers and non-executive directors;

## Directors' Report

continued

- determination of rewards (cash and equity based) to the CEO and approval of rewards to executives and senior managers;
- the adoption of incentive schemes designed to enhance corporate and individual performance; and
- retention strategies for executives and senior managers.

The members of the Remuneration & Nominations Committee are Marilyn Sleigh and Roger Amos. The Remuneration & Nominations Committee conducted one meeting during the year.

### A Principles used to determine the nature and amount of remuneration

The Company's remuneration policy is designed to meet best practice guidelines for public companies, appropriately adapted to the circumstances of a biotechnology company and to the special circumstances affecting the Company at its current stage of development. The Company seeks to offer its executives and senior managers remuneration packages that are competitive against comparable Australian biotechnology companies. The executive remuneration policy seeks to align executive reward with achievement of strategic objectives and the creation of value for shareholders, and to conform to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practice:

- competitiveness and reasonableness;
- acceptability to shareholders;
- alignment of executive reward with performance and creation of shareholder value.

### *Directors fees*

Executive directors do not receive any fees for their services as directors in addition to their executive remuneration. Non-executive directors receive a fixed fee for their services as directors and are not paid additional fees for participation in board committees. Non-executive directors do not participate in any incentive plans available to executives.

The maximum annual aggregate total remuneration for non-executive directors is approved by shareholders. At the 2004 annual general meeting this maximum amount was set at \$350,000 per annum. In 2010, the Company paid non-executive directors a total of \$256,164. Details of the fees paid are set out in the table on page 17.

### *Executive remuneration*

Remuneration for executives comprises fixed and variable components as follows:

- **fixed remuneration** includes base salary, superannuation and benefits;
- **variable short term incentive remuneration** consisting of short term incentives which may be paid in cash, equity or other agreed non-monetary benefits and which reward an executive's performance against specified individual and/or company performance objectives; and
- **long term incentives (equity based)** which are subject to the satisfaction of performance and/or service vesting conditions and are intended to retain key executives (through service vesting conditions) and reward performance against agreed individual, business and company performance objectives.

Policies in relation to short and long term incentives are established by the Remuneration & Nominations Committee and reviewed annually. The Remuneration & Nominations Committee recommends to the Board the short term incentive payments and long term incentives for the CEO and other specified executives and approves any short term incentive payments and long term incentives offered to executives and employees.

### *Fixed remuneration*

#### *Base pay*

Base pay is structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. Base salaries are set according to the individual executive's role, performance and experience and the market value of the position.

There are no guaranteed base pay increases included in any senior executives' contracts.

#### *Benefits*

Executives are entitled to salary package various fringe benefits, with any applicable fringe benefits tax being included in, and not additional to, the base salary package. In addition to their package, they receive income protection insurance after completing one year's service.

The Company offered its US executives benefits which are customary in that market, including medical and dental insurance.

Executives are entitled to be reimbursed for all reasonable expenses incurred in connection with their employment. Executives may also be entitled to receive additional benefits in the event of relocation, including relocation costs, tax advisory services, school fees and accommodation costs.

All benefits received by key management personnel are set out in the tables on page 17.

#### *Superannuation and Retirement Benefits*

Australian based employees are provided with superannuation plan contributions of up to 10% of their wages and salaries. The superannuation plans provide accumulated benefits. No retirement benefits are provided other than superannuation contributions.

US based employees were entitled to salary sacrifice 401K retirement benefit contributions. No matching contributions were made by the Company.

#### **Variable (at-risk) short term incentives**

Annual short term incentives may be provided to executives and employees to reward performance against agreed company objectives (which may be financial targets and/or strategic business objectives) and individual performance. Each year the Remuneration & Nominations Committee sets the applicable general company objectives for executives and any specific individual performance targets that apply to the CEO and specified executives, and approves the individual performance targets of other executives. An executive's entitlement to receive a short term incentive reward may be based on a combination of achievement of company objectives and individual performance targets as determined by the Remuneration Committee. Where individual performance target components are set, these targets are selected on the basis that they are objectives which underpin financial or strategic company objectives and improve the performance of the Company.

Short term incentives may be paid in cash or by a grant of performance rights under the Performance Rights Share Plan. Generally, where performance rights are granted as short term incentive rewards, those performance rights will be subject to further service vesting conditions and the shares allocated pursuant to the performance rights (if those service vesting conditions are met) may be subject to further restrictions on disposal. All cash incentive payments (bonuses) are payable on and with effect from 30 September each year.

Salary reviews are usually effective from 1 October each year, although where there has been a considerable change in the scope or nature of an executive's role, a salary review can be made effective from an alternative date.

#### **Long term incentives (equity based)**

Executives and certain key employees are entitled to receive equity based long-term incentives. During 2005, the Company introduced the Tyrian Diagnostics Performance Rights Share Plan (Plan), which was approved by shareholders at the Company's 2004 AGM. Under the Plan, eligible executives and employees are offered rights to acquire ordinary shares in the Company (performance rights), with each performance right providing the right to acquire one ordinary share for nil consideration. The Company also had an employee share option plan that was adopted in June 2001 (ESOP). It is the intention of the Board to grant performance rights under the Plan for executive long term incentives, rather than options under the ESOP, unless special circumstances exist which lead the Board to consider that a grant of options under the ESOP is more appropriate.

During 2010 long term incentives, in the form of performance rights, were issued to the CEO, CSO, CFO, Head of Business and Legal Affairs and COO. These rights were issued in accordance with the terms of the Company's Performance Rights Shares Plan (refer below) and are subject to performance vesting conditions that had yet to be satisfied at the date of this report.

#### *Tyrian Diagnostics Performance Rights Share Plan*

The Performance Rights Share Plan (Plan) was introduced to assist the Company to attract and retain executives and staff and to link employee performance and reward with the creation of shareholder value. Performance rights may be offered to eligible employees under the Plan as short-term or long-term incentives.

The Board may grant an eligible employee an award of performance rights, which vest over a specified period of time, and the performance rights may be subject to service vesting conditions (meaning that an employee must continue to be employed in good standing for a specified period of time) and/or performance conditions. Long-term incentive awards (meaning those that vest over a period of more than 12 months) are generally only granted to managers and executives. The value of long-term incentive awards of performance rights is



generally calculated by reference to total fixed remuneration. The value of the award of performance rights in any year must not exceed two times fixed remuneration (as valued at the date of grant or commencement of performance period), other than in exceptional circumstances approved by the Board.

The service vesting conditions and performance conditions that govern vesting of performance rights are recommended by the Remuneration & Nominations Committee and approved by the Board. The performance conditions may include total shareholder return (TSR), growth in earnings per share (EPS) as measured against a comparable group of ASX listed companies, specific share price targets, or other performance conditions relating to individual or business objectives as determined by the Board from time to time having regard to the Company's circumstances.

Details of all performance rights granted to specified executives and directors during and since the financial year, including the applicable service vesting and performance conditions, are set out in Section D "Share Based Compensation" of this report.

### ***Remuneration policy and performance***

As previously stated, the primary aim of the Company's remuneration policy for executives is to align executive reward with the achievement of strategic objectives that create value for shareholders. The secondary aim of the Company's remuneration policy is to retain key executives. The Board believes that the retention of these executives is directly linked to the future performance of the Company.

In line with the above objectives, a significant proportion of the CEO's and specified executives' remuneration is "at risk" remuneration.

The CEO, Head of Business and Legal Affairs, COO, CSO, and CFO have been issued with certain equity based compensation (performance rights), which will vest upon the achievement of specific milestones. All such compensation issued in the current financial year, and all such performance rights outstanding at the date of this report, are subject to company milestones or individual performance objectives that will deliver value to shareholders.

Further details of the performance rights granted to the CEO, Head of Business and Legal Affairs, COO, CSO and CFO are set out in Section D "Share Based Compensation" of this report.

## **B Details of remuneration**

### ***Key management personnel***

#### *Group*

The key management personnel of the Group are the directors of Tyrian Diagnostics Limited as listed on page 7 of this report, and the executive officers listed below. These executive officers also constitute all group executives as defined by s300A of the *Corporations Act 2001*.

- Lisa Jones, Head of Business & Legal Affairs and Company Secretary
- Robyn Lindner, Chief Scientific Officer (CSO)
- Michelle Gow, Chief Operating Officer (COO)
- Michael Vamos, Chief Financial Officer (CFO)

#### *Tyrian Diagnostics Limited*

The key management personnel of Tyrian Diagnostics Limited include the directors of Tyrian Diagnostics Limited as listed on page 7 of this report, and the executive officers listed below. These executive officers also constitute all company executives as defined by s300A of the *Corporations Act 2001*.

- Lisa Jones, Head of Business and Legal Affairs and Company Secretary
- Robyn Lindner, Chief Scientific Officer (CSO)
- Michelle Gow, Chief Operating Officer (COO)
- Michael Vamos, Chief Financial Officer (CFO)

### ***Amounts of remuneration***

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 Related Party Disclosures) of Tyrian Diagnostics Limited and the Group are set out in the tables below:

Key Management Personnel of the Group and other Group Executives

| 2010                                  | Short-term Benefits  |                |                       | Post-employment Benefits |                | Share-based payments |          | Total            |
|---------------------------------------|----------------------|----------------|-----------------------|--------------------------|----------------|----------------------|----------|------------------|
|                                       | Cash Salary and Fees | Bonus          | Non Monetary Benefits | Term. Benefits           | Superannuation | Performance Rights   | Options  |                  |
|                                       | \$                   |                | \$                    | \$                       | \$             | \$                   | \$       | \$               |
| <i>Non-executive directors</i>        |                      |                |                       |                          |                |                      |          |                  |
| Roger Amos                            | 123,853              | -              | -                     | -                        | 11,147         | -                    | -        | 135,000          |
| Marilyn Sleigh                        | 55,046               | -              | -                     | -                        | 4,954          | -                    | -        | 60,000           |
| Caroline Popper                       | 61,164               | -              | -                     | -                        | -              | -                    | -        | 61,164           |
| Sub-total non-executive directors     | 240,063              | -              | -                     | -                        | 16,101         | -                    | -        | 256,164          |
| <i>Executive directors</i>            |                      |                |                       |                          |                |                      |          |                  |
| Jenny Harry                           | 300,000              | 80,000         | -                     | -                        | 38,000         | 8,687                | -        | 426,687          |
| <i>Other Key Management Personnel</i> |                      |                |                       |                          |                |                      |          |                  |
| Lisa Jones                            | 156,000              | 26,742         | -                     | -                        | 18,274         | 10,485               | -        | 211,501          |
| Robyn Lindner                         | 185,000              | 35,673         | -                     | -                        | 22,067         | 13,877               | -        | 256,617          |
| Jaime Pinto <sup>1</sup>              | 114,790              | 26,972         | -                     | -                        | 12,023         | (194)                | -        | 153,591          |
| Michelle Gow                          | 183,486              | 17,695         | -                     | -                        | 18,106         | 8,847                | -        | 228,134          |
| Michael Vamos <sup>2</sup>            | 63,693               | -              | -                     | -                        | 5,732          | -                    | -        | 69,425           |
| <b>Total key management personnel</b> | <b>1,243,032</b>     | <b>187,082</b> | <b>-</b>              | <b>-</b>                 | <b>130,303</b> | <b>41,702</b>        | <b>-</b> | <b>1,602,119</b> |

Notes to the preceding remuneration table:

<sup>1</sup> Jaime Pinto resigned as CFO effective 14 January 2010

<sup>2</sup> Michael Vamos was appointed CFO effective 4 February 2010.

| 2009                                  | Short-term Benefits  |               |                       | Post-employment Benefits |                | Share-based payments |                 | Total            |
|---------------------------------------|----------------------|---------------|-----------------------|--------------------------|----------------|----------------------|-----------------|------------------|
|                                       | Cash Salary and Fees | Bonus         | Non Monetary Benefits | Term. Benefits           | Superannuation | Performance Rights   | Options         |                  |
|                                       | \$                   |               | \$                    | \$                       | \$             | \$                   | \$              | \$               |
| <i>Non-executive directors</i>        |                      |               |                       |                          |                |                      |                 |                  |
| Roger Amos                            | 123,853              | -             | -                     | -                        | 11,147         | -                    | -               | 135,000          |
| John Martin <sup>1</sup>              | 20,000               | -             | -                     | -                        | -              | -                    | -               | 20,000           |
| Marilyn Sleigh <sup>2</sup>           | 32,110               | -             | -                     | -                        | 2,890          | -                    | -               | 35,000           |
| Philip Morley <sup>3</sup>            | 45,872               | -             | -                     | -                        | 4,128          | -                    | -               | 50,000           |
| Caroline Popper                       | 75,142               | -             | -                     | -                        | -              | -                    | -               | 75,142           |
| Sub-total non-executive directors     | 296,977              | -             | -                     | -                        | 18,165         | -                    | -               | 315,142          |
| <i>Executive directors</i>            |                      |               |                       |                          |                |                      |                 |                  |
| Jenny Harry                           | 299,266              | 60,000        | -                     | -                        | 35,926         | 136,867              | -               | 532,059          |
| <i>Other Key Management Personnel</i> |                      |               |                       |                          |                |                      |                 |                  |
| Lisa Jones                            | 138,783              | -             | -                     | -                        | 13,879         | 124,230              | -               | 276,892          |
| Robyn Lindner                         | 178,077              | -             | -                     | -                        | 17,808         | 16,080               | -               | 211,965          |
| Jaime Pinto                           | 177,192              | -             | -                     | -                        | 15,947         | 23,417               | -               | 216,556          |
| Michelle Gow <sup>4</sup>             | 55,751               | -             | -                     | -                        | 5,018          | -                    | -               | 60,769           |
| Shelley Evans <sup>5</sup>            | 96,375               | -             | -                     | -                        | 6,923          | (16,284)             | -               | 87,014           |
| Bernard Malfroy-Camine <sup>6</sup>   | 36,050               | -             | 3,787                 | 20,428                   | -              | -                    | (33,464)        | 26,801           |
| <b>Total key management personnel</b> | <b>1,278,471</b>     | <b>60,000</b> | <b>3,787</b>          | <b>20,428</b>            | <b>113,666</b> | <b>284,310</b>       | <b>(33,464)</b> | <b>1,727,198</b> |

Notes to the preceding remuneration table:

<sup>1</sup> John Martin resigned as a director effective from 28 November 2008.

<sup>2</sup> Marilyn Sleigh was appointed a director on 28 November 2008.

<sup>3</sup> Phillip Morley resigned as a director effective from 29 April 2009.

<sup>4</sup> Michelle Gow was appointed VP Product Development and Regulatory Affairs on 2 March 2009.

<sup>5</sup> Shelley Evans resigned as Executive VP Commercialisation effective from 5 December 2008.

<sup>6</sup> Bernard Malfroy-Camine was made redundant effective from 28 August 2008.

**Proportion of performance based remuneration:**

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

|                                                                     | <b>Fixed remuneration</b> |             | <b>Short-term performance based</b> |             | <b>Long-term performance based</b> |             |
|---------------------------------------------------------------------|---------------------------|-------------|-------------------------------------|-------------|------------------------------------|-------------|
|                                                                     | <b>2010</b>               | <b>2009</b> | <b>2010</b>                         | <b>2009</b> | <b>2010</b>                        | <b>2009</b> |
| <i>Executive Directors</i>                                          |                           |             |                                     |             |                                    |             |
| Jenny Harry                                                         | <b>79%</b>                | 63%         | <b>19%</b>                          | 11%         | <b>2%</b>                          | 26%         |
| <i>Other key management personnel of Tyrian Diagnostics Limited</i> |                           |             |                                     |             |                                    |             |
| Lisa Jones                                                          | <b>82%</b>                | 55%         | <b>13%</b>                          | Nil         | <b>5%</b>                          | 45%         |
| Robyn Lindner                                                       | <b>81%</b>                | 92%         | <b>14%</b>                          | 4%          | <b>5%</b>                          | 4%          |
| Jaime Pinto <sup>1</sup>                                            | <b>82%</b>                | 89%         | <b>18%</b>                          | 4%          | <b>Nil</b>                         | 7%          |
| Michelle Gow                                                        | <b>88%</b>                | 100%        | <b>8%</b>                           | Nil         | <b>4%</b>                          | Nil         |
| Michael Vamos <sup>2</sup>                                          | <b>100%</b>               | N/A         | <b>Nil</b>                          | N/A         | <b>Nil</b>                         | N/A         |

<sup>1</sup> Value attributed to KMP in previous years for share based payments was reversed in current year when termination of employment triggered an expiry of outstanding share based payments

<sup>2</sup> Not a KMP or key executive in 2009

**C Service agreements**

Remuneration and other terms of employment for the CEO and other key management personnel, excluding non-executive directors, are formalised in service agreements. No two agreements are the same, with each providing for a combination of benefits that may include the reimbursement of work-related expenses, the provision of benefits including income protection insurance, and participation, when eligible, in one or more share based performance plans. Other major provisions of the agreements relating to remuneration for the CEO and other current key management personnel are set out below. Unless otherwise indicated, details relate to the service agreements in place as at 30 June 2010.

**Jenny Harry – CEO/Managing Director**

|                           |                                                                                                                                                                                                       |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Length of contract</b> | No fixed term.                                                                                                                                                                                        |
| <b>Fixed remuneration</b> | \$300,000 plus 10% superannuation; to be reviewed annually.                                                                                                                                           |
| <b>Other benefits</b>     | Coverage under the Company's salary continuance insurance is provided.                                                                                                                                |
| <b>Incentives</b>         | Dr Harry is entitled to participate in the Company's Performance Share Plan and to receive short term (cash) and long term (performance rights) incentives. See the table on page 20 for details.     |
| <b>Resignation</b>        | Dr Harry may cease her employment with the Company by providing three months written notice of resignation.                                                                                           |
| <b>Termination</b>        | The Company may terminate Dr Harry's employment by providing six months written notice or pay in lieu thereof.                                                                                        |
| <b>Severance payment</b>  | Dr Harry is entitled to receive a payment equal to three weeks salary for every year of continuous service under the terms of her contract with the Company in the event of her being made redundant. |

**Lisa Jones – Head of Business and Legal Affairs**

|                           |                                                                                                                                                                                                       |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Length of contract</b> | No fixed term.                                                                                                                                                                                        |
| <b>Fixed remuneration</b> | \$156,000 plus 10% superannuation; to be reviewed annually.                                                                                                                                           |
| <b>Other benefits</b>     | Coverage under the Company's salary continuance insurance is provided.                                                                                                                                |
| <b>Incentives</b>         | Ms Jones is entitled to participate in the Company's Performance Share Plan and to receive short term (cash) and long term (performance rights) incentives. See the table on page 20 for details.     |
| <b>Resignation</b>        | Ms Jones may cease her employment with the Company by providing three months written notice of resignation.                                                                                           |
| <b>Termination</b>        | The Company may terminate Ms Jones's employment by providing six months written notice or pay in lieu thereof.                                                                                        |
| <b>Severance payment</b>  | Ms Jones is entitled to receive a payment equal to three weeks salary for every year of continuous service under the terms of her contract with the Company in the event of her being made redundant. |

|                                                 |                                                                                                                                                                                                                                     |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Michelle Gow - Chief Operating Officer</b>   |                                                                                                                                                                                                                                     |
| <b>Length of contract</b>                       | No fixed term.                                                                                                                                                                                                                      |
| <b>Fixed remuneration</b>                       | \$183,486 plus 9% superannuation; to be reviewed annually.                                                                                                                                                                          |
| <b>Other benefits</b>                           | Coverage under the Company's salary continuance insurance will be provided upon completion of one year's service.                                                                                                                   |
| <b>Incentives</b>                               | Ms Gow is entitled to participate in the Company's Performance Share Plan and to receive short term and long term incentives (cash or performance rights) at the discretion of the Board. See the table on page 20 for details.     |
| <b>Resignation</b>                              | Ms Gow may cease her employment with the Company by providing three months' written notice of resignation.                                                                                                                          |
| <b>Termination</b>                              | The Company may terminate Ms Gow's employment by providing three months' written notice or pay in lieu thereof.                                                                                                                     |
| <b>Michael Vamos - Chief Financial Officer</b>  |                                                                                                                                                                                                                                     |
| <b>Length of contract</b>                       | No fixed term.                                                                                                                                                                                                                      |
| <b>Fixed Remuneration</b>                       | \$180,000 plus 9% superannuation; to be reviewed annually.                                                                                                                                                                          |
| <b>Other Benefits</b>                           | Nil                                                                                                                                                                                                                                 |
| <b>Incentives</b>                               | Mr Vamos is entitled to participate in the Company's Performance Share Plan and to receive short term and long term incentives (cash or performance rights) at the discretion of the Board. See the table on page 20 for details.   |
| <b>Resignation</b>                              | Mr Vamos may cease his employment with the Company by providing one month's written notice of resignation.                                                                                                                          |
| <b>Termination</b>                              | The Company may terminate Mr Vamos' employment by providing three month's written notice or pay in lieu thereof.                                                                                                                    |
| <b>Robyn Lindner – Chief Scientific Officer</b> |                                                                                                                                                                                                                                     |
| <b>Length of contract</b>                       | No fixed term.                                                                                                                                                                                                                      |
| <b>Fixed Remuneration</b>                       | \$185,000 plus 10% superannuation; to be reviewed annually.                                                                                                                                                                         |
| <b>Other benefits</b>                           | Coverage under the Company's salary continuance insurance is provided                                                                                                                                                               |
| <b>Incentives</b>                               | Dr Lindner is entitled to participate in the Company's Performance Share Plan and to receive short term and long term incentives (cash or performance rights) at the discretion of the Board. See the table on page 20 for details. |
| <b>Resignation</b>                              | Dr Lindner may cease her employment with the Company by providing three months' written notice of resignation.                                                                                                                      |
| <b>Termination</b>                              | The Company may terminate Ms Lindner's employment by providing six months' written notice or pay in lieu thereof.                                                                                                                   |

## **D Share-based compensation**

### **Options**

Key management personnel have accumulated options in shares over the company through the issue of options via the Employee Share Option Plan ("ESOP").

The ESOP was adopted in June 2001, pursuant to which Tyrian Diagnostics Limited may, at the discretion of the Board, grant options to purchase ordinary shares in Tyrian Diagnostics Limited to directors, employees, advisors and consultants of the consolidated entity. However, the ESOP was largely superseded by the introduction of the Performance Rights Share Plan in 2004.

The options are issued for a term stated in the option agreement, not exceeding five years from the date of the grant, and have an exercise price as determined by the Board. The options are not quoted on the ASX. When exercisable, each option is convertible into one ordinary share.

At 30 June 2010 no key management personnel held options in shares over the company

No options were issued to key management personnel of the Group during the year ended 30 June 2010 (2009: nil).

## Directors' Report

continued

The terms and conditions of each grant of options affecting remuneration of key management personnel in the previous, this or future reporting periods are as follows:

| Grant date | Expiry date | Weighted average exercise price | Value per option at grant date | Date exercisable                           |
|------------|-------------|---------------------------------|--------------------------------|--------------------------------------------|
|            |             | \$                              | \$                             |                                            |
| 4 Dec 2006 | 4 Dec 2011  | 0.29                            | 0.18                           | 50% after 4 Dec 2007, 50% after 4 Dec 2008 |

The numbers of options over ordinary shares in the company held during the current and previous financial years by key management personnel of the Group, including their personally related parties, are set out below.

|                                                    | Balance at the start of the year | Lapsed during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|----------------------------------------------------|----------------------------------|------------------------|--------------------------------|-----------------------------------------------|
| <b>2010</b>                                        |                                  |                        |                                |                                               |
| <i>Other key management personnel of the Group</i> |                                  |                        |                                |                                               |
| Nil                                                |                                  |                        |                                |                                               |

|                                                    | Balance at the start of the year | Lapsed during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|----------------------------------------------------|----------------------------------|------------------------|--------------------------------|-----------------------------------------------|
| <b>2009</b>                                        |                                  |                        |                                |                                               |
| <i>Other key management personnel of the Group</i> |                                  |                        |                                |                                               |
| Lisa Jones                                         | 219,597                          | 219,597                | -                              | -                                             |
| Bernard Malfroy-Camine                             | 500,000                          | 500,000                | -                              | -                                             |

The assessed fair value at grant date of options granted to key management personnel is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables above. Fair values at grant date have been determined using a Black-Scholes pricing model that takes into account the exercise price, the vesting period of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

No options were granted during the year ended 30 June 2009 or 30 June 2010.

### Shares provided on exercise of remuneration options

There were no ordinary shares in the Company issued as a result of the exercise of remuneration options held by key management personnel of the Group during the year ended 30 June 2010 (2009: nil).

### Performance rights

Performance rights are issued to key management personnel under the 2004 Performance Rights Share Plan ("Plan"). The Plan was established pursuant to shareholder approval obtained at the Company's AGM in 2004. For further details, refer to pages 15 & 16 of this Remuneration Report. The Performance Rights are not quoted on the ASX.

At 30 June 2010 there were four key management personnel who held performance rights, or who had been allocated shares pursuant to performance rights issued under the Plan. Performance rights granted under the Plan are subject to service vesting conditions and/or performance conditions as determined by the Board. The applicable service vesting and performance conditions are set out in the letter of offer of performance rights. Shares are allocated pursuant to performance rights on satisfaction of the applicable conditions. Once allocated, shares may be subject to restrictions on disposal as set out in the Plan Rules and as determined by the Board.

The terms and conditions of each grant of performance rights affecting remuneration of key management personnel in the previous, this or future reporting periods are as follows:

| Number of performance rights | Grant date  | Vesting period           | Weighted average exercise price | Type of vesting condition       |
|------------------------------|-------------|--------------------------|---------------------------------|---------------------------------|
| 1,370,636                    | 20 Jan 2009 | 1 Oct 2008 – 30 Sep 2011 | Nil                             | Performance and service vesting |
| 9,768,698                    | 5 July 2010 | 1 Oct 2009 – 30 Sep 2012 | Nil                             | Performance and service vesting |

Performance rights are granted under the plan for no consideration. Performance rights do not confer any dividend or voting rights until Shares are allocated pursuant to those performance rights upon satisfaction of any applicable conditions.

The numbers of performance rights held during the financial year by key management personnel of the Group are set out below.

|                                                                        | Balance at the<br>start of the<br>year | Granted during<br>the year as<br>compensation | Converted to<br>shares during<br>the year | Expired during<br>the year<br>(performance<br>criteria not<br>met) | Balance at the<br>end of the year |
|------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------|-------------------------------------------|--------------------------------------------------------------------|-----------------------------------|
| <b>2010</b>                                                            |                                        |                                               |                                           |                                                                    |                                   |
| <i>Directors of Tyrian Diagnostics Limited and Controlled Entities</i> |                                        |                                               |                                           |                                                                    |                                   |
| Jenny Harry                                                            | 1,100,000                              | -                                             | (293,333)                                 | (220,001)                                                          | 586,666                           |
| <i>Other key management personnel of the Group</i>                     |                                        |                                               |                                           |                                                                    |                                   |
| Lisa Jones                                                             | 367,700                                | -                                             | (98,053)                                  | (73,541)                                                           | 196,106                           |
| Jaime Pinto                                                            | 420,000                                | -                                             | (98,000)                                  | (322,000)                                                          | -                                 |
| Robyn Lindner                                                          | 436,000                                | -                                             | (130,800)                                 | (43,600)                                                           | 261,600                           |
|                                                                        |                                        |                                               |                                           |                                                                    |                                   |
|                                                                        | Balance at the<br>start of the<br>year | Granted during<br>the year as<br>compensation | Converted to<br>shares during<br>the year | Expired during<br>the year<br>(performance<br>criteria not<br>met) | Balance at the<br>end of the year |
| <b>2009</b>                                                            |                                        |                                               |                                           |                                                                    |                                   |
| <i>Directors of Tyrian Diagnostics Limited and Controlled Entities</i> |                                        |                                               |                                           |                                                                    |                                   |
| Jenny Harry                                                            | 4,310,000                              | 1,100,000                                     | -                                         | (4,310,000)                                                        | 1,100,000                         |
| <i>Other key management personnel of the Group</i>                     |                                        |                                               |                                           |                                                                    |                                   |
| Shelley Evans                                                          | 200,000                                | -                                             | -                                         | (200,000)                                                          | -                                 |
| Lisa Jones                                                             | 4,100,000                              | 367,700                                       | -                                         | (4,100,000)                                                        | 367,700                           |
| Jaime Pinto                                                            | 400,000                                | 420,000                                       | (200,000)                                 | (200,000)                                                          | 420,000                           |
| Robyn Lindner                                                          | 200,000                                | 436,000                                       | (200,000)                                 | -                                                                  | 436,000                           |

All outstanding performance rights are subject to vesting conditions. Upon satisfaction of vesting conditions, shares will be issued to the holders of the performance rights for nil consideration.

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables above. Fair values at grant date have been determined using a Black-Scholes pricing model that takes into account the exercise price, the vesting period of the right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right.

The Black Scholes model inputs for rights granted relating to the year ended 30 June 2010 included:

- (a) rights are granted for no consideration
- (b) exercise price: nil (2009 : nil)
- (c) grant date: 5 July 2010
- (d) expiry date: various
- (e) share price at grant date: \$0.02 (2009: \$0.04)
- (f) expected price volatility of the company's shares: 60% (2009: 60%)
- (g) expected dividend yield: 0% (2009: 0%)
- (h) risk-free interest rate: 4.595% (2009: 2.865%)

#### **Shares provided on exercise of remuneration rights**

Details of ordinary shares in the company issued to key management personnel of the Group pursuant to the satisfaction of vesting conditions of performance rights are set out below.

|                                                                        | Date of issue of<br>shares | Number of ordinary shares issued on<br>conversion of rights during the year |             |
|------------------------------------------------------------------------|----------------------------|-----------------------------------------------------------------------------|-------------|
|                                                                        |                            | <b>2010</b>                                                                 | <b>2009</b> |
| <i>Directors of Tyrian Diagnostics Limited and Controlled Entities</i> |                            |                                                                             |             |
| Jenny Harry                                                            | 22 Dec 2009                | <b>293,333</b>                                                              | -           |
| <i>Other key management personnel of the Group</i>                     |                            |                                                                             |             |

## Directors' Report continued

|               |             |                |         |
|---------------|-------------|----------------|---------|
| Jaime Pinto   | 22 Dec 2009 | <b>98,000</b>  | 200,000 |
| Lisa Jones    | 22 Dec 2009 | <b>98,053</b>  | -       |
| Robyn Lindner | 22 Dec 2009 | <b>130,800</b> | 200,000 |

No amounts were paid or are payable by key management personnel on the issue of the above shares.

### E Additional information

#### **Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance**

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year. Over the past five years the Group has incurred operating losses, which have been funded by additional capital raisings, and no dividends have been paid. Total shareholder wealth has reduced as the Group's net assets have reduced over the five years, with the net asset backing per share reducing from \$0.062 to \$0.006. The share price has decreased from \$0.026 on 30 June 2009 to \$0.009 at 30 June 2010.

Given the business is still in an early development stage the Remuneration & Nominations Committee has determined that the traditional performance criteria of profitability and return on investment are not yet the most suitable criteria to assess the Group. Criteria used to assess the performance of key management personnel and other senior management currently include the achievement of project milestones and the successful negotiation of commercial contracts.

#### **Details of remuneration: cash bonuses, options and performance rights**

Details of cash bonuses paid to Key Management Personnel are disclosed in the tables on page 17 of the remuneration report.

For each grant of performance rights included in the tables on pages 17, 20 & 21, the percentage of the available grant that vested in the financial year, the percentage that expired because the person did not meet the service and performance conditions, and the percentage that is still outstanding, are set out in the following table. The performance rights vest over differing periods provided the vesting conditions are met (refer pages 20 & 21). No performance rights will vest if the vesting conditions are not satisfied, hence the minimum value of the performance rights yet to vest is nil. The maximum value of the performance rights yet to vest has been determined assuming all performance rights vest, using the valuation criteria outlined in page 21 of the remuneration report.

| Name          | Year granted | Rights |                                        |             | Financial years in which rights may vest | Minimum total value of grant yet to vest | Maximum total value of grant yet to vest |
|---------------|--------------|--------|----------------------------------------|-------------|------------------------------------------|------------------------------------------|------------------------------------------|
|               |              | Vested | Expired (performance criteria not met) | Outstanding |                                          |                                          |                                          |
|               |              | %      | %                                      | %           |                                          | \$                                       | \$                                       |
| Jenny Harry   | 2009         | 27%    | 20%                                    | 53%         | 2010-12                                  | Nil                                      | 23,466                                   |
| Lisa Jones    | 2009         | 27%    | 20%                                    | 53%         | 2010-12                                  | Nil                                      | 7,844                                    |
| Lisa Jones    | 2010         | Nil    | Nil                                    | 100%        | 2011-13                                  | Nil                                      | 16,547                                   |
| Jaime Pinto   | 2009         | 23%    | 77%                                    | Nil         | 2010-12                                  | Nil                                      | Nil                                      |
| Robyn Lindner | 2009         | 30%    | 10%                                    | 60%         | 2010-12                                  | Nil                                      | 10,464                                   |
| Robyn Lindner | 2010         | Nil    | Nil                                    | 100%        | 2011-13                                  | Nil                                      | 19,623                                   |
| Michelle Gow  | 2010         | Nil    | Nil                                    | 100%        | 2011-13                                  | Nil                                      | 19,286                                   |

#### **Share-based compensation: rights**

Further details relating to performance rights and options issued are set out below.

| Name                     | A                                 | B                   | C                         | D                    |
|--------------------------|-----------------------------------|---------------------|---------------------------|----------------------|
|                          | Remuneration consisting of rights | Value at grant date | Value at share issue date | Value at expiry date |
|                          | %                                 | \$                  | \$                        | \$                   |
| Jenny Harry              | 2.0%                              | -                   | 4,693                     | Nil                  |
| Lisa Jones               | 5.0%                              | 16,547              | 1,569                     | Nil                  |
| Jaime Pinto <sup>1</sup> | (0.1%)                            | -                   | 1,568                     | Nil                  |
| Robyn Lindner            | 5.4%                              | 19,623              | 2,093                     | Nil                  |

|              |      |        |   |     |
|--------------|------|--------|---|-----|
| Michelle Gow | 3.9% | 19,286 | - | Nil |
|--------------|------|--------|---|-----|

<sup>1</sup>Relates to performance rights expired during the year

A = The percentage of the value of 2010FY remuneration consisting of rights or options, based on the value of rights or options expensed as set out in the table on page 17 of this Remuneration Report.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of rights or options granted during the year as part of remuneration.

C = The value of vested rights or options for which shares were issued during the year (difference between market share price and price paid at date of share issue).

D = The value at expiry date calculated in accordance with AASB 2 *Share-based Payments* of rights or options that were granted as part of remuneration and that expired in accordance with the terms of the rights or options.

#### **Loans to/from directors and executives**

There are no loans to or from directors and executives.

#### **Share options granted to directors and the most highly remunerated executives**

No options over unissued ordinary shares of Tyrian Diagnostics Limited were granted during the financial year, or since the end of the financial year, to the five most highly remunerated executives of the Group as part of their remuneration.

#### **Performance rights granted to directors and the most highly remunerated executives**

No performance rights over unissued ordinary shares of Tyrian Diagnostics Limited were granted during the financial year to the five most highly remunerated executives of the Group as part of their remuneration.

6,161,785 performance rights over unissued ordinary shares of Tyrian Diagnostics Limited have been granted since the end of the financial year to three of the five most highly remunerated executives of the Group as part of their remuneration.

Rights granted are as follows:

| <b>Name</b>   | <b>Performance Rights<br/>Granted During the<br/>Financial Year</b> | <b>Performance Rights<br/>Granted Since the end<br/>of the Financial Year</b> | <b>Total Performance<br/>Rights Granted</b> |
|---------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------|
| Robyn Lindner | Nil                                                                 | 2,180,357                                                                     | 2,180,357                                   |
| Lisa Jones    | Nil                                                                 | 1,838,571                                                                     | 1,838,571                                   |
| Michelle Gow  | Nil                                                                 | 2,142,857                                                                     | 2,142,857                                   |

Details of rights granted are included on the table on page 22 of this report.

#### **Auditor**

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

#### **Assurance services**

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

|                                                                                                   | <b>Consolidated</b> |             |
|---------------------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                                   | <b>2010</b>         | <b>2009</b> |
|                                                                                                   | <b>\$</b>           | <b>\$</b>   |
| <b>Audit services</b>                                                                             |                     |             |
| PricewaterhouseCoopers Australian firm:                                                           |                     |             |
| Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i> | <b>160,609</b>      | 161,650     |
| <b>Total remuneration for audit services</b>                                                      | <b>160,609</b>      | 161,650     |

#### **Non-audit services**

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.



## Directors' Report continued

The auditor provided the company with \$2,000 (2009: \$nil) non-audit services during the current period.

The Board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

### ***Auditors' independence declaration***

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 follows this Directors' Report.

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



**Roger Amos**  
Director



**Marilyn Sleigh**  
Director

**Sydney,  
31 August 2010**

## Auditor's Independence Declaration

PricewaterhouseCoopers  
ABN 52 780 433 757

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As lead auditor for the audit of Tyrian Diagnostics Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Tyrian Diagnostics Limited and the entities it controlled during the period.



Susan Horlin  
Partner  
PricewaterhouseCoopers

Sydney  
31 August 2010

# Corporate Governance Statement

The Company aims to meet the levels of best corporate governance for listed companies as set out in the ASX Corporate Governance Council's Principles and Recommendations (the "ASX Principles and Recommendations").

The Company's corporate governance principles, details of which can be found on the Company's website ([www.tyriandx.com](http://www.tyriandx.com)) include:

- Statement of Corporate Governance Principles
- Board Charter
- Audit & Risk Committee Charter
- Remuneration & Nominations Committee Charter
- Continuous Disclosure and Communications Policy
- Securities Trading Policy

## 1 Board and management

### 1.1 Role of the Board and Senior Management

The role of the Board is to provide strategic guidance for the Company and effective oversight of its management to the Chief Executive Officer and other senior executives. The Board has adopted a formal board charter that details the board's functions and responsibilities and those functions which are delegated to senior management.

### 1.2 Evaluation of Performance of Senior Executives

The Remuneration & Nominations Committee is specifically responsible for reviewing the ongoing performance of the Chief Executive Officer and ensuring there is an appropriate process to review the performance of senior executives and for setting and approving performance objectives of senior executives in relation to bonus payments and options. In September of each year the Remuneration & Nominations Committee:

- approves individual milestone objectives for the CEO and Senior Executives for the coming 12 month period. Milestones are based on the Company's strategic plan as approved by the Board;
- evaluates the performance of the CEO compared to milestone objectives set at the beginning of the performance period and approves the payment of any bonus and/or the grant and vesting of any performance rights related to the CEO's performance;
- in relation to senior executives, reviews recommendations, considers and approves the payment of any bonus and/or the grant and vesting of any performance rights based on performance of milestone objectives for the preceding 12 month performance period.

The Remuneration & Nomination Committee conducted its most recent performance evaluation of the Chief Executive Officer and senior management in September 2009.

## 2 Board Composition

The Company's Board currently comprises three independent non-executive directors and one executive director. The Board has been structured to provide a team of directors with a range of skills, expertise and experience appropriate for it to undertake its duties and its role and responsibilities for the proper and effective management of the Company's business and affairs. In particular the composition of skills, expertise and experience of the directors span the areas of biomarker discovery, diagnostic product development and commercialisation, finance, accounting, public company affairs and corporate governance.

The skills, experience and expertise and term of office of each director are set out in the Director's Report. The recommendation of candidates for the Board is carried out by the Remuneration & Nominations Committee, which reviews the skills of existing directors and identifies additional skills that would contribute to the success of the Company's strategy and operations.

### 2.1 Independence of directors

The Board has assessed the independence of all non-executive directors and has determined that the following non-executive directors are independent: Roger Amos (Chairman), Marilyn Sleigh (Chairman of the Audit & Risk Committee) and Caroline Popper.

Dr Popper is a principal of Popper & Co, a US-based life science company that provides consulting services from time to time to the Group under arms-length terms. Popper & Co receives compensation at commercial rates for ongoing services provided, and under a previous consulting agreement may receive certain future

payments based on success of the Group's TB programme. The Board has considered the nature of Dr Popper's interests under this relationship and has concluded that they are not such as to interfere with her independence and ability to act in the best interests of the Company.

All Tyrian Diagnostics directors are aware of, and adhere to, their obligation under the Corporations Act 2001 to disclose to the Board any interests or relationships that they or any associate of theirs may have in a matter that relates to the affairs of the Company, and any other matter that may affect their independence. All directors have agreed to give the company notice of changes to their relevant interests in Company shares within two days to enable both them and the Company to comply with the Australian Stock Exchange (ASX) Listing Rules.

The Board regularly reviews the independence of its directors and in doing so has regard for, amongst other things, the ASX Principles and Recommendations in relation to independence of directors. The Board considers that an independent director is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors ability to act in the best interests of the Company.

In determining whether an interest or relationship is considered to interfere with a director's independence, the Board has regard to the materiality of the interest or relationship. In considering the issue of materiality, the Board considers the nature, circumstances and activities of the Director, and considers the materiality of the relationship in question from the perspective of the Company, the persons or organizations with which the Director has an affiliation, and from the perspective of the Director.

## **2.2 Independent professional advice**

Where a director obtains independent professional advice in furtherance of his or her duties, the Company will meet the reasonable costs of such advice provided that:

- the Chairman of the Board gave prior approval to the obtaining of the advice; or
- if the Chairman refused to give such approval, the Board gave prior approval to the obtaining of the advice.

## **2.3 Remuneration & Nominations Committee**

The Board has established a Remuneration & Nominations Committee to provide recommendations to the Board on matters including:

- Composition of the Board and competencies of Board members;
- Appointment and evaluation of the Chief Executive Officer and other senior executives;
- Succession planning for Board members and senior management;
- Processes for the evaluation of the performance of the directors, the Chief Executive Officer and other senior management.

The Remuneration & Nominations Committee currently comprises two independent non-executive directors including an independent Chairman. The Board has not formalised the procedures for selection and appointment of new directors or re-election of incumbent directors, however the board regularly reviews its composition to determine whether it has the right mix of skills and experience. The Board engages external recruitment firms in order to assist it in the selection and evaluation of new directors.

The Remuneration & Nomination Committee has adopted a formal charter which is available on the company's website.

## **2.4 Performance review and education**

The performance of the Board, its Committees and key executives is reviewed and evaluated regularly by the Remuneration & Nominations Committee and the Board, as appropriate, using the results of a questionnaire which is completed by each director.

The Board conducts reviews of board effectiveness and contribution. The most recent performance evaluation of the board, its committees and directors was conducted in March 2010.

## **3 Ethical and responsible decision making and Diversity**

All directors and employees are expected to act in accordance with the highest standards of integrity and business ethics. Although the Company has not established a formal code of conduct, directors and employees are obliged to observe standards of conduct and behaviour in accordance with the terms of their appointment or employment as applicable.

The Company has fostered a corporate culture which embraces diversity among its management and employees. The Company has not formalised its diversity policy but believes its commitment to diversity is borne out by the fact that the company's management and employees include a range of ethnic backgrounds, nationalities and age groups. The Company's board has a majority of female directors, including the CEO. Three out of four of the senior management team are women, and the company employs 14 women out of a total of 23 employees.

### **3.1 Securities trading policy**

By promoting director and employee ownership of shares, the Board hopes to encourage directors and employees to become long-term holders of Company securities, aligning their interests with those of the Company. It does not condone short-term or speculative trading in its securities by directors and employees. The Company has a comprehensive securities trading policy which applies to all directors and employees. The policy aims to inform directors and employees of the law relating to insider trading, and provide them with practical guidance for avoiding unlawful transactions in Company securities. The Company plans to review and update its securities trading policy as necessary in order to fully comply with the ASX's new requirements for company trading policies introduced through an amendment to the ASX Listing Rules, which comes into effect on 1 January 2011.

## **4 Integrity in financial reporting**

### **Audit & Risk Committee**

The Company has established an Audit & Risk Committee to provide advice and assistance to the Board in discharging its corporate governance and oversight responsibilities in relation to the Company's financial reporting process, internal financial control, risk management system, legal compliance and the external auditing process. The Audit & Risk Committee has a formal charter which is available on the company's website. In discharging its obligations, the Audit & Risk Committee has direct access to any employee, the auditors or any other independent experts and advisers it considers appropriate to carry out its duties.

The composition of the Audit & Risk Committee is set out in a table on page 7 of this Report, and the number of committee meetings and attendance at those meetings is set out the same table. In accordance with the ASX Principles and Recommendations, the Audit & Risk Committee has been structured so that it:

- comprises only non-executive directors
- has a majority of independent directors;
- has an independent chairman who is not the chairman of the Board; and
- comprises members with the appropriate financial and business expertise to act effectively as a member of the Audit & Risk Committee

The Audit & Risk Committee has two members, rather than the three suggested by the ASX Principles and Recommendations. The Board considers that the current two members, both being independent non-executive directors, possess sufficient skills and experience to provide appropriate advice to the Board and that the composition of the Audit & Risk Committee is appropriate considering the size and operations of the Company.

The Audit & Risk Committee has adopted a formal charter which is available on the Company's website.

It is PricewaterhouseCoopers' policy to rotate the role of audit engagement partner every five years.

## **5 Disclosure**

### **Continuous disclosure and communications policy**

The Company is committed to complying with its continuous disclosure obligations as set out in the ASX Listing Rules and the ASX Principles and Recommendations.

The Company has adopted a comprehensive policy governing continuous disclosure and communication to investors and shareholders which complies with the ASX Principles and Recommendations. This policy is available on the Company's website.

## **6 Shareholder communication**

### **6.1 Communications policy**

The Company aims to ensure that investors, shareholders and the financial market have timely access to material information concerning the Company. The Company's communications policy sets out the communication guidelines established by the Company. The Company uses its website to complement the official release of material information and periodic reports to the market including ensuring that all press releases, ASX announcements and notices of and presentations made at general meetings for at least the past three years are available on the website. The Company has also recently introduced a newsletter which is distributed to shareholders, media, partners and staff.

### **6.2 Auditor availability**

The Company's external auditor, PricewaterhouseCoopers, attends the Company's annual general meeting and is available to answer questions raised by shareholders concerning the conduct of the audit and the preparation and content of the auditor's report.

## **7 Recognise and manage risk**

### **Risk management**

The Board, on advice and recommendation of the Audit & Risk Committee, oversees and manages the risks to which the Company is exposed. The Audit & Risk Committee's role and responsibilities for risk oversight and management are set out in the Audit & Risk Committee charter. These include:

- overseeing the Company's financial reporting and understanding current areas of greatest financial risk and how these are being managed;
- understanding internal control systems for financial transactions, recording and processing of financial data and compliance of financial statements with relevant standards and requirements;
- ensuring compliance with legal and regulatory obligations, accounting standards and best practice guidelines;
- evaluating the overall effectiveness of the internal control and risk management frameworks and considering whether recommendations made by the external auditors have been implemented by management; and
- considering accountability of management for risks associated with computer systems and applications.

The Audit & Risk Committee reports to the Board at least twice each year on all matters relating to its responsibilities for risk management. The Board reviews the Audit Committee's reports and recommendations and makes an assessment of the effectiveness of the Company's systems and processes for risk management. Under its Charter, the Audit & Risk committee requires management to design and implement the risk management and internal control system to manage the company's material business risks. Management is required to report to the Audit & Risk Committee twice-yearly on how the company is performing against its risk management system.

The Chief Executive Officer and Chief Financial Officer provide written statements to the Board for each reporting period confirming that the Company's system of risk management and internal compliance and control complies with the ASX Principles and Recommendations.

## **8 Remunerate fairly and responsibly**

Refer to the Remuneration Report for a full discussion of the Company's remuneration policies, and to the Directors' Report for details of the membership of meetings of the Remuneration Committee.

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This financial report covers both Tyrian Diagnostics Limited as an individual entity and the consolidated entity consisting of Tyrian Diagnostics Limited and its subsidiaries. The financial report is presented in the Australian currency.

Tyrian Diagnostics Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

1/35-41 Waterloo Road, North Ryde NSW 2113, Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 9-11 of the directors' report, which is not part of this financial report.

The financial report was authorized for issue by the directors on 31 August 2010. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Investor Centre on our website: [www.tyriandx.com](http://www.tyriandx.com).

Tyrian Diagnostics Limited and its controlled entities  
**Statement of comprehensive income**  
For the year ended 30 June 2010

|                                                                                                                |         | <b>Consolidated</b> |                    |
|----------------------------------------------------------------------------------------------------------------|---------|---------------------|--------------------|
|                                                                                                                |         | <b>2010</b>         | <b>2009</b>        |
|                                                                                                                |         | <b>\$</b>           | <b>\$</b>          |
| <b>Revenue from continuing operations</b>                                                                      | Notes 4 | <b>1,975,341</b>    | <b>1,334,542</b>   |
| Other income                                                                                                   | 5       | <b>72,467</b>       | 459,696            |
| Cost of goods sold                                                                                             |         | <b>(209,051)</b>    | (16,446)           |
| Employment costs                                                                                               |         | <b>(3,312,764)</b>  | (4,153,659)        |
| Occupancy costs                                                                                                |         | <b>(702,152)</b>    | (1,152,558)        |
| Corporate & administration costs                                                                               |         | <b>(1,070,358)</b>  | (1,411,251)        |
| External research supplies and services                                                                        |         | <b>(353,486)</b>    | (939,877)          |
| Intellectual property costs                                                                                    |         | <b>(150,236)</b>    | (347,437)          |
| Depreciation and amortisation expense                                                                          | 6       | <b>(198,923)</b>    | (303,204)          |
| Write back/(increase) impairment of assets                                                                     | 6       | <b>(191,712)</b>    | 12,295             |
| Write back impairment of inventory                                                                             | 10      | <b>22,615</b>       | 7,688              |
| Finance costs                                                                                                  |         | -                   | (16,375)           |
| Write back creditors no longer payable                                                                         |         | -                   | 169,691            |
| Other expenses                                                                                                 |         | <b>(12,344)</b>     | (31,446)           |
| <b>Loss before income tax</b>                                                                                  |         | <b>(4,130,603)</b>  | <b>(6,388,341)</b> |
| Income tax expense                                                                                             | 7       | -                   | (28,076)           |
| <b>Loss from continuing operations</b>                                                                         |         | <b>(4,130,603)</b>  | <b>(6,416,417)</b> |
| <b>Loss from discontinued operations</b>                                                                       | 35      | <b>(25,308)</b>     | <b>(578,585)</b>   |
| <b>Loss attributable to members of Tyrian Diagnostics and Controlled Entities</b>                              |         | <b>(4,155,911)</b>  | <b>(6,995,002)</b> |
| <b>Other comprehensive income</b>                                                                              |         |                     |                    |
| Exchange differences on translation of foreign operations                                                      |         | <b>1,410</b>        | (327,138)          |
| <b>Total comprehensive loss for the year</b>                                                                   |         | <b>(4,154,501)</b>  | <b>(7,322,140)</b> |
|                                                                                                                |         | <b>cents</b>        | <b>cents</b>       |
| <b>Loss per share from continuing operations attributable to the ordinary equity of holders of the company</b> |         |                     |                    |
| Basic loss per share                                                                                           | 23      | <b>(0.90)</b>       | (2.6)              |
| Diluted loss per share                                                                                         | 23      | <b>(0.90)</b>       | (2.6)              |
| <b>Loss per share attributable to the ordinary equity holders of the company:</b>                              |         |                     |                    |
| Basic loss per share                                                                                           | 23      | <b>(0.90)</b>       | (2.9)              |
| Diluted loss per share                                                                                         | 23      | <b>(0.90)</b>       | (2.9)              |

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



**Balance Sheet**

As at 30 June 2010

|                                |       | <b>Consolidated</b>  |               |
|--------------------------------|-------|----------------------|---------------|
|                                |       | <b>2010</b>          | <b>2009</b>   |
|                                | Notes | \$                   | \$            |
| <b>ASSETS</b>                  |       |                      |               |
| <b>Current Assets</b>          |       |                      |               |
| Cash and cash equivalents      | 8     | <b>3,261,345</b>     | 3,437,926     |
| Trade and other receivables    | 9     | <b>574,093</b>       | 194,420       |
| Inventories                    | 10    | <b>86,873</b>        | 61,657        |
| Other financial assets         | 11    | -                    | 260,664       |
| Other assets                   | 12    | <b>78,725</b>        | 102,320       |
| Total Current Assets           |       | <b>4,001,036</b>     | 4,056,987     |
| <b>Non-Current Assets</b>      |       |                      |               |
| Other financial assets         | 13    | <b>156,005</b>       | -             |
| Property, plant and equipment  | 14    | <b>325,803</b>       | 509,428       |
| Intangible assets              | 15    | <b>6,921</b>         | 16,892        |
| Total Non-Current Assets       |       | <b>488,729</b>       | 526,320       |
| <b>TOTAL ASSETS</b>            |       | <b>4,489,765</b>     | 4,583,307     |
| <b>LIABILITIES</b>             |       |                      |               |
| <b>Current liabilities</b>     |       |                      |               |
| Trade and other payables       | 16    | <b>457,701</b>       | 586,471       |
| Provisions                     | 17    | <b>90,949</b>        | 409,478       |
| Deferred Income                | 18    | <b>374,451</b>       | 447,170       |
| Total Current Liabilities      |       | <b>923,101</b>       | 1,443,119     |
| <b>Non-Current Liabilities</b> |       |                      |               |
| Provisions                     | 19    | <b>230,391</b>       | 67,184        |
| Deferred Income                | 20    | -                    | 138,681       |
| Total Non-Current Liabilities  |       | <b>230,391</b>       | 205,865       |
| <b>TOTAL LIABILITIES</b>       |       | <b>1,153,492</b>     | 1,648,984     |
| <b>NET ASSETS</b>              |       | <b>3,336,273</b>     | 2,934,323     |
| <b>EQUITY</b>                  |       |                      |               |
| Contributed equity             | 21    | <b>119,958,301</b>   | 115,464,260   |
| Reserves                       | 22    | <b>3,636,558</b>     | 3,572,738     |
| Accumulated losses             | 22    | <b>(120,258,586)</b> | (116,102,675) |
| <b>Parent entity interest</b>  |       | <b>3,336,273</b>     | 2,934,323     |

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

Tyrian Diagnostics Limited and its controlled entities  
**Statement of changes in equity**  
For the year ended 30 June 2010

| <b>Consolidated</b>                                                     | <b>Attributable to owners of Tyrian Diagnostics Ltd</b> |                  |                          |                  |
|-------------------------------------------------------------------------|---------------------------------------------------------|------------------|--------------------------|------------------|
|                                                                         | Contributed equity<br>\$                                | Reserves<br>\$   | Accumulated Losses<br>\$ | Total<br>\$      |
| <b>Balance at 1 July 2008</b>                                           | 113,034,343                                             | 3,627,316        | (109,107,673)            | 7,553,986        |
| Total comprehensive income as reported in the 2009 financial statements |                                                         | (327,138)        | (6,995,002)              | (7,322,140)      |
| <b>Transactions with owners in their capacity as owners</b>             |                                                         |                  |                          |                  |
| Contributions of equity net of transaction costs                        | 2,429,917                                               | -                | -                        | 2,429,917        |
| Employee performance rights                                             | -                                                       | 308,434          | -                        | 308,434          |
| Employee share options                                                  | -                                                       | (35,874)         | -                        | (35,874)         |
| <b>Balance at 30 June 2009</b>                                          | 115,464,260                                             | 3,572,738        | (116,102,675)            | 2,934,323        |
| Total comprehensive income for the year                                 | -                                                       | 1,410            | (4,155,911)              | (4,154,501)      |
| <b>Transactions with owners in their capacity as owners</b>             |                                                         |                  |                          |                  |
| Contributions of equity, net of transaction costs                       | 4,494,041                                               | -                | -                        | 4,494,041        |
| Employee performance rights                                             | -                                                       | 62,410           | -                        | 62,410           |
| <b>Balance at 30 June 2010</b>                                          | <b>119,958,301</b>                                      | <b>3,636,558</b> | <b>(120,258,586)</b>     | <b>3,336,273</b> |

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

**Cash Flow Statement**

For the year ended 30 June 2010

|                                                                           |       | <b>Consolidated</b> |             |
|---------------------------------------------------------------------------|-------|---------------------|-------------|
|                                                                           |       | <b>2010</b>         | <b>2009</b> |
|                                                                           | Notes | \$                  | \$          |
| <b>Cash flows from operating activities</b>                               |       |                     |             |
| Receipts from customers (inclusive of goods and services tax)             |       | <b>1,296,819</b>    | 1,464,702   |
| Payments to suppliers and employees (inclusive of goods and services tax) |       | <b>(5,998,155)</b>  | (8,916,737) |
|                                                                           |       | <b>(4,701,336)</b>  | (7,452,035) |
| Interest received                                                         |       | <b>189,203</b>      | 419,480     |
| Interest paid                                                             |       | -                   | (25,945)    |
| Income taxes paid                                                         |       | -                   | (9,302)     |
| <b>Net cash outflow from operating activities</b>                         | 34    | <b>(4,512,133)</b>  | (7,067,802) |
| <b>Cash flows from investing activities</b>                               |       |                     |             |
| Payments for property, plant and equipment                                |       | <b>(241,001)</b>    | (22,596)    |
| Payments for computer software capitalised                                |       | -                   | (7,909)     |
| Proceeds from sale of property, plant and equipment                       |       | <b>58,237</b>       | 20,391      |
| Proceeds from disposal of equity investments                              |       | <b>28,822</b>       | 34,622      |
| <b>Net cash (outflow)/ inflow from investing activities</b>               |       | <b>(153,942)</b>    | 24,508      |
| <b>Cash flows from financing activities</b>                               |       |                     |             |
| Proceeds from issues of shares                                            |       | <b>4,976,580</b>    | 2,500,000   |
| Share issue transaction costs                                             |       | <b>(482,539)</b>    | (70,083)    |
| Repayment of finance leases                                               |       | -                   | (27,896)    |
| Repayment of borrowings                                                   |       | -                   | (50,451)    |
| <b>Net cash inflow from financing activities</b>                          |       | <b>4,494,041</b>    | 2,351,570   |
| <b>Net (decrease) in cash and cash equivalents</b>                        |       | <b>(172,034)</b>    | (4,691,724) |
| <b>Cash and cash equivalents at the beginning of the financial year</b>   |       | <b>3,437,926</b>    | 7,999,857   |
| <b>Effects of exchange rate changes on cash and cash equivalents</b>      |       | <b>(4,547)</b>      | 129,793     |
| <b>Cash and cash equivalents at the end of the financial year</b>         | 8     | <b>3,261,345</b>    | 3,437,926   |

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

**Notes to the Financial Statements**

30 June 2010

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## 1. Summary of significant accounting policies

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

### (a) Basis of preparation of financial report and going concern

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### Compliance with IFRS

Australian Accounting Standards include the Australian equivalents to the International Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated and parent entity financial statements and notes of Tyrian Diagnostics Limited comply with International Financial Reporting Standards (IFRS).

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss.

#### Comparatives

Comparative information in these financial statements has been restated to reflect the impact of discontinued operations and other changes in presentation in the current year.

#### Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are disclosed in note 2.

#### Going Concern

During the year ended 30 June 2010 the consolidated entity incurred an operating loss before tax of \$4,155,911 (2009 \$6,995,002) and net cash outflows from operating activities of \$4,512,133 (2009 \$7,067,801).

At 30 June 2010, the group had \$3,417,350 in cash, including a security deposit of \$156,005. As at 31 July, the comparable cash balance was \$2,986,568.

The ability of the Consolidated Entity and Company to continue as a going concern and to meet their debts and commitments as and when they fall due is subject to significant uncertainty, and is dependent upon successful completion of some or all of the following activities currently being undertaken by management:

- (i) attracting further funds from its existing shareholders, new investors or from other funding sources;
- (ii) securing a sale or licensing of assets, including intellectual property in its clinical and/or non-clinical business lines;
- (iii) securing new collaboration agreements for clinical and non-clinical diagnostic product development;
- (iv) continuing close and effective monitoring of the consolidated entity's cash flows, including the Consolidated Entity's implementing further cost saving initiatives if revenue and fund raising milestones are not achieved.

Given the range of activities and options being actively pursued by management, the directors believe the Consolidated Entity and Company will continue as a going concern on the basis that the Company will secure additional funds and/or achieve reductions in outflows from some or all of the measures mentioned above, and consequently will realise assets and settle liabilities and commitments in the ordinary course of business and at the amount stated in the annual report.

No adjustments have been made relating to the recoverability or classification of recorded assets and liabilities that might be necessary should the Consolidated Entity not continue as a going concern. Such adjustments may include:

- a reassessment of the net realisable value of non-current assets, and the reclassification of certain non current assets as held for sale;
- a revaluation of employee liabilities;
- an evaluation of unrecorded liabilities relating to future financial commitments such as leases on operating premises and research collaboration agreements."

**(b) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Tyrian Diagnostics Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Tyrian Diagnostics Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the individual financial statements of Tyrian Diagnostics Limited, investments in subsidiaries are accounted for at cost less impairment charges.

**(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the chief executive officer.

**(d) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Tyrian Diagnostics Limited's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction

- dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale where applicable.

#### **(e) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

##### **Services**

Service revenue derived from research and product development activities, including collaboration income, is recognised in accordance with the percentage of completion method or on completion of development milestones, in accordance with the terms of the contract. The stage of completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours for each contract.

Other service revenue is recognised when the service is provided.

##### **Sale of Diagnostic Tests, Technology equipment and other related products**

A sale is recorded when goods have been despatched to a customer pursuant to a sales order, the associated risks of ownership have passed to the carrier or customer, and collectability is probable.

##### **Lease income**

Lease income from property sub-leases is recognised as income on a straight-line basis over the lease term.

##### **Interest income**

Interest income is recognised on a time proportion basis using the effective interest method.

##### **Dividends**

Dividends are recognised as revenue when the right to receive payment is established.

##### **Royalties**

Royalty income is recognised as revenue when the amount of revenue can be reliably measured, being the earlier of the receipt of a royalty report or royalty payment from the licensee.

##### **Barter Income**

When dissimilar goods are sold or services are rendered in exchange for non-cash consideration, revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred.

##### **Deferred Income**

Differences between cash received and amounts recognised as revenue are recognised as deferred income where cash received exceeds revenue recognised, and as accrued income where revenue has yet to be invoiced to the customer.

#### **(f) Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

**(g) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these 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 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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

***Tax consolidation legislation***

Tyrian Diagnostics Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Tyrian Diagnostics Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Tyrian Diagnostics Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 7.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

**(h) Leases**

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current or non-current borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.



## Notes to the Financial Statements continued

30 June 2010

### (i) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### (k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

### (m) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory using standard costing techniques. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(n) Investments and other financial assets**

***Classification***

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

***Financial assets at fair value through profit or loss***

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate an asset as a financial asset if it is possible the asset will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

***Loans and receivables***

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

***Available-for-sale financial assets***

Available-for-sale financial assets, comprising of unlisted equity securities, are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

***Subsequent measurement***

Available-for-sale financial assets are carried at fair value. Changes in fair value are recorded in equity. Financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

***Impairment***

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

**(o) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**(p) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation and impairment charges. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Plant 3-8 years
- Furniture, fittings and equipment 3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the income statement.

#### **(q) Intangible assets**

##### ***Patents***

Patents have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight line method to allocate the cost of patents over their estimated useful lives, which vary from 5 to 20 years. Where costs pertaining to a patent application have been capitalised in prior periods, and that patent is subsequently abandoned, both the cost and accumulated amortisation are written off.

##### ***Research and development***

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Capitalised development costs recorded as intangible assets are amortised from the point at which the asset is ready for use on a straight line basis over its useful life. No development expenditure incurred to date has met these criteria.

Development expenditures that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

##### ***Computer software***

Computer software is stated at historical cost less accumulated amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Amortisation is calculated using the straight line method to allocate the cost of software over its estimated useful life, which is generally two and half years.

#### **(r) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

#### **(s) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **(t) Provisions**

Provisions for legal claims, service warranties and make-good obligations are recognised at their present value when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**(u) Employee benefits**

***Wages and salaries and annual leave***

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid including appropriate on-costs when the liabilities are settled.

***Long service leave***

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

***Retirement benefit obligations***

Contributions to employee superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The consolidated entity does not operate a defined benefit superannuation scheme.

***Share-based payments***

Share-based compensation benefits are provided to employees via the Tyrian Diagnostics Employee Share Option Plan ("ESOP") and the 2004 Performance Rights Share Plan ("Plan").

The fair value of options granted under the ESOP is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date of options is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

The fair value of performance rights granted under the Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period.

The fair value at grant date of performance rights is determined using either a Black-Scholes pricing model or a Monte Carlo pricing model (predominantly for rights with a component of market based vesting criteria). Both models take into account the exercise price, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right.

The fair value of the rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

**(v) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs such as stamp duties, professional adviser's fees, underwriting costs and brokerage fees directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

**(w) Earnings (loss) per share**

***Basic earnings (loss) per share***

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

***Diluted earnings (loss) per share***

Diluted earnings (loss) per share adjusts the figures used in the determination of basic earnings (loss) per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(x) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

**(y) Consumables**

Consumables used in the normal operation of the business are expensed as incurred.

**(z) New accounting standards and UIG interpretations**

There are no relevant new accounting standards or UIG interpretations that have been published, that are not mandatory for the 30 June 2010 reporting period, for which the group is required to assess the impact.

**(aa) Parent entity financial information**

The financial information for the parent entity, Tyrian Diagnostics Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements.

**2. Critical accounting estimates and judgements**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year.

### 3. Segment information

#### (a) Description of segments

Management has determined the operating segments based on the reports reviewed by the chief executive officer that are used to make strategic decisions.

The chief executive officer considers the business to consist of one operating segment, being the development, manufacture and sale of diagnostic tests and associated reagents. All such activities from continuing operations are carried out from the one geographic location, being Sydney Australia.

#### (b) Segment information provided to the chief executive officer

The segment information provided to the chief executive officer for the reportable segments for the year ended 30 June is as follows:

|                                                                                  | 2010<br>\$         | 2009<br>\$  |
|----------------------------------------------------------------------------------|--------------------|-------------|
| <b>Revenue from External Customers</b>                                           | <b>1,551,760</b>   | 1,104,957   |
| Cost of goods sold                                                               | <b>(209,051)</b>   | (17,820)    |
| Interest revenue                                                                 | <b>178,281</b>     | 306,489     |
| Recycle of Foreign Currency Translation Reserve                                  | -                  | 314,507     |
| Sundry income                                                                    | <b>255,801</b>     | -           |
| Gain on sale of investments                                                      | <b>28,822</b>      | 34,622      |
| Other income                                                                     | <b>54,181</b>      | 232,642     |
| <b>Total Net income</b>                                                          | <b>1,859,794</b>   | 1,975,397   |
| Depreciation and Amortisation                                                    | <b>(198,923)</b>   | (312,720)   |
| Finance costs                                                                    | -                  | (21,070)    |
| Share based payment expense                                                      | <b>(62,410)</b>    | (274,971)   |
| Foreign Exchange Gains/ (Losses)                                                 | <b>17,270</b>      | 70,613      |
| All other expenses                                                               | <b>(5,771,642)</b> | (8,404,175) |
| Income tax expense                                                               | -                  | (28,076)    |
| <b>Net loss after tax</b>                                                        | <b>(4,155,911)</b> | (6,995,002) |
| <b>Total gross segment assets</b>                                                | <b>4,489,765</b>   | 4,583,307   |
| Total Assets includes:                                                           |                    |             |
| Additions to non-current assets (there are no financial assets and deferred tax) | <b>249,362</b>     | 43,187      |
| <b>Total segment liabilities</b>                                                 | <b>1,153,492</b>   | 1,648,984   |

#### (c) Other Segment Information

##### (i) Segment Revenue

Revenues from external customers are derived from the sale of diagnostic tests and reagents, the provision of development services, the licensing of intellectual property owned by the Group, and subleasing of premises.

Segment revenue reconciles to total revenue from continuing operations as follows:

|                                                          | 2010<br>\$       | 2009<br>\$ |
|----------------------------------------------------------|------------------|------------|
| <b>Segment revenue from external customers</b>           | <b>1,551,760</b> | 1,104,957  |
| Add: Interest revenue                                    | <b>178,281</b>   | 306,489    |
| Sundry income                                            | <b>255,801</b>   | -          |
| Less: Revenue from discontinued operations               | <b>(10,501)</b>  | (76,904)   |
| <b>Total revenue from continuing operations (note 4)</b> | <b>1,975,341</b> | 1,334,542  |

The entity is domiciled in Australia. Segment revenue for 2010 from external customers in Australia is \$123,731 (2009: \$239,896) and from external customers in other countries is \$1,428,029 (2009: \$865,061), including \$1,133,535 (2009: \$302,365) from Germany, and \$253,995 (2009: \$462,078) from USA.

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The following revenues were derived from single external customers:

|            | 2010      | 2009    |
|------------|-----------|---------|
|            | \$        | \$      |
| Customer 1 | 1,136,292 | 374,978 |
| Customer 2 | 247,758   | 302,365 |
| Customer 3 | 118,926   | 237,231 |
| Customer 4 | 39,894    | 47,963  |

(ii) *Operating Profit*

Since the Group has only one operating segment, the CEO assesses the Group's performance based on operating profit after tax. Operating profit reported to management is reconciled to operating profit after tax from continuing operations as follows:

|                                                  | 2010               | 2009               |
|--------------------------------------------------|--------------------|--------------------|
|                                                  | \$                 | \$                 |
| Segment operating loss after tax                 | (4,155,911)        | (6,995,002)        |
| Add back: Loss from discontinued operations      | 25,308             | 578,585            |
| <b>Loss after tax from continuing operations</b> | <b>(4,130,603)</b> | <b>(6,416,417)</b> |

(iii) *Segment assets*

The amounts provided to the CEO with respect to total assets are measured in a manner consistent with that of the financial statements, and as such segment assets equal total Group assets.

The total of non-current assets (there are no financial instruments, deferred tax assets, employment benefit assets and rights arising under insurance contracts) located in Australia is \$488,729 (2009: \$526,320), and the total of these non-current assets located in other countries is \$nil (2009: nil).

(iv) *Segment liabilities*

The amounts provided to the CEO with respect to total liabilities are measured in a manner consistent with that of the financial statements, and as such segment assets equal total Group liabilities.

**4. Revenue**

|                                                 | Consolidated     |                  |
|-------------------------------------------------|------------------|------------------|
|                                                 | 2010             | 2009             |
|                                                 | \$               | \$               |
| <b>From continuing operations</b>               |                  |                  |
| <b>Sales &amp; business revenue</b>             |                  |                  |
| Sale of goods                                   | 452,443          | 42,671           |
| Collaboration income                            | 514,231          | 409,151          |
| Royalty income                                  | 45,749           | 98,883           |
| License income                                  | 374,149          | 216,124          |
| Other services income                           | 35,871           | -                |
|                                                 | <b>1,422,443</b> | <b>766,829</b>   |
| <b>Other revenue</b>                            |                  |                  |
| Sub-lease rentals                               | 118,816          | 236,981          |
| Interest                                        | 178,281          | 306,489          |
| Sundry income                                   | 255,801          | 24,243           |
|                                                 | <b>552,898</b>   | <b>567,713</b>   |
| <b>Total revenue from continuing operations</b> | <b>1,975,341</b> | <b>1,334,542</b> |

**5. Other income**

|                                                 | Consolidated |         |
|-------------------------------------------------|--------------|---------|
|                                                 | 2010         | 2009    |
|                                                 | \$           | \$      |
| Government grants                               | 21,181       | 36,819  |
| Net Foreign Exchange Gains                      | 17,270       | 70,614  |
| Recycle of Foreign Currency Translation Reserve | -            | 314,508 |

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|                                                            |               |                |
|------------------------------------------------------------|---------------|----------------|
| Net profit on disposal of property, plant and equipment    | 5,194         | 3,133          |
| Net gain on sale of other financial assets (refer note 13) | 28,822        | 34,622         |
| <b>Total other income</b>                                  | <b>72,467</b> | <b>459,696</b> |

**(a) Government grants**

Export market development grants of \$21,181 (2009: \$36,819) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies attaching to grant income recognised to date. The Group did not benefit directly from any other forms of government assistance.

**(b) Recycle of Foreign Currency Translation Reserve**

In the previous financial year, the Group recycled the net movement in Foreign Currency Translation Reserve arising from the deregistration of a subsidiary. The movement, amounting to \$314,508, has been recognised as income in the previous year's financial statements with a corresponding debit to the Foreign Currency Translation Reserve.

**6. Expenses**

|                                                                           | <b>Consolidated</b> |             |
|---------------------------------------------------------------------------|---------------------|-------------|
|                                                                           | <b>2010</b>         | <b>2009</b> |
|                                                                           | <b>\$</b>           | <b>\$</b>   |
| <b>Profit before income tax includes the following specific expenses:</b> |                     |             |
| <b>Depreciation</b>                                                       |                     |             |
| Plant and equipment                                                       | 124,115             | 225,283     |
| <b>Amortisation</b>                                                       |                     |             |
| Leasehold improvements                                                    | 64,837              | 64,150      |
| Computer software                                                         | 9,971               | 13,771      |
| Total amortisation                                                        | 74,808              | 77,921      |
| Total depreciation and amortisation                                       | 198,923             | 303,204     |
| <b>Impairment of assets</b>                                               |                     |             |
| Plant and equipment                                                       | 191,712             | (25,574)    |
| Leasehold improvements                                                    | -                   | 13,279      |
| Total Impairment                                                          | 191,712             | (12,295)    |

|                                                              | <b>Consolidated</b> |             |
|--------------------------------------------------------------|---------------------|-------------|
|                                                              | <b>2010</b>         | <b>2009</b> |
|                                                              | <b>\$</b>           | <b>\$</b>   |
| Finance Costs                                                | -                   | 16,375      |
| Rental Expense relating to operating leases                  | 634,896             | 969,432     |
| Defined contribution superannuation expenses (refer note 32) | 308,158             | 448,232     |
| Share-based payments (refer note 33)                         | 62,410              | 308,434     |

**7. Income tax expense**

|                                        | <b>Consolidated</b> |             |
|----------------------------------------|---------------------|-------------|
|                                        | <b>2010</b>         | <b>2009</b> |
|                                        | <b>\$</b>           | <b>\$</b>   |
| <b>(a) Income tax expense</b>          |                     |             |
| Current tax                            | -                   | 28,076      |
| Income tax expense is attributable to: |                     |             |
| Loss from continuing operations        | -                   | 28,076      |



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**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

|                                                                                         |                    |             |
|-----------------------------------------------------------------------------------------|--------------------|-------------|
| Loss from continuing operations before income tax expense                               | <b>(4,130,603)</b> | (6,388,341) |
| Tax at the Australian tax rate of 30% (2009 - 30%)                                      | <b>(1,239,181)</b> | (1,916,502) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: |                    |             |
| Non-deductible entertainment                                                            | <b>2,874</b>       | 6,698       |
| Write down/(write back) of loans                                                        | -                  | -           |
| R&D uplift                                                                              | <b>(23,394)</b>    | (68,444)    |
| Share-based payments                                                                    | <b>18,723</b>      | 92,531      |
| Recycle of foreign currency translation reserve                                         | -                  | (94,352)    |
| Sundry items                                                                            | -                  | 162         |
|                                                                                         | <b>(1,240,978)</b> | (1,979,907) |
| Tax refund for R&D Tax Offset election                                                  | <b>116,970</b>     | -           |
| Tax losses and temporary differences not recognised as deferred tax assets              | <b>1,124,008</b>   | 1,979,907   |
| Non-recoverable withholding tax written off                                             | -                  | 28,076      |
| Income tax expense                                                                      | -                  | 28,076      |

**(c) Tax losses**

Unused tax losses for which no deferred tax asset has been recognised:

|                             |                   |                   |
|-----------------------------|-------------------|-------------------|
| Potential tax benefit @ 30% | <b>30,258,162</b> | <b>28,413,882</b> |
|-----------------------------|-------------------|-------------------|

All unused tax losses disclosed above were incurred by Australian entities.

A tax asset will not be recognised until it becomes probable that the tax consolidated group will obtain the benefit of these losses, because:

- (i) it derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the losses are transferred to an eligible entity, and
- (iii) the tax consolidated group continues to comply with the conditions for deductibility imposed by tax legislation, and there are no tax legislation changes that adversely affect the ability of the consolidated tax entity to realise the benefit from the deductions for the losses.

**(d) Tax consolidation legislation**

Tyrian Diagnostics Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(g).

The entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Tyrian Diagnostics Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Tyrian Diagnostics Limited for any current tax payable assumed and are compensated by Tyrian Diagnostics Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Tyrian Diagnostics Limited under the tax consolidation legislation.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. No funding amounts have been recognised to date.

**8. Current assets – cash and cash equivalents**

|                          | <b>Consolidated</b> |             |
|--------------------------|---------------------|-------------|
|                          | <b>2010</b>         | <b>2009</b> |
|                          | <b>\$</b>           | <b>\$</b>   |
| Cash at bank and on hand | <b>2,996,167</b>    | 1,814,000   |
| Deposits at call         | <b>265,178</b>      | 1,623,926   |
|                          | <b>3,261,345</b>    | 3,437,926   |

**(a) Reconciliation to cash at the end of the year**

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows.

**(b) Cash at bank and on hand**

These are a combination of interest-bearing and non-interest bearing (refer to Financial risk management note 24).

**(c) Deposits at call**

The deposit is bearing a floating interest rate of 3.44% (2009: 2.75%). This deposit has a weighted average maturity of 0 days (2009: 0 days).

**9. Current assets – trade and other receivables**

|                              | <b>Consolidated</b> |             |
|------------------------------|---------------------|-------------|
|                              | <b>2010</b>         | <b>2009</b> |
|                              | <b>\$</b>           | <b>\$</b>   |
| Trade receivables            | <b>457,123</b>      | 194,862     |
| Provision for impairment (b) | <b>-</b>            | (1,717)     |
|                              | <b>457,123</b>      | 193,145     |
| Other receivables            | <b>118,246</b>      | 1,275       |
| Provision for impairment (b) | <b>(1,276)</b>      | -           |
|                              | <b>574,093</b>      | 194,420     |

**(a) Bad and doubtful trade receivables**

During the year ended 30 June 2010 the Group recognised \$nil net loss (2009: \$1,717) in respect of bad and doubtful trade receivables from continuing operations. The Group recognised no additional loss in the year ended 30 June 2010 (2009: \$751) in respect of bad and doubtful trade receivables from discontinued operations. In the prior year, this loss has been included in 'Loss from discontinued operations' in the income statement.

**(b) Impaired trade and other receivables**

As at 30 June 2010 \$nil current trade receivables of the Group were impaired (2009: \$1,717). The amount of the provision against impaired Group receivables was \$nil (2009: \$1,717).

The ageing of these receivables is as follows:

|                                   | <b>Consolidated</b> |             |
|-----------------------------------|---------------------|-------------|
|                                   | <b>2010</b>         | <b>2009</b> |
|                                   | <b>\$</b>           | <b>\$</b>   |
| <b>Impaired Trade Receivables</b> |                     |             |
| Past due 1-3 months               | -                   | -           |
| Past due > 3 months               | -                   | 1,717       |
|                                   | -                   | 1,717       |

Movements in the provision for impairment of trade receivables during the financial year are set out below:

Tyrian Diagnostics Limited and its controlled entities  
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|                                          | <b>Consolidated</b> |             |
|------------------------------------------|---------------------|-------------|
|                                          | <b>2010</b>         | <b>2009</b> |
|                                          | <b>\$</b>           | <b>\$</b>   |
| Carrying amount at start of year         | <b>1,717</b>        | 2,382       |
| Additional provisions recognised         | -                   | 1,717       |
| Receivables written off as uncollectible | <b>(1,717)</b>      | (2,764)     |
| Foreign exchange movements               | -                   | 382         |
| Carrying amount of end of year           | -                   | 1,717       |

**(c) Past due but not impaired**

As of 30 June 2010, trade receivables of \$279,206 (2009: \$169,812) were past due but not impaired. The receivables in the current year relate to monies receivable in respect of licensing agreements. Negative amounts refer to overpayments received from customers. The aging of these trade receivables is as follows:

|                          | <b>Consolidated</b> |             |
|--------------------------|---------------------|-------------|
|                          | <b>2010</b>         | <b>2009</b> |
|                          | <b>\$</b>           | <b>\$</b>   |
| <b>Trade Receivables</b> |                     |             |
| Past due 1-3 months      | <b>280,137</b>      | 170,743     |
| Past due > 3 months      | <b>(931)</b>        | (931)       |
|                          | <b>279,206</b>      | 169,812     |

**(d) Foreign exchange and interest rate risk**

The Group's exposure to foreign exchange and interest rate risk and the effective weighted average interest rate by maturity periods is set out in note 24.

**(e) Fair value and credit risk**

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to note 24 for more information on the risk management policy of the group and the credit quality of the entities trade receivables.

**10. Current assets – inventories**

|                                   | <b>Consolidated</b> |             |
|-----------------------------------|---------------------|-------------|
|                                   | <b>2010</b>         | <b>2009</b> |
|                                   | <b>\$</b>           | <b>\$</b>   |
| Raw materials - net book value    | <b>47,525</b>       | 19,696      |
| Work in progress – net book value | <b>39,348</b>       | 41,961      |
|                                   | <b>86,873</b>       | 61,657      |

**(a) Adjustment to inventory impairment**

The net write-up of inventories to net realisable value recognised in the income statement during the year ended 30 June 2010 amounted to \$22,615 (2009: write-up of \$7,688). No impairment was deemed necessary as at 30 June 2010 against inventory relating to the Group's current diagnostic products.

**11. Current assets – other financial assets**

**Security Deposits**

|                                                       | <b>Consolidated</b> |             |
|-------------------------------------------------------|---------------------|-------------|
|                                                       | <b>2010</b>         | <b>2009</b> |
|                                                       | <b>\$</b>           | <b>\$</b>   |
| Opening balance                                       | <b>260,664</b>      | -           |
| Transfer (to) from non current assets (refer note 13) | <b>(156,005)</b>    | 260,664     |
| Released to cash or cash equivalents                  | <b>(104,659)</b>    | -           |
| Closing balance                                       | -                   | 260,664     |

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**Notes to the Financial Statements continued**  
30 June 2010

|                         | <b>Consolidated</b> |             |
|-------------------------|---------------------|-------------|
|                         | <b>2010</b>         | <b>2009</b> |
|                         | <b>\$</b>           | <b>\$</b>   |
| Current                 | -                   | 260,664     |
| Non-current             | <b>156,005</b>      | -           |
| Total security deposits | <b>156,005</b>      | 260,664     |

|                        | <b>Consolidated</b> |             |
|------------------------|---------------------|-------------|
|                        | <b>2010</b>         | <b>2009</b> |
|                        | <b>\$</b>           | <b>\$</b>   |
| Represented by:        |                     |             |
| Bank deposit           | <b>156,005</b>      | 156,005     |
| Deposits with landlord | -                   | 104,659     |
|                        | <b>156,005</b>      | 260,664     |

**12. Current assets – other**

|                      | <b>Consolidated</b> |             |
|----------------------|---------------------|-------------|
|                      | <b>2010</b>         | <b>2009</b> |
|                      | <b>\$</b>           | <b>\$</b>   |
| Prepayments          | <b>60,105</b>       | 65,237      |
| Interest receivable  | <b>6,482</b>        | 11,819      |
| Royalties receivable | -                   | 7,693       |
| GST Receivable       | <b>12,138</b>       | 17,571      |
|                      | <b>78,725</b>       | 102,320     |

**13. Non-current assets – other financial assets**

|                   | <b>Consolidated</b> |             |
|-------------------|---------------------|-------------|
|                   | <b>2010</b>         | <b>2009</b> |
|                   | <b>\$</b>           | <b>\$</b>   |
| Security Deposits | <b>156,005</b>      | -           |
|                   | <b>156,005</b>      | -           |

**(a) Available-for-sale financial assets**

During the previous financial year a company in which the Group owned a minority share (19%) was deregistered. As the investment has previously been fully impaired, no gain or loss was recognised upon deregistration.

During the current financial year, the Group received an additional deferred consideration of \$28,822 (2009: \$34,622) in respect of a prior year sale of shares it held in an unlisted Australian Company, which was recognised as a gain on sale of investment.

|                           | <b>Consolidated</b> |             |
|---------------------------|---------------------|-------------|
|                           | <b>2010</b>         | <b>2009</b> |
|                           | <b>\$</b>           | <b>\$</b>   |
| At beginning of year      | -                   | 19          |
| Book value of assets sold | -                   | (19)        |
| At end of year            | -                   | -           |

**(b) Security deposits**

The Group is required to hold a minimum level of cash and cash equivalents as a security deposit on a non-cancellable lease on operating premises in Sydney, Australia. The group took out a new lease for three years commencing 1 January 2010 and as such the security deposit is recognised as non-current. In the previous financial year, the deposits relating to leases expiring in less than 12 months were reclassified as current assets (refer note 11).

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|                                      | <b>Consolidated</b> |             |
|--------------------------------------|---------------------|-------------|
|                                      | <b>2010</b>         | <b>2009</b> |
|                                      | <b>\$</b>           | <b>\$</b>   |
| At beginning of year                 | -                   | 244,225     |
| Deposit applied against rent expense | <b>156,005</b>      | -           |
| Exchange differences                 | -                   | 16,439      |
| Transfer to current assets           | -                   | (260,664)   |
| At end of year                       | <b>156,005</b>      | -           |

**14. Non-current assets – property, plant and equipment**

|                                            | <b>Consolidated</b> |             |
|--------------------------------------------|---------------------|-------------|
|                                            | <b>2010</b>         | <b>2009</b> |
|                                            | <b>\$</b>           | <b>\$</b>   |
| <b>Leasehold Improvements</b>              |                     |             |
| At cost                                    | <b>556,425</b>      | 709,414     |
| Less: Accumulated amortisation             | <b>(388,131)</b>    | (648,524)   |
| Less: Impairment write-down                | <b>(2,277)</b>      | (18,592)    |
|                                            | <b>166,017</b>      | 42,298      |
| <b>Plant and equipment</b>                 |                     |             |
| At cost                                    | <b>4,126,782</b>    | 4,903,970   |
| Less: Accumulated depreciation             | <b>(3,964,726)</b>  | (4,434,570) |
| Less: Impairment write-down                | <b>(2,270)</b>      | (2,270)     |
|                                            | <b>159,786</b>      | 467,130     |
| <b>Total property, plant and equipment</b> | <b>325,803</b>      | 509,428     |

|                                                                             | <b>Leasehold<br/>Improvements<br/>\$</b> | <b>Plant &amp;<br/>equipment<br/>\$</b> | <b>Leased plant<br/>&amp; equipment<br/>\$</b> | <b>Total<br/>\$</b> |
|-----------------------------------------------------------------------------|------------------------------------------|-----------------------------------------|------------------------------------------------|---------------------|
| <b>Consolidated</b>                                                         |                                          |                                         |                                                |                     |
| <b>2010</b>                                                                 |                                          |                                         |                                                |                     |
| Carrying amount at 1/7/09                                                   | 42,298                                   | 467,130                                 | -                                              | 509,428             |
| Additions                                                                   | 199,617                                  | 49,745                                  | -                                              | 249,362             |
| Disposals                                                                   | (11,061)                                 | (41,262)                                | -                                              | (52,323)            |
| Depreciation/amortisation expense<br>(Note 6)                               | (64,837)                                 | (124,115)                               | -                                              | (188,952)           |
| Impairment (Note 6)                                                         | -                                        | (191,712)                               | -                                              | (191,712)           |
| <b>Carrying amount at 30/06/10</b>                                          | <b>166,017</b>                           | <b>159,786</b>                          | <b>-</b>                                       | <b>325,803</b>      |
| <b>2009</b>                                                                 |                                          |                                         |                                                |                     |
| Carrying amount at 1/7/08                                                   | 124,073                                  | 677,153                                 | 33,719                                         | 834,945             |
| Additions                                                                   | -                                        | 35,279                                  | -                                              | 35,279              |
| Disposals                                                                   | -                                        | (10,746)                                | (12,324)                                       | (23,070)            |
| Foreign exchange differences                                                | 389                                      | 4,393                                   | 4,028                                          | 8,810               |
| Depreciation/amortisation expense<br>(Note 6)                               | (64,150)                                 | (225,283)                               | -                                              | (289,433)           |
| Impairment (Note 6)                                                         | (13,279)                                 | 25,574                                  | -                                              | 12,295              |
| Impairment/ depreciation included in<br>"Loss from discontinued operations" | (4,735)                                  | (39,240)                                | (25,423)                                       | (69,398)            |
| <b>Carrying amount at 30/06/09</b>                                          | <b>42,298</b>                            | <b>467,130</b>                          | <b>-</b>                                       | <b>509,428</b>      |

**(a) Impairment write up/ (down)**

The Group regularly reviews its property, plant and equipment to identify assets that are no longer being utilised effectively in its diagnostic test development activities and whose value would therefore not be realised in ongoing operations. During the prior year the Group recommenced using assets that had been decommissioned, and the impairment that had previously been raised against these assets was reversed.

**15. Non-current assets – intangible assets**

|                                | <b>Consolidated</b> |             |
|--------------------------------|---------------------|-------------|
|                                | <b>2010</b>         | <b>2009</b> |
|                                | <b>\$</b>           | <b>\$</b>   |
| <b>Computer software</b>       |                     |             |
| At cost                        | <b>369,795</b>      | 369,795     |
| Less: Accumulated amortisation | <b>(362,874)</b>    | (352,903)   |
|                                | <b>6,921</b>        | 16,892      |
| <b>Total intangible assets</b> | <b>6,921</b>        | 16,892      |

| <b>Consolidated</b>                | <b>Computer Software</b> | <b>Total</b>   |
|------------------------------------|--------------------------|----------------|
|                                    | <b>\$</b>                | <b>\$</b>      |
| <b>2010</b>                        |                          |                |
| Carrying amount at 1/07/09         | <b>16,892</b>            | <b>16,892</b>  |
| Additions                          | -                        | -              |
| Disposals                          | -                        | -              |
| Foreign exchange differences       | -                        | -              |
| Amortisation expense (Note 6)      | <b>(9,971)</b>           | <b>(9,971)</b> |
| <b>Carrying amount at 30/06/10</b> | <b>6,921</b>             | <b>6,921</b>   |

| <b>Consolidated</b>                | <b>Computer Software</b> | <b>Total</b>  |
|------------------------------------|--------------------------|---------------|
|                                    | <b>\$</b>                | <b>\$</b>     |
| <b>2009</b>                        |                          |               |
| Carrying amount at 1/07/08         | 23,627                   | 23,627        |
| Additions                          | 7,908                    | 7,908         |
| Disposals                          | (684)                    | (684)         |
| Foreign exchange differences       | 131                      | 131           |
| Amortisation expense (Note 6)      | (13,771)                 | (13,771)      |
| Impairment (Note 6)                | (319)                    | (319)         |
| <b>Carrying amount at 30/06/09</b> | <b>16,892</b>            | <b>16,892</b> |

**16. Current liabilities – trade and other payables**

|                 | <b>Consolidated</b> |             |
|-----------------|---------------------|-------------|
|                 | <b>2010</b>         | <b>2009</b> |
|                 | <b>\$</b>           | <b>\$</b>   |
| Trade creditors | <b>201,863</b>      | 321,506     |
| Other payables  | <b>255,838</b>      | 264,965     |
|                 | <b>457,701</b>      | 586,471     |

**17. Current liabilities – provisions**

|                                        | <b>Consolidated</b> |             |
|----------------------------------------|---------------------|-------------|
|                                        | <b>2010</b>         | <b>2009</b> |
|                                        | <b>\$</b>           | <b>\$</b>   |
| Employee Benefits – long service leave | <b>59,595</b>       | 50,631      |
| Provision for make-good                | -                   | 265,182     |
| Provision for business closure costs   | <b>31,354</b>       | 93,665      |
|                                        | <b>90,949</b>       | 409,478     |

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**(a) Movements in provisions**

**Employee Benefits**

|                                                               | <b>Consolidated</b> |             |
|---------------------------------------------------------------|---------------------|-------------|
|                                                               | <b>2010</b>         | <b>2009</b> |
|                                                               | <b>\$</b>           | <b>\$</b>   |
| Carrying amount at start of year                              | <b>50,631</b>       | -           |
| Reclassification of benefits from non-current (refer note 19) | <b>8,964</b>        | 50,631      |
| Carrying amount of end of year                                | <b>59,595</b>       | 50,631      |

**Provision for make good**

|                                                        | <b>Consolidated</b> |             |
|--------------------------------------------------------|---------------------|-------------|
|                                                        | <b>2010</b>         | <b>2009</b> |
|                                                        | <b>\$</b>           | <b>\$</b>   |
| Carrying amount at start of year                       | <b>265,182</b>      | -           |
| Reclassification (to) from non-current (refer note 19) | <b>(140,000)</b>    | 265,182     |
| Write-back of provision                                | <b>(125,182)</b>    | -           |
| Carrying amount of end of year                         | <b>-</b>            | 265,182     |

**Business closure costs:**

|                                         | <b>Consolidated</b> |             |
|-----------------------------------------|---------------------|-------------|
|                                         | <b>2010</b>         | <b>2009</b> |
|                                         | <b>\$</b>           | <b>\$</b>   |
| Carrying amount at start of year        | <b>93,665</b>       | -           |
| Provision for closure of Boston office  | -                   | 93,665      |
| Costs incurred in closing Boston office | <b>(62,311)</b>     | -           |
| Carrying amount of end of year          | <b>31,354</b>       | 93,665      |

**18. Current liabilities – deferred income**

Deferred income represents that portion of license fees, option fees, collaboration income and sales revenue that has been invoiced to customers or collaboration partners but for which more goods or services must be provided or for which more time must elapse prior to the Group being able to recognize it as income. Amounts not expected to be recognised as income within the next 12 months have been classified as non-current liabilities (refer note 20).

|                 | <b>Consolidated</b> |             |
|-----------------|---------------------|-------------|
|                 | <b>2010</b>         | <b>2009</b> |
|                 | <b>\$</b>           | <b>\$</b>   |
| Deferred income | <b>374,451</b>      | 447,170     |

**19. Non – current liabilities – provisions**

|                                        | <b>Consolidated</b> |             |
|----------------------------------------|---------------------|-------------|
|                                        | <b>2010</b>         | <b>2009</b> |
|                                        | <b>\$</b>           | <b>\$</b>   |
| Employee benefits – long service leave | <b>90,391</b>       | 67,184      |
| Provision for make-good                | <b>140,000</b>      | -           |
|                                        | <b>230,391</b>      | 67,184      |

**(a) Employee benefits – long service leave**

Provision for employee long service leave benefits has been recognised with respect to the Group's Australian employees. During the previous financial year a number of employees became unconditionally entitled to receive their long service leave, either via use or via payment in lieu of leave if agreed by both parties. Provision for long service leave applicable to these employees is reclassified as a current liability in accordance with AASB 119.

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|                                    | <b>Consolidated</b> |             |
|------------------------------------|---------------------|-------------|
|                                    | <b>2010</b>         | <b>2009</b> |
|                                    | <b>\$</b>           | <b>\$</b>   |
| Carrying amount at start of year   | <b>67,184</b>       | 139,610     |
| Net change during period           | <b>32,171</b>       | (21,795)    |
| Carrying amount at end of year     | <b>99,355</b>       | 117,815     |
| Transferred to current liabilities | <b>(8,964)</b>      | (50,631)    |
|                                    | <b>90,391</b>       | 67,184      |

**(b) Provision for make-good**

The Group met an obligation under an existing lease to perform make good activities on its Sydney premises at the end of the lease, which expired in December 2009. The costs of the make good activities were less than the provision. The Group wrote back the difference between the remaining make-good provision under the lease and the make good provision required under a new three-year lease which commenced 1 January 2010.

Movements in provision for make-good during the financial year are set out below:

|                                              | <b>Consolidated</b> |             |
|----------------------------------------------|---------------------|-------------|
|                                              | <b>2010</b>         | <b>2009</b> |
|                                              | <b>\$</b>           | <b>\$</b>   |
| Carrying amount at start of year             | -                   | 261,262     |
| Transferred from current liabilities         | <b>140,000</b>      | -           |
| Transferred to current liabilities           | -                   | (265,182)   |
| Additional provisions recognised during year | -                   | 3,920       |
| Carrying amount at end of year               | <b>140,000</b>      | -           |

**20. Non-current liabilities – deferred income**

|                                 | <b>Consolidated</b> |             |
|---------------------------------|---------------------|-------------|
|                                 | <b>2010</b>         | <b>2009</b> |
|                                 | <b>\$</b>           | <b>\$</b>   |
| Deferred income (refer note 18) | -                   | 138,681     |

**21. Contributed equity**

**(a) Share capital**

|                 | <b>Consolidated</b> |             | <b>Consolidated</b> |             |
|-----------------|---------------------|-------------|---------------------|-------------|
|                 | <b>2010</b>         | <b>2009</b> | <b>2010</b>         | <b>2009</b> |
|                 | Number of shares    |             | \$                  |             |
| Ordinary shares | 498,516,341         | 248,829,011 | 119,958,301         | 115,464,260 |

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

**(b) Movements in ordinary share capital:**

| Date     | Details                           | Notes | Number of shares   | Issue price | \$                 |
|----------|-----------------------------------|-------|--------------------|-------------|--------------------|
| 01.07.08 | Opening Balance                   |       | 224,225,737        |             | 113,034,343        |
| 27.08.08 | Share issue – Placement           | (ii)  | 7,142,857          | 0.105       | 750,000            |
| 28.08.08 | Share issue – Placement           | (ii)  | 16,666,667         | 0.105       | 1,750,000          |
| 16.12.08 | Share issue – PRSP                | (i)   | 718,750            | -           | -                  |
| Various  | Capital raising costs, net of tax |       | n/a                | n/a         | (70,083)           |
| 24.03.09 | Share issue – PRSP                | (i)   | 75,000             | -           | -                  |
|          | <b>Balance as at 30 June 2009</b> |       | <b>248,829,011</b> |             | <b>115,464,260</b> |
| 04.09.09 | Share issue – renounceable rights | (iii) | 248,829,011        | 0.020       | 4,976,580          |
| Various  | Capital raising costs, net of tax |       | n/a                | n/a         | (482,539)          |
| 22.12.09 | Share issue - PRSP                | (i)   | 858,319            | -           | -                  |



**Notes to the Financial Statements continued**

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| Balance as at 30 June 2010 | 498,516,341 | 119,958,301 |
|----------------------------|-------------|-------------|
|----------------------------|-------------|-------------|

**(c) Notes to movements in ordinary share capital**

- (i) The Company issued shares to employees in satisfaction of performance rights that vested during the period. The performance rights were issued under the Performance Rights Share Plan.
- (ii) The Company issued 23,809,524 ordinary shares at \$0.105 each through a private placement to institutional and professional investors in Australia and the United States. Approval for the placement under ASX Listing Rule 7.1 was received at a general meeting of the Company on 13 November 2008.
- (iii) The Company issued 248,829,011 ordinary shares at \$0.02 each through a 1:1 renounceable rights issue open to eligible shareholders. The Company issued one attaching option for every four new shares subscribed for at the time of this issue of new shares, being a total of 62,207,286 options. These attaching options have an exercise price of \$0.03 per share and will expire on 31 December 2010.

**(d) Share options**

Tyrian Diagnostics Limited has previously issued options over ordinary shares. These options were not listed on the Australian Stock Exchange. A summary of the options on issue are as follows:

| Date     | Details                                              | Number of options | Options exercisable at year end |
|----------|------------------------------------------------------|-------------------|---------------------------------|
| 01.07.08 | Opening balance                                      | 1,543,590         |                                 |
| 25.08.08 | Options expired                                      | (250,000)         |                                 |
| 24.09.08 | Options expired                                      | (250,000)         |                                 |
| 28.09.08 | Options expired                                      | (275,000)         |                                 |
| 01.10.08 | Options expired                                      | (768,590)         |                                 |
| 30.06.09 | Balance as at 30 June 2009                           | -                 | -                               |
| 04.09.09 | Attaching options with 1:1 renounceable rights issue | (62,207,286)      | 31 December 2010                |
| 30.06.10 | Balance as at 30 June 2010                           | (62,207,286)      | -                               |

**(e) Performance rights**

Tyrian Diagnostics Limited has issued performance rights over ordinary shares. These performance rights are not listed on the Australian Stock Exchange. A summary of the performance rights on issue are as follows. This includes rights granted after 30 June 2010 but relating predominantly to performance conditions in the current financial year:

|                                           | Number of performance rights | Performance Rights vested at year end |
|-------------------------------------------|------------------------------|---------------------------------------|
| Opening balance                           | 9,735,000                    |                                       |
| Rights granted during 2009 FY             | 2,879,800                    |                                       |
| Rights converted to shares during 2009 FY | (793,750)                    |                                       |
| Rights forfeited during 2009 FY           | (8,866,250)                  |                                       |
| Balance as at 1 July 2009                 | 2,954,800                    | 75,000                                |
| Rights granted during 2010 FY             | -                            |                                       |
| Rights converted to shares during 2010 FY | (858,319)                    |                                       |
| Rights forfeited during 2010 FY           | (725,845)                    |                                       |
| Balance as at 30 June 2010                | 1,370,636                    |                                       |

Subsequent to the year end the company granted 9,768,698 performance rights which had a vesting period beginning from 1 October 2009.

**22. Reserves and accumulated losses**

|                                                                      | <b>Consolidated</b> |             |
|----------------------------------------------------------------------|---------------------|-------------|
|                                                                      | <b>2010</b>         | <b>2009</b> |
|                                                                      | <b>\$</b>           | <b>\$</b>   |
| <b>(a) Reserves</b>                                                  |                     |             |
| (i) Foreign currency translation reserve                             |                     |             |
| Opening balance 1 July                                               | (177,507)           | 149,631     |
| Recycle on deregistration of foreign subsidiary                      | -                   | (314,508)   |
| Net exchange differences on translation of foreign controlled entity | 1,410               | (12,630)    |
| Closing balance 30 June                                              | (176,097)           | (177,507)   |

(ii) Option reserve

|                              |        |          |
|------------------------------|--------|----------|
| Opening balance 1 July       | 98,919 | 134,793  |
| Options expensed/ (reversed) | -      | (35,874) |
| Closing balance 30 June      | 98,919 | 98,919   |

(iii) Performance rights reserve

|                                | <b>Consolidated</b> |             |
|--------------------------------|---------------------|-------------|
|                                | <b>2010</b>         | <b>2009</b> |
|                                | <b>\$</b>           | <b>\$</b>   |
| Opening balance 1 July         | 3,651,326           | 3,342,892   |
| Performance rights expensed    | 62,410              | 308,434     |
| Closing balance 30 June        | 3,713,736           | 3,651,326   |
| Total Reserves at balance date | 3,636,558           | 3,572,738   |

**Nature and purpose of reserve**

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve as described in Note 1(d).

(ii) Option reserve

The fair value of share based payments made to employees by the issue of options is recognised over the period the employees become entitled to those options, as described in Note 1(u).

(iii) Performance rights

The fair value of share based payments made to employees by the issue of performance rights is recognised over the period the employees become entitled to shares, as described in Note 1(u).

|                                                                | <b>Consolidated</b> |               |
|----------------------------------------------------------------|---------------------|---------------|
|                                                                | <b>2010</b>         | <b>2009</b>   |
|                                                                | <b>\$</b>           | <b>\$</b>     |
| <b>(b) Accumulated losses</b>                                  |                     |               |
| Accumulated losses at the beginning of the financial year      | (116,102,675)       | (109,107,673) |
| Net loss attributable to members of Tyrian Diagnostics Limited | (4,155,911)         | (6,995,002)   |
| Accumulated losses at the end of the financial year            | (120,258,586)       | (116,102,675) |

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**23. Loss per share**

|                                                                                                                                   | <b>Consolidated</b> |             |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                                                                   | <b>2010</b>         | <b>2009</b> |
|                                                                                                                                   | <b>\$</b>           | <b>\$</b>   |
| <b>(a) Basic loss per share</b>                                                                                                   |                     |             |
| Loss from continuing operations attributable to the ordinary equity holders of the company                                        | 0.009               | 0.026       |
| Loss from discontinued operations                                                                                                 | 0.000               | 0.003       |
| Total loss per share attributable to the ordinary equity holders of the company                                                   | 0.009               | 0.029       |
| <b>(b) Diluted loss per share</b>                                                                                                 |                     |             |
| Loss from continuing operations attributable to the ordinary equity holders of the company                                        | 0.009               | 0.026       |
| Loss from discontinued operations                                                                                                 | 0.000               | 0.003       |
| Total loss per share attributable to the ordinary equity holders of the company                                                   | 0.009               | 0.029       |
| <b>(c) Reconciliations of loss used in calculating loss per share</b>                                                             |                     |             |
| <i>Basic loss per share</i>                                                                                                       |                     |             |
| Loss from continuing operations                                                                                                   | (4,130,603)         | (6,416,417) |
| Loss from discontinued earnings                                                                                                   | (25,308)            | (578,585)   |
| Loss attributable to the ordinary equity holders of the company used in calculating basic loss per share                          | (4,155,911)         | (6,995,002) |
| <i>Diluted loss per share</i>                                                                                                     |                     |             |
| Loss from continuing operations                                                                                                   | (4,130,603)         | (6,416,417) |
| Loss from discontinued operations                                                                                                 | (25,308)            | (578,585)   |
| Loss attributable to the ordinary equity holders of the company used in calculating diluted loss per share                        | (4,155,911)         | (6,995,002) |
| <b>(d) Weighted average number of shares used as the denominator</b>                                                              |                     |             |
| Weighted average number of ordinary shares used as the denominator in calculating basic loss per share and diluted loss per share | <b>469,472,439</b>  | 244,592,127 |

**(e) Information concerning the classification of securities**

*Options and performance rights*

Options and performance rights are not considered to be potential ordinary shares, because their inclusion would have an anti-dilutive effect on the loss per share calculation. Options and rights have therefore been excluded from the determination of diluted loss per share. Details relating to options and performance rights excluded from these calculations are set out in note 21.

**24. Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange risk and aging analysis for credit risk.

Risk management is carried out by the Finance Department under policies approved by senior management in consultation with the Board.

**(a) Market risk**

**(i) Foreign exchange risk**

The majority of income from collaboration agreements, sales of instruments and diagnostic tests, royalties and licence fees is denominated in US dollars, as are a number of expenses incurred in developing diagnostic tests. US dollars were also required to support the activities and subsequent closure of the

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wholly owned subsidiary Proteome Systems Inc. US dollar denominated income received is retained in US dollar bank accounts and used as a natural hedge against services provided in the US, or provided elsewhere and denominated in US dollars.

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the reporting date is listed in the following tables. Amounts reported are the Australian dollar value of the foreign currency asset/liability.

|                   | 30 June 2010 |     | 30 June 2009 |         |
|-------------------|--------------|-----|--------------|---------|
|                   | USD          | NZD | USD          | NZD     |
|                   | \$           | \$  | \$           | \$      |
| Trade receivables | 453,785      | -   | 154,055      | -       |
| Cash at Bank      | 287,343      | -   | 77,985       | -       |
| Trade Payables    | (17,304)     | -   | (34,883)     | (9,052) |

At 30 June 2010 there were no derivative instruments outstanding (2009: nil).

*Sensitivity*

The Australian dollar strengthened against the US dollar by approximately 5% during the 2010 financial year (2009: weakened 16%), with the highest and lowest exchange rates during 2010 being 0.9349 and 0.7745 respectively. The Group therefore believes +/-10% exchange rate movement to be a reasonable basis for performing exchange rate sensitivity analysis on US dollar cash flows for the 2010 financial year (2009: +/-20%). The Group's exposure to other foreign exchange movements is not material, and a sensitivity analysis has therefore not been performed with respect to any other currencies.

Based on the financial instruments held at 30 June 2010, the following table summarises the effect on the Group's post-tax loss and equity had the Australian dollar weakened/strengthened by 10% (2009: 20%) against the US dollar with all other variables held constant:

|                        | Consolidated |          |
|------------------------|--------------|----------|
|                        | 2010         | 2009     |
|                        | \$           | \$       |
| Weakened 10% / 20%     | 93,256       | 49,289   |
| Strengthened 10% / 20% | (76,300)     | (32,859) |

The Group's post-tax profit and equity were more sensitive to movements in the Australian/US dollar exchange rates in 2010 than in 2009 because the value of assets denominated in US dollars as at 30 June 2010 was higher than as at 30 June 2009.

**(ii) Price risk**

The Group and parent entity were not subject to any material price risk in the 2009 or 2010 financial years, including equities securities price risk and commodities price risk.

**(iii) Cash flow and fair value interest rate risk**

The Group's main interest rate risk arises from cash on hand, the majority of which is held in an online bank account and an at-call deposit, both at variable rates and various short-term deposits with interest rates fixed for the terms of the deposit. In the past low levels of borrowings issued at fixed rates exposed the Group to fair value interest rate risk, although all such borrowings had been repaid at 30 June 2009. During 2010 and 2009, the majority of the Group's cash on hand at variable rate was denominated in Australian dollars. As at the reporting date, the Group had the following variable rate cash on hand:

|              | 30 June 2010                   |           | 30 June 2009                   |           |
|--------------|--------------------------------|-----------|--------------------------------|-----------|
|              | Weighted Average Interest Rate | Balance   | Weighted Average Interest Rate | Balance   |
|              | %                              | \$AU      | %                              | \$AU      |
| Cash at bank | 3.70                           | 3,162,454 | 2.64%                          | 3,420,664 |

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*Group and parent entity sensitivity*

The Group's main interest rate risk arises from cash on hand with variable interest rates. If interest rates had changed by +/- 100 basis points during 2010 with all other variables held constant, the 2010 post-tax loss would have been \$41,727 lower/ \$41,727 higher for the Group (2009: \$65,137 lower/ \$60,424 higher) as a result of changes to interest income.

**(b) Credit risk**

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks, only independently rated parties with a minimum rating of 'A' are accepted. The finance team assesses the credit quality of customers taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal assessment, and compliance with credit limits is regularly monitored.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised below. For customers of diagnostic test sales, the Group generally retains title over the goods sold until full payment is received. There is a concentration of credit risk with respect to receivables, as the Group has only a few material trade receivables. However, these have been assessed as being low risk by the Group. The Group does not hold collateral against any trade receivables.

|                                        | <b>Consolidated</b> |           |
|----------------------------------------|---------------------|-----------|
|                                        | <b>2010</b>         | 2009      |
|                                        | <b>\$</b>           | <b>\$</b> |
| <b>Trade Receivables</b>               |                     |           |
| Within credit terms – fully performing | <b>177,917</b>      | 23,333    |
| Past due 1-3 months                    | <b>280,137</b>      | 170,743   |
| Past due > 3 months                    | <b>(931)</b>        | (931)     |
|                                        | <b>457,123</b>      | 193,145   |

Refer to Note 9 for an analysis of the impairment of past due trade receivables.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the simple nature of the underlying businesses, and consistently negative cash flows from operations, the Group aims to simplify funding by minimising credit lines and investing surplus funds in very liquid deposits at call.

*Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period between the reporting date and the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| <b>Fixed Interest maturing in:</b> |                       |                          |                                            |              |
|------------------------------------|-----------------------|--------------------------|--------------------------------------------|--------------|
| <b>Group - 2010</b>                | <b>1 year or less</b> | <b>Over 1 to 2 years</b> | <b>Non-interest bearing 1 year or less</b> | <b>Total</b> |
|                                    | <b>\$</b>             | <b>\$</b>                | <b>\$</b>                                  | <b>\$</b>    |
| Trade & other payables (Note 16)   | -                     | -                        | 457,701                                    | 457,701      |
|                                    | -                     | -                        | 457,701                                    | 457,701      |
| Weighted average interest rate     | n/a                   | n/a                      | n/a                                        |              |
| <b>Fixed interest maturing in:</b> |                       |                          |                                            |              |
| <b>Group - 2009</b>                | <b>1 year or less</b> | <b>Over 1 to 2 years</b> | <b>Non-interest Bearing 1 year or less</b> | <b>Total</b> |
|                                    | <b>\$</b>             | <b>\$</b>                | <b>\$</b>                                  | <b>\$</b>    |
| Trade & other payables (Note 16)   | -                     | -                        | 586,471                                    | 586,471      |
|                                    |                       |                          | 586,471                                    | 586,471      |
| Weighted average interest rate     | n/a                   | n/a                      | n/a                                        |              |

**(d) Fair value estimation**

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market (for example investments in unlisted subsidiaries) is determined using valuation techniques.

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Consolidated Entity approximates their carrying amounts.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

|                                | <b>Floating<br/>interest<br/>rate</b> | <b>Fixed interest<br/>maturing in 1<br/>year or less</b> | <b>Non-interest<br/>bearing<br/>1 year or less</b> | <b>Total</b>     |
|--------------------------------|---------------------------------------|----------------------------------------------------------|----------------------------------------------------|------------------|
| <b>2010</b>                    | <b>\$</b>                             | <b>\$</b>                                                | <b>\$</b>                                          | <b>\$</b>        |
| Cash (Note 8)                  | 897,276                               | -                                                        | 98,892                                             | 996,168          |
| Deposits at call (Note 8)      | 265,178                               | -                                                        | -                                                  | 265,178          |
| Security deposits (Note 11)    | -                                     | 156,005                                                  | -                                                  | 156,005          |
| Term deposits (Note 8)         | -                                     | 2,000,000                                                | -                                                  | 2,000,000        |
| Trade receivables (Note 9)     | -                                     | -                                                        | 457,123                                            | 457,123          |
| Other receivables (Note 9)     | -                                     | -                                                        | 116,970                                            | 116,970          |
|                                | <b>1,162,454</b>                      | <b>2,156,005</b>                                         | <b>672,985</b>                                     | <b>3,991,444</b> |
| Weighted average interest rate | 3.70%                                 | 4.03%                                                    | n/a                                                |                  |

|                                | <b>Floating interest<br/>rate</b> | <b>Fixed interest<br/>maturing in 1<br/>year or less</b> | <b>Non-interest<br/>bearing<br/>1 year or less</b> | <b>Total</b>     |
|--------------------------------|-----------------------------------|----------------------------------------------------------|----------------------------------------------------|------------------|
| <b>2009</b>                    | <b>\$</b>                         | <b>\$</b>                                                | <b>\$</b>                                          | <b>\$</b>        |
| Cash (Note 8)                  | 1,796,738                         | -                                                        | 17,262                                             | 1,814,000        |
| Deposits at call (Note 8)      | 1,623,926                         | -                                                        | -                                                  | 1,623,926        |
| Security deposits (Note 11)    | -                                 | 156,005                                                  | 104,659                                            | 260,664          |
| Trade receivables (Note 9)     | -                                 | -                                                        | 193,145                                            | 193,145          |
| Other receivables (Note 9)     | -                                 | -                                                        | 1,275                                              | 1,275            |
|                                | <b>3,420,664</b>                  | <b>156,005</b>                                           | <b>316,341</b>                                     | <b>3,893,010</b> |
| Weighted average interest rate | 2.64%                             | 2.70%                                                    | n/a                                                |                  |

The balance of interest bearing security deposits in 2010 and 2009 represented a bank term deposit held as security for the Group's Sydney operating premises. While the maturity date of the deposit is less than one year, the deposit was classified in the 2009 and 2010 accounts as non-current as the Group is required to continually roll over the deposit for the duration of the lease, which expires on 31 December 2012.

**(e) Capital risk management**

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

As the Group incurs net cash outflows from operations and has large accumulated losses, the primary method used to adjust its capital structure is the issue of new shares. The Group has determined that where possible it will issue ordinary shares, rather than issue hybrid forms of securities, so as to avoid any restrictions on its use of capital or commit to interest repayments

**25. Key management personnel disclosures**

**(a) Directors**

The following persons were directors of Tyrian Diagnostics Limited during the financial year:

**(i) Chairman – non-executive**

Roger Amos

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**(ii) Executive director**

Jenny Harry, CEO

**(iii) Non-executive directors**

Caroline Popper  
Merilyn Sleigh

**(b) Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year. Unless specified otherwise, these persons were employed for the whole of the current and previous financial year, and were considered to be key management personnel for this time.

| Name          | Position                                                                                  | Employer                   |
|---------------|-------------------------------------------------------------------------------------------|----------------------------|
| Jaime Pinto   | Chief Financial Officer, Assistant Company Secretary (resigned 14 January 2010)           | Tyrian Diagnostics Limited |
| Michael Vamos | Chief Financial Officer, Assistant Company Secretary (appointed 4 February 2010)          | Tyrian Diagnostics Limited |
| Robyn Lindner | Chief Scientific Officer                                                                  | Tyrian Diagnostics Limited |
| Michelle Gow  | Chief Operating Officer (appointed 2 March 2009)                                          | Tyrian Diagnostics Limited |
| Lisa Jones    | Head of Legal and Business Affairs (on maternity leave from 12 June 2007 to 25 July 2008) | Tyrian Diagnostics Limited |

**(c) Key management personnel compensation**

|                              | Consolidated     |                  |
|------------------------------|------------------|------------------|
|                              | 2010             | 2009             |
|                              | \$               | \$               |
| Short-term employee benefits | 1,430,114        | 1,362,686        |
| Post-employment benefits     | 130,304          | 113,666          |
| Share-based payments         | 41,702           | 250,846          |
|                              | <b>1,602,120</b> | <b>1,727,198</b> |

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 14 to 19.

**(d) Equity instrument disclosures relating to key management personnel**

**(i) Options and performance rights provided as remuneration and shares issued on exercise of such options and rights.**

Details of options and performance rights provided as remuneration and shares issued on the exercise of such options and performance rights, together with terms and conditions of the options and performance rights, can be found in section D of the remuneration report.

**(ii) Option holdings**

The number of options over ordinary shares in the company held during the financial year by each director of Tyrian Diagnostics Limited and Controlled Entities and other key management personnel of the Group, including their personally related parties, are set out below.

|             | Balance at the start of the year | Granted during the year as compensation | Expired during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|-------------|----------------------------------|-----------------------------------------|-------------------------|--------------------------------|-----------------------------------------------|
| <b>2010</b> |                                  |                                         |                         |                                |                                               |

*Other key management personnel of the Group*

|                        |   |   |   |   |   |
|------------------------|---|---|---|---|---|
| Lisa Jones             | - | - | - | - | - |
| Bernard Malfroy-Camine | - | - | - | - | - |

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|                                                    | Balance at<br>the start of<br>the year | Granted<br>during the<br>year as<br>compensation | Expired<br>during the<br>year | Balance at<br>the end of the<br>year | Vested and<br>exercisable at<br>the end of the<br>year |
|----------------------------------------------------|----------------------------------------|--------------------------------------------------|-------------------------------|--------------------------------------|--------------------------------------------------------|
| <b>2009</b>                                        |                                        |                                                  |                               |                                      |                                                        |
| <i>Other key management personnel of the Group</i> |                                        |                                                  |                               |                                      |                                                        |
| Bernard Malfroy-Camine                             | 219,597                                | -                                                | (219,597)                     | -                                    | -                                                      |
| Lisa Jones                                         | 500,000                                | -                                                | (500,000)                     | -                                    | -                                                      |

**(iii) Performance rights holdings**

The number of performance rights held during the financial year by each director of Tyrian Diagnostics Limited and other key management personnel of the Group are set out below.

|                                                                        | Balance at<br>the start of<br>the year | Granted during<br>the year as<br>compensation | Converted to<br>shares<br>during the<br>year | Expired during<br>the year<br>(vesting criteria<br>not met) | Balance at<br>the end of<br>the year |
|------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------|----------------------------------------------|-------------------------------------------------------------|--------------------------------------|
| <b>2010</b>                                                            |                                        |                                               |                                              |                                                             |                                      |
| <i>Directors of Tyrian Diagnostics Limited and Controlled Entities</i> |                                        |                                               |                                              |                                                             |                                      |
| Jenny Harry                                                            | 1,110,000                              | -                                             | (293,333)                                    | (220,001)                                                   | 596,666                              |
| <i>Other key management personnel of the Group</i>                     |                                        |                                               |                                              |                                                             |                                      |
| Lisa Jones                                                             | 367,700                                | -                                             | (98,053)                                     | (73,541)                                                    | 196,106                              |
| Jaime Pinto                                                            | 420,000                                | -                                             | (98,000)                                     | (322,000)                                                   | -                                    |
| Robyn Lindner                                                          | 436,000                                | -                                             | (130,800)                                    | (43,600)                                                    | 261,600                              |

All outstanding rights are subject to vesting conditions. Upon satisfaction of vesting conditions, shares will be issued to the holders of the rights for nil consideration.

|                                                                        | Balance at the<br>start of the<br>year | Granted<br>during the<br>year as<br>compensation | Converted to<br>shares during<br>the year | Expired during<br>the year<br>(vesting criteria<br>not met) | Balance at<br>the end of<br>the year |
|------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------|-------------------------------------------|-------------------------------------------------------------|--------------------------------------|
| <b>2009</b>                                                            |                                        |                                                  |                                           |                                                             |                                      |
| <i>Directors of Tyrian Diagnostics Limited and Controlled Entities</i> |                                        |                                                  |                                           |                                                             |                                      |
| Jenny Harry                                                            | 4,310,000                              | 1,100,000                                        | -                                         | (4,310,000)                                                 | 1,110,000                            |
| <i>Other key management personnel of the Group</i>                     |                                        |                                                  |                                           |                                                             |                                      |
| Lisa Jones                                                             | 4,100,000                              | 367,700                                          | -                                         | (4,100,000)                                                 | 367,700                              |
| Jaime Pinto                                                            | 400,000                                | 420,000                                          | (200,000)                                 | (200,000)                                                   | 420,000                              |
| Robyn Lindner                                                          | 200,000                                | 436,000                                          | (200,000)                                 | -                                                           | 436,000                              |
| Shelley Evans                                                          | 200,000                                | -                                                | -                                         | (200,000)                                                   | -                                    |

All outstanding rights are subject to vesting conditions. Upon satisfaction of vesting conditions, shares will be issued to the holders of the rights for nil consideration.

**(iv) Performance rights issued post 30 June, 2010**

Between 1 July 2010 and the date of this report performance rights were issued to the following key management personnel.

| <b>Name</b>   | <b>Performance Rights<br/>Granted Since the end<br/>of the Financial Year</b> |
|---------------|-------------------------------------------------------------------------------|
| Robyn Lindner | 2,180,357                                                                     |
| Lisa Jones    | 1,838,571                                                                     |
| Michelle Gow  | 2,142,857                                                                     |

**(v) Share holdings**

The numbers of ordinary shares in the company held during the financial year by each director of Tyrian Diagnostics Limited and other key management personnel of the Group, including their personally related



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parties, are set out on the following table. There were no shares granted during the reporting period as compensation.

| <b>2010</b>                                                            | <b>Balance at the start of the year</b> | <b>Received during the year on the conversion of performance rights</b> | <b>Other changes during the year</b> | <b>Balance at the end of the year</b> |
|------------------------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------------------|--------------------------------------|---------------------------------------|
| <i>Directors of Tyrian Diagnostics Limited and Controlled Entities</i> |                                         |                                                                         |                                      |                                       |
| Jenny Harry                                                            | 2,829,588                               | 293,333                                                                 | 250,000                              | 3,372,921                             |
| Roger Amos                                                             | 95,000                                  | -                                                                       | 95,000                               | 190,000                               |
| Merilyn Sleigh                                                         | 300,000                                 | -                                                                       | -                                    | 300,000                               |
| <i>Other key management personnel of the Group</i>                     |                                         |                                                                         |                                      |                                       |
| Lisa Jones                                                             | 1,706,895                               | 98,053                                                                  | -                                    | 1,804,948                             |
| Robyn Lindner                                                          | 484,483                                 | 130,800                                                                 | -                                    | 615,283                               |
| Jaime Pinto <sup>1</sup>                                               | 200,000                                 | 98,000                                                                  | -                                    | 298,000                               |

<sup>1</sup> "Balance at the end of the year" reflects Mr Pinto's shareholding at the date he resigned as CFO, being 14 January 2010.

| <b>2009</b>                                                            | <b>Balance at the start of the year</b> | <b>Received during the year on the conversion of performance rights</b> | <b>Other changes during the year</b> | <b>Balance at the end of the year</b> |
|------------------------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------------------|--------------------------------------|---------------------------------------|
| <i>Directors of Tyrian Diagnostics Limited and Controlled Entities</i> |                                         |                                                                         |                                      |                                       |
| Jenny Harry                                                            | 2,829,588                               | -                                                                       | -                                    | 2,829,588                             |
| John Martin <sup>1</sup>                                               | 1,828,145                               | -                                                                       | -                                    | 1,828,145                             |
| Phillip Morley <sup>2</sup>                                            | 25,000                                  | -                                                                       | -                                    | 25,000                                |
| Roger Amos                                                             | -                                       | -                                                                       | 95,000                               | 95,000                                |
| Merilyn Sleigh                                                         | -                                       | -                                                                       | 300,000                              | 300,000                               |
| <i>Other key management personnel of the Group</i>                     |                                         |                                                                         |                                      |                                       |
| Lisa Jones                                                             | 1,706,895                               | -                                                                       | -                                    | 1,706,895                             |
| Bernard Malfroy-Camine <sup>3</sup>                                    | 702,587                                 | -                                                                       | -                                    | 702,587                               |
| Robyn Lindner                                                          | 284,483                                 | 200,000                                                                 | -                                    | 484,483                               |
| Jaime Pinto                                                            | -                                       | 200,000                                                                 | -                                    | 200,000                               |

<sup>1</sup> "Balance at the end of the year" reflects Mr Martin's shareholding at the date he resigned as a director, being 28 November 2008.

<sup>2</sup> "Balance at the end of the year" reflects Mr Morley's share holding at the date he resigned as a director, being 29 April 2009.

<sup>3</sup> "Balance at the end of the year" reflects Mr Malfroy-Carmine's share holding at the date he was made redundant as an Executive VP, being 25 August 2008.

**(vi) Shares issued post 30 June 2010**

Between 1 July 2010 and the date of this report, no shares were issued to key management personnel pursuant to the satisfaction of vesting conditions of performance rights.

**(e) Other transactions with key management personnel**

Caroline Popper is a shareholder and principal of Popper and Company, a US consulting firm that provides services to businesses and investors in the life science sector. During the previous financial year, Popper and Company provided consulting advice to the Group in respect of the Group's diagnostics Programmes. The Group paid Popper and Company fees at arms-length rates for the services provided. In the year ended 30 June 2010 the Group recognised \$nil (2009: \$48,801) as an expense.

## 26. Remuneration of auditors

Remuneration for audit or review of the financial reports of the Parent Entity or any entity in the Consolidated Entity:

|                                                                                             | <b>Consolidated</b> |             |
|---------------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                             | <b>2010</b>         | <b>2009</b> |
|                                                                                             | <b>\$</b>           | <b>\$</b>   |
| Fees paid to PricewaterhouseCoopers Australian firm:                                        |                     |             |
| Audit or review of financial reports of the entity or any entity in the Consolidated Entity | <b>160,609</b>      | 161,650     |
| Total remuneration                                                                          | <b>160,609</b>      | 161,650     |

## 27. Contingent liabilities

### Guarantees

The Consolidated Entity had contingent liabilities at 30 June 2010 and 30 June 2009 in the form of Guarantees given in respect of leased assets and leases for operating premises.

The guarantees given in respect of leased assets and leases for operating premises amounts to \$156,005 (2009: \$260,664), and is covered by a security deposit (note 11) held by the lessors. The Group expects to continue to meet all payment obligations required by the lease agreement, and therefore does not expect to make any payment under the guarantee.

Further, at the expiration of the lease agreement, the Group expects the deposit held in respect of that lease to be released and made available to the Group.

## 28. Events occurring after the balance sheet date

Since the end of the financial year, the directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## 29. Commitments for future expenditure

### (a) Operating leases

Commitments for minimum lease payments in relation to non-cancelable operating lease are payable as follows:

|                                                                                     | <b>Consolidated</b> |             |
|-------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                     | <b>2010</b>         | <b>2009</b> |
|                                                                                     | <b>\$</b>           | <b>\$</b>   |
| Within one year                                                                     | <b>245,838</b>      | 600,745     |
| Later than one year but not later than five years                                   | <b>368,757</b>      | -           |
| Commitments not recognised in the financial statements                              | <b>614,595</b>      | 600,745     |
| Minimum lease payments to be received from tenants under non-cancellable sub leases | -                   | 120,550     |

The Group leases premises in Sydney, Australia under a non-cancellable operating lease expiring 31 December 2012.

## 30. Related parties

### (a) Key management personnel

Disclosures relating to Director-related entities are disclosed in note 25.

### (b) Controlling entity

The ultimate Parent Entity in the wholly-owned group is Tyrian Diagnostics Limited, a company incorporated in New South Wales, Australia.

Tyrian Diagnostics Limited and its controlled entities  
**Notes to the Financial Statements continued**  
30 June 2010

**(c) Wholly owned group**

The wholly owned group consists of Tyrian Diagnostics Limited and its wholly-owned controlled entities, as set out in note 31.

Transactions between Tyrian Diagnostics Limited and other entities in the wholly-owned group during the years ended 30 June 2009 and 2010 consisted of:

- Loans advanced by Tyrian Diagnostics Limited
- Loans repaid to Tyrian Diagnostics Limited
- The provision of contract research and development activities
- The provision of management services
- Sales of plant and equipment and inventory
- Outstanding liabilities paid by Tyrian Diagnostics Limited on behalf of subsidiaries

**31. Investments in controlled entities**

**(a) Controlled entities**

| Name of entity                                 | Country of incorporation | Class of shares | Equity Holding |           |
|------------------------------------------------|--------------------------|-----------------|----------------|-----------|
|                                                |                          |                 | 2010<br>%      | 2009<br>% |
| Proteome Systems Intellectual Property Pty Ltd | Australia                | Ordinary        | 100            | 100       |
| Proteome Systems Inc                           | USA                      | Ordinary        | 100            | 100       |
| Eukarion Inc                                   | USA                      | Ordinary        | 100            | 100       |

**32. Employee benefits**

|                                                                    | Consolidated   |                |
|--------------------------------------------------------------------|----------------|----------------|
|                                                                    | 2010           | 2009           |
|                                                                    | Number         | Number         |
| <b>Employee numbers</b>                                            |                |                |
| Average number of employees during the financial year              | 24             | 31             |
| <b>Employee benefit and related on-costs liabilities</b>           |                |                |
| Included in trade and other payables – current (Note 16)           | 153,329        | 165,616        |
| Provision for employee benefits – current                          | 59,595         | 50,631         |
| Provision for employee benefits – non-current (Note 19)            | 90,391         | 67,184         |
| <b>Aggregate employee benefit and related on-costs liabilities</b> | <b>303,315</b> | <b>283,431</b> |

**Superannuation Commitments**

Australian employees are offered the opportunity to contribute towards a company superannuation fund established with ING Australia Ltd. However this is not compulsory and employees can select any fund of their choice.

**Contributions**

The Group contributes up to 10% of each Australian employee's base salary to superannuation funds. Details of contributions during the year are as follows:

|                                                         | Consolidated |         |
|---------------------------------------------------------|--------------|---------|
|                                                         | 2010         | 2009    |
|                                                         | \$           | \$      |
| Employer Contributions to employee superannuation funds | 308,158      | 448,232 |

**33. Share-based payments**

**(a) Employee share option plan**

The Employee Share Option Plan ("ESOP") was adopted in June 2001, pursuant to which Tyrian

Tyrian Diagnostics Limited and its controlled entities  
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Diagnostics Limited may, at the discretion of the Board, grant options to purchase ordinary shares in Tyrian Diagnostics Limited to directors, employees, advisors and consultants of the consolidated entity.

The Options are issued for a term stated in the option agreement, not exceeding five years from the date of the grant and have an exercise price as determined by the Board. The Options are not quoted on the ASX.

At 30 June 2010 there were no current or former staff members holding options granted under the ESOP.

Below is some information with respect to the number of options granted under the ESOP. None of the outstanding options issued under the ESOP carry dividend or voting rights.

|                              | 2010              |                                    | 2009              |                                    |
|------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
|                              | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Balance at beginning of year | -                 | -                                  | 1,543,590         | 1.74                               |
| granted during the year      | -                 | -                                  | -                 | -                                  |
| expired during the year      | -                 | -                                  | (1,543,590)       | 1.74                               |
| Balance at end of year       | -                 | -                                  | -                 | -                                  |
| Exercisable at end of year   | -                 | -                                  | -                 | -                                  |

**(i) Options held at beginning of reporting period**

There were no options issued under the ESOP held by employees as at 1 July 2009.

**(ii) Options granted during the reporting period**

No options were granted to employees during the period.

**(b) Performance Rights Share Plan**

The 2004 Performance Rights Share Plan ("Plan") was established, pursuant to shareholder approval obtained at the Company's AGM in 2004. For further details, refer to the Remuneration Report in the Directors' Report.

The Performance Rights are not quoted on the ASX. During the financial year one Director and 8 staff members held performance rights, or were allocated shares pursuant to vested performance rights, issued under the Performance Share Plan. Performance rights granted under the Plan are subject to service vesting conditions and/or performance conditions as determined by the Board. Performance rights affecting remuneration in the current or future reporting periods were/are subject to service vesting conditions, and/or performance conditions including share price movement and other task-specific performance conditions. The applicable service vesting and performance conditions are set out in each letter of offer of performance rights. Shares are allocated pursuant to performance rights on satisfaction of the applicable conditions. Once allocated, shares are subject to restrictions on disposal as set out in the Plan Rules and as determined by the Board.

Performance rights do not confer any dividend or voting rights until shares are allocated pursuant to those performance rights upon satisfaction of any applicable conditions. No consideration was paid to the entity from employees on granting of the performance rights.

Details of performance rights affecting remuneration in the current or future periods are as follows:

|                              | 2010                         |                                    | 2009                         |                                    |
|------------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|
|                              | Number of performance rights | Weighted average exercise price \$ | Number of performance rights | Weighted average exercise price \$ |
| Balance at beginning of year | 2,954,800                    | Nil                                | 9,735,000                    | Nil                                |
| granted                      | Nil                          | Nil                                | 2,879,800                    | Nil                                |
| converted to shares          | (858,319)                    | Nil                                | (793,750)                    | Nil                                |
| forfeited                    | (725,845)                    | Nil                                | (8,886,250)                  | Nil                                |
| Balance at end of year       | 1,370,636                    |                                    | 2,954,800                    |                                    |

Tyrian Diagnostics Limited and its controlled entities  
**Notes to the Financial Statements continued**  
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|                       |   |     |        |     |
|-----------------------|---|-----|--------|-----|
| Vested at end of year | - | Nil | 75,000 | Nil |
|-----------------------|---|-----|--------|-----|

Subsequent to the year end the company granted 9,768,698 performance rights which had a vesting period beginning from 1 October 2009. Performance rights do not carry any exercise price

**(i) Performance rights held at the beginning of the reporting period:**

The following table summarises information about performance rights held by employees as at 1 July 2009.

| Number of performance rights | Grant date      | Service period commencement date | Expiry date | Weighted average exercise price |
|------------------------------|-----------------|----------------------------------|-------------|---------------------------------|
| 75,000                       | 23 August 2007  | 1 April 2007                     | n/a         | Nil                             |
| 959,934                      | 20 January 2009 | 1 October 2008                   | n/a         | Nil                             |
| 959,934                      | 20 January 2009 | 1 October 2008                   | n/a         | Nil                             |
| 959,932                      | 20 January 2009 | 1 October 2008                   | n/a         | Nil                             |
| 2,954,800                    |                 |                                  |             | Nil                             |

**(ii) Performance rights granted during the reporting period:**

There were no performance rights granted during the reporting period. Subsequent to the year end, on 5 July 2010, the company granted 9,768,698 performance rights which had a service period commencing 1 October 2009.

**(iii) Shares issued during the reporting period pursuant to satisfaction of vesting conditions of performance rights:**

Shares were issued in respect of the conversion of 858,319 performance rights during the year ended 30 June 2010 (2009: 793,750).

**(iv) Performance rights forfeited during the reporting period pursuant to the failure of vesting conditions of rights:**

725,845 performance rights were forfeited during the year ended 30 June 2010 (2009: 8,886,250) due to the failure of performance or vesting conditions attached to the rights.

**(v) Performance rights held at end of reporting period:**

The following table summarises information about performance rights held by employees as at 30 June 2010.

| Number of performance rights | Grant date      | Service period commencement date | Expiry date | Weighted average exercise price |
|------------------------------|-----------------|----------------------------------|-------------|---------------------------------|
| 685,319                      | 20 January 2009 | 1 October 2008                   | n/a         | Nil                             |
| 685,317                      | 20 January 2009 | 1 October 2008                   | n/a         | Nil                             |
| 1,370,636                    |                 |                                  |             | Nil                             |

There were no performance rights granted during the reporting period. Subsequent to the year end, on 5 July 2010, the company granted 9,768,698 performance rights which had a service period commencing 1 October 2009.

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 0.75 years (2009: 1.22 years).

**(vi) Fair value of performance rights**

The weighted average fair value of performance rights related to the period was \$0.02 (2009: \$0.04). The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables above. Fair values at grant date have been determined using a Black-Scholes pricing model that takes into account the exercise price, the vesting period of the right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right.

Tyrian Diagnostics Limited and its controlled entities  
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The Black Scholes model inputs for rights granted relating to the year ended 30 June 2010 included:

- (a) rights are granted for no consideration
- (b) exercise price: nil (2009 : nil)
- (c) grant date: 5 July 2010
- (d) expiry date: various
- (e) share price at grant date: \$0.02 (2009: \$0.04)
- (f) expected price volatility of the company's shares: 60% (2009: 60%)
- (g) expected dividend yield: 0% (2009: 0%)
- (h) risk-free interest rate: 4.595% (2009: 2.865%)

**(c) Expense arising from share-based payment transactions**

Total expenses arising from share-based payment transactions recognised during the period as part of the employee benefits expense were as follows:

|                              | <b>Consolidated</b> |         |
|------------------------------|---------------------|---------|
|                              | <b>2010</b>         | 2009    |
|                              | \$                  | \$      |
| Rights issued under the Plan | <b>62,410</b>       | 308,434 |
|                              | <b>62,410</b>       | 308,434 |

**34. Reconciliation of loss after income tax to net cash outflow from operating activities**

|                                                                                    | <b>Consolidated</b> |             |
|------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                    | <b>2010</b>         | 2009        |
|                                                                                    | \$                  | \$          |
| Loss attributable to members                                                       | <b>(4,155,911)</b>  | (6,995,002) |
| Depreciation and amortisation                                                      | <b>198,923</b>      | 312,720     |
| Impairment of PPE & intangibles                                                    | <b>191,712</b>      | 47,878      |
| Non-cash employee benefits expense – share-based payments                          | <b>62,410</b>       | 274,971     |
| Net (gain) loss on sale of non-current assets                                      | <b>(5,677)</b>      | (4,010)     |
| Gain on sale on unlisted shares                                                    | <b>(28,822)</b>     | (34,622)    |
| Write back inventory impairment                                                    | <b>(22,615)</b>     | (9,053)     |
| Recycle of Foreign Currency Translation Reserve upon deconsolidation of subsidiary | -                   | (314,508)   |
| Net exchange differences                                                           | <b>30,764</b>       | (123,244)   |
| (Increase) decrease in trade debtors                                               | <b>(264,849)</b>    | 179,709     |
| (Increase) decrease in other receivables                                           | <b>719</b>          | 136,743     |
| (Increase) decrease in other operating assets                                      | <b>(25,216)</b>     | (61,657)    |
| (Increase) decrease in prepayments                                                 | <b>5,133</b>        | 22,973      |
| Increase (Decrease) in trade & other creditors                                     | <b>(119,696)</b>    | (573,471)   |
| Increase (Decrease) in deferred income                                             | <b>(211,399)</b>    | 39,506      |
| Increase (Decrease) in employee provisions                                         | <b>19,884</b>       | (64,320)    |
| Increase (Decrease) in other provisions                                            | <b>(187,493)</b>    | 97,585      |
| Net cash outflow from operating activities                                         | <b>(4,512,133)</b>  | (7,067,802) |

**35. Discontinued operations**

**(a) Description**

In August 2008 Tyrian Diagnostics Limited announced its intention to cease active efforts to develop and commercialise its portfolio of therapeutic compounds and close the operations in the Group's Boston office operated by a wholly-owned subsidiary, Proteome Systems Inc. In September 2008 the Group ceased all research activities and all Proteome Systems Inc staff were terminated. The Group completed the process of closing down the operating premises in Boston during the 2010 financial year incurring costs of \$35,809.

**(b) Financial performance and cash flow information**

The financial performance and cash flow information presented are for the year ended 30 June 2010.

Tyrian Diagnostics Limited and its controlled entities  
**Notes to the Financial Statements continued**  
30 June 2010

|                                                                                        | <b>Consolidated</b> |             |
|----------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                        | <b>2010</b>         | <b>2009</b> |
|                                                                                        | <b>\$</b>           | <b>\$</b>   |
| <b>Operating results</b>                                                               |                     |             |
| Revenue and other income                                                               | <b>10,501</b>       | 96,561      |
| Operating expenses                                                                     | <b>(35,809)</b>     | (589,115)   |
| Operating loss before tax                                                              | <b>(25,308)</b>     | (492,554)   |
| Income tax expense                                                                     | -                   | -           |
| Operating loss after income tax of discontinued operations                             | <b>(25,308)</b>     | (492,554)   |
| Provision for closure of operations                                                    | -                   | (86,031)    |
| Loss from discontinued operations                                                      | <b>(25,308)</b>     | (578,585)   |
| <b>Cash Flow</b>                                                                       |                     |             |
| Net cash inflow (outflow) from ordinary activities                                     | <b>78,924</b>       | (399,517)   |
| Net cash inflow (outflow) from investing activities                                    | <b>450</b>          | 15,344      |
| Net cash outflow from financing activities (excludes cash received from parent entity) | -                   | (33,369)    |
| Net increase (decrease) in cash incurred by discontinued operations                    | <b>79,374</b>       | (417,542)   |

**(c) Carrying amounts of assets and liabilities**

The carrying amounts of assets and liabilities included in the 30 June 2010 consolidated financial statements are as follows:

|                                | <b>2010</b>   | <b>2009</b>    |
|--------------------------------|---------------|----------------|
|                                | <b>\$</b>     | <b>\$</b>      |
| <b>ASSETS</b>                  |               |                |
| <b>Current assets</b>          |               |                |
| Cash and cash equivalents      | 98,392        | 16,762         |
| Trade and other receivables    | -             | 1,232          |
| Other assets                   | -             | 2,965          |
| Security Deposits              | -             | 104,659        |
| Total current assets           | 98,392        | 125,618        |
| <b>Non-current assets</b>      | -             | -              |
| Total non-current assets       | -             | -              |
| <b>Total assets</b>            | <b>98,392</b> | <b>125,618</b> |
| <b>LIABILITIES</b>             |               |                |
| <b>Current liabilities</b>     |               |                |
| Trade and other payables       | 219           | 7,910          |
| Borrowings                     | -             | -              |
| Provisions                     | -             | 93,665         |
| Other                          | -             | -              |
| Total current liabilities      | 219           | 101,575        |
| <b>Non-current liabilities</b> | -             | -              |
| Total non-current liabilities  | -             | -              |
| <b>Total liabilities</b>       | <b>219</b>    | <b>101,575</b> |

**36. Parent entity financial information**

**(a) Summary financial information**

|                      | <b>2010</b>      | <b>2009</b>      |
|----------------------|------------------|------------------|
|                      | <b>\$</b>        | <b>\$</b>        |
| <b>Balance Sheet</b> |                  |                  |
| Current Assets       | <b>3,898,569</b> | <b>3,922,377</b> |
| Total assets         | <b>5,059,094</b> | <b>4,448,697</b> |
| Current liabilities  | <b>927,452</b>   | <b>1,308,509</b> |
| Total liabilities    | <b>1,157,846</b> | <b>1,514,374</b> |

Tyrian Diagnostics Limited and its controlled entities  
**Notes to the Financial Statements continued**  
30 June 2010

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
| <i>Shareholders' equity</i>         |                  |                  |
| Issued capital                      | 119,958,301      | 115,464,260      |
| Reserves – performance rights       | 3,713,736        | 3,651,326        |
| - options reserve                   | 98,919           | 98,919           |
| Accumulated losses                  | (119,869,708)    | (116,280,182)    |
|                                     | <u>3,901,248</u> | <u>2,934,323</u> |
| <br><b>Loss for the year</b>        | <br>3,589,526    | <br>7,322,143    |
| <br><b>Total comprehensive loss</b> | <br>3,589,526    | <br>7,322,143    |

**(b) Guarantees entered into by the parent entity**

|                                                          | 2010<br>\$     | 2009<br>\$     |
|----------------------------------------------------------|----------------|----------------|
| Carrying amounts included in current liabilities         | -              | 156,005        |
|                                                          | <u>-</u>       | <u>156,005</u> |
| <br>Carrying amounts included in non-current liabilities | <br>156,005    | <br>-          |
|                                                          | <u>156,005</u> | <u>-</u>       |

The parent entity is required to hold a minimum level of cash and cash equivalents as a security deposit on a non-cancellable lease on operating premises in Sydney, Australia. The parent entity took out a new lease for three years commencing 1 January 2010 which is recognised as non-current. In the previous financial year, the deposits relating to leases expiring in less than 12 months were reclassified as current assets

**(c) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the parent entity, please see above.

**(d) Contractual commitments for the acquisition of property, plant or equipment**

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2010 or 30 June 2009.



## Director's Declaration

In the directors' opinion:

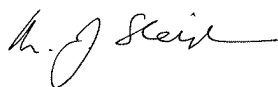
- (a) The financial statements and notes set out on pages 30 to 71 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance, for the financial year ended on that date; and
- (b) There are reasonable grounds to believe that the company and consolidated entity will be able to pay their debts as and when they become due and payable, as discussed in Note 1 of the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Regulations 2001*.

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



**Roger Amos**  
Director



**Marilyn Sleigh**  
Director

**Sydney**  
**31 August 2010**

## Independent auditor's report to the members of Tyrian Diagnostics Limited

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ABN 52 780 433 757

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### Report on the financial report

We have audited the accompanying financial report of Tyrian Diagnostics Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Tyrian Diagnostics Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), 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. 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

**Independent auditor's report to the members of  
Tyrian Diagnostics Limited (continued)**

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

*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of Tyrian Diagnostics Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

*Significant Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report, which indicates that the consolidated entity incurred a net loss of \$4,155,911 and net cash outflows from operating activities of \$4,512,133 in the year ended 30 June 2010. These conditions, along with other matters set forth in Note 1(a), indicate there is a significant uncertainty as to whether the consolidated entity will 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 13 to 23 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of Tyrian Diagnostics Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Susan Horlin  
Partner

Sydney  
31 August 2010

The shareholder information below was applicable as at 22<sup>nd</sup> October 2010.

**A Distribution of equity securities**

Analysis of numbers of holders of quoted equity security by size of holding:

|                                                  | Ordinary Shares   |                    |
|--------------------------------------------------|-------------------|--------------------|
|                                                  | Number of Holders | Total Shares held  |
| 1 – 1,000                                        | 24                | 8,036              |
| 1,001 – 5,000                                    | 199               | 631,418            |
| 5,001 – 10,000                                   | 116               | 994,728            |
| 10,001 – 100,000                                 | 396               | 17,951,852         |
| 100,000 and over                                 | 429               | 478,930,307        |
| <b>Total</b>                                     | <b>1,164</b>      | <b>498,516,341</b> |
|                                                  |                   |                    |
| Holders of less than a marketable parcel (\$500) | 559               | 6,862,008          |

**B Equity security holders**

The names of the twenty largest registered holders of quoted equity securities are listed below. Quoted shares include those shares that are held in escrow:

| Shareholder                                    | Number held | Percentage of issued shares |
|------------------------------------------------|-------------|-----------------------------|
| J P MORGAN NOMINEES AUSTRALIA LIMITED          | 69,064,966  | 13.85%                      |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED      | 29,863,022  | 5.99%                       |
| EL CORONADO HOLDINGS LLC                       | 15,000,000  | 3.01%                       |
| BRYNNIE & KEITH GOODWILL PTY LTD               | 14,000,000  | 2.81%                       |
| KURRABA INVESTMENTS PTY LTD                    | 12,124,115  | 2.43%                       |
| STEVEN H DUNN INVESTMENTS PTY LTD              | 11,056,256  | 2.22%                       |
| PETER CRISP PTY LTD                            | 10,000,000  | 2.01%                       |
| MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 9,470,000   | 1.90%                       |
| MR CAMILO BLANCO                               | 7,613,678   | 1.53%                       |
| CITICORP NOMINEES PTY LIMITED                  | 6,888,428   | 1.38%                       |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO |             |                             |
| ECA                                            | 6,200,000   | 1.24%                       |
| FINANCE ASSOCIATES PTY LTD                     | 6,062,057   | 1.22%                       |
| NEFCO NOMINEES PTY LTD                         | 5,569,646   | 1.12%                       |
| MR MOHIDIEN KHAN                               | 4,000,000   | 0.80%                       |
| MR GEOFFREY BRIAN SPICER                       | 4,000,000   | 0.80%                       |
| MR IAN LEONARD BAKER & MRS MARIE THERESE BAKER | 4,000,000   | 0.80%                       |
| MRS ANNETTE SYLVIA MIZON                       | 3,816,000   | 0.77%                       |
| MR ANDREW ARTHUR GOOLEY                        | 3,754,803   | 0.75%                       |
| MR BRUCE BAKER                                 | 3,701,000   | 0.74%                       |
| NATIONAL NOMINEES LIMITED                      | 3,673,947   | 0.74%                       |

The company has no unquoted equity securities.

### C Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are as follows:

| Shareholder                       | Number of shares held | Percentage of issued shares <sup>2</sup> |
|-----------------------------------|-----------------------|------------------------------------------|
| OppenheimerFunds Inc <sup>1</sup> | 93,888,166            | 18.87%                                   |

<sup>1</sup> Number of shares as advised in the notice dated 29 October 2009 provided to the company by the shareholder.

<sup>2</sup> Calculated as the "Number of shares held" as a percentage of the total issued shares as at 31 July 2010, being 498,516,341.

### D Restricted securities

The company has no securities held in escrow by ASX or other requirements.

### E Voting rights

All ordinary shares (whether or not fully paid) carry one vote per share without restriction.

**Tyrian Diagnostics Limited**

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