



## Pallane Medical Limited (formerly Dia-B Tech Limited)

### Appendix 4E for the Year Ended 30 June 2009 Results for Announcement to the Market

Current Reporting Period - Year Ended 30 June 2009  
Previous Reporting Period - Year Ended 30 June 2008

Revenues	down	79.57%	to	\$19,796
Loss from ordinary activities after tax attributable to members	up	10.70%	to	(\$3,432,208)
Net loss for the period attributable to members	up	10.70%	to	(\$3,432,208)

Dividends (distribution)	Amount per Security	Franked Amount per Security
Final dividend	n/a	n/a
Previous corresponding period	n/a	n/a

**Net Tangible Asset per Security (cents per security)**

As at 30 June 2009 (51.46)

As at 30 June 2008 (0.84)

Record date for determining entitlements to the dividend, (in the case of a trust, distribution)

n/a

Explanation of the above information:

Please refer to the Review of Operations for further information.

Status of Audit of Accounts:

This Appendix 4E is based on accounts which have been audited. The audit report is included with the financial report which forms part of this Appendix 4E.

**PALLANE MEDICAL LIMITED  
(FORMERLY DIA-B TECH  
LIMITED)**

**ABN: 49 102 456 048**



**Annual Financial Report  
For The Year Ended 30 June 2009**

**PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)**  
**ABN: 49 102 456 048**  
**CORPORATE DIRECTORY**

**AUSTRALIAN COMPANY NUMBER**

009 234 173

PALLANE MEDICAL LIMITED IS A PUBLIC  
COMPANY LIMITED BY SHARES AND  
IS DOMICILED IN AUSTRALIA

**DIRECTORS**

Hon. Dr. Michael RL Wooldridge	Non-Executive Chairman (Resigned 2 October 2009)
Dr Jaydeep Biswas	Non-Executive Director (Appointed 12 February 2009, Resigned 2 August 2009)
Mr H Neil Hewitt	Non-Executive Director (Resigned 2 October 2009)
Sir K George MM Alberti	Non-Executive Director (Resigned 12 February 2009)
Mr Ravindran Govindran	Non-Executive Chairman (Appointed 5 October 2009)
Mr Santino Di-Giacomo	Non-Executive Director (Appointed 5 October 2009)
Ms Joanna Broeders	Non-Executive Director (Appointed 5 October 2009)
Mr Peter Joseph Stafford	Executive Director (Appointed 5 October 2009)

**COMPANY SECRETARY**

Mr Kenneth Smith (Resigned 2 October 2009)  
Wojtek Luke Randla (Appointed 5 October 2009)

**AUDITORS**

William Buck Audit (Vic) Pty Ltd  
Level 1  
465 Auburn Road  
Hawthorn East VIC 3123

**REGISTERED OFFICE**

Pallane Medical Limited (formerly  
Dia-B Tech Limited)  
Suites 1133-1139/1 Queens Road  
Melbourne Victoria 3004

**SOLICITORS**

Elliott May Lawyers  
84 LaTrobe Terrace  
Paddington Queensland 4064

**PRINCIPAL PLACE OF BUSINESS**

Pallane Medical Limited (formerly  
Dia-B Tech Limited)  
Suites 1133-1139/1 Queens Road  
Melbourne Victoria 3004

**SECURITIES QUOTED**

Code:	DIA	Shares
	DIAO	Options

**SHARE REGISTRY**

Security Transfer Registrars  
770 Canning Highway  
APPLECROSS WA 6153  
Telephone (08) 9315 2333  
Facsimile (08) 9315 2233  
Email registrar@securitytransfer.com.au

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**WEBSITE**

[www.dia-btech.com.au](http://www.dia-btech.com.au)

The financial report was authorised for issue by the Directors on 29 October 2009. The Company has the power to amend and reissue the financial report.

Through the use of the internet and other resources, we have ensured that our corporate reporting is timely, and available globally at a minimum cost to the Company. All press releases, financial reports and other information are available from the ASX, the Company's registered office or website.

Dear Shareholders,

As the new Chairman, and on behalf of the new Board, I present to the Shareholders a summary of Pallane Medical Ltd's (the **Company**) corporate activities since June 2008 and the changes the Company has announced to the Australian Securities Exchange (**ASX**).

### Corporate Activities

- The Company has consolidated its fully paid ordinary shares on a twenty (20) to one basis (1), as approved by shareholders.
- Due to the substantial shortfall in the applications for ordinary shares, the prospectus and the supplementary prospectus to raise \$15 million for the acquisition of Pallane Medical Pty Ltd (now Vita Vir Pty Ltd) were withdrawn. The Company received a notice of termination in relation to the Share Sale Agreement.
- The Company announced that the underwriter, Winteray Capital Pty Ltd, was in breach of the underwriting agreement and this would be aggressively pursued. The Company is currently in settlement discussions, subject to legal advice with the underwriter. A satisfactory outcome is expected in relation to this issue.
- Following extensive negotiations, the Company reached an agreement with US based Trafalgar Capital Specialised Investments Fund (**Trafalgar**) to convert the majority of the current convertible debt into equity. The agreement is subject to shareholder approval and is a positive outcome for balance sheet strengthening. As part of this agreement Joanne Broders, a Trafalgar representative, has agreed to join the Board. The Board believes this agreement is in the best interest of the Company, its shareholders and creditors. It also paves the way of a more financially sound future for the Company and its aspirations.
- In conjunction with the above corporate activities the Company has now taken a placement for the issue of 1,250,000 shares at 12 cents per share, raising \$150,000 for immediate working capital requirements. This was within the Company's 15% placement capacity.
- Subsequent to the above corporate activities the Company also announced that the then Board comprising of:-
  - Dr Michael Wooldridge (Non Executive Chairman)
  - Mr Neil Hewitt (Non Executive Director)
  - Mr Kenneth Smith (Executive Director and Company Secretary)

would resign and would be replaced with the new Board comprising of:-

- Mr Ravindran Govindran (Non Executive Chairman)
- Mr Santino Di Giacomo (Non Executive Director)
- Ms Joanne Broders (Non Executive Director)
- Mr Peter Joseph Stafford (Executive Director)

A new Company Secretary was also appointed, being Mr Wojtek Luke Randla.

I take this opportunity to thank the outgoing Board for their efforts and I look forward to working with the new Board.

- The Company has reached agreement for a \$30 Million funding facility with the investment Bank Fortrend Securities Pty Ltd. This allows the Company to continue its immediate operations, commercialisation program and other life sciences opportunities as they benefit all stakeholders.

The positive initiatives taken by the Company (subsequent to the July 2009 substantial underwriting shortfall resulting in the termination of the Pallane transaction), has placed the Company in a position whereby it has survived a difficult period during a global financial crisis and the Company can now move forward with the initiatives of re-negotiating the transaction involving Vita Vir Pty Ltd on more favorable

These corporate initiatives should now allow the Company to have its shares re-trading on stock markets moving out of the trading suspension period.

### Research Activities

The Company's underlying strategy and objective has historically been the discovery and development of pharmaceuticals, diagnostics and treatments for diabetes – and related diseases. This continues to be the focus as we allocate financial resources.

The major projects are:

PROJECTS	TARGET AREA
(1) ISF 402	Improving Blood Glucose Control in Diabetes
(2) CDA 1	Reducing Kidney Fibrosis (In conjunction with the Bakker ID Heart & Diabetes Instep)
(3) IMO 14	Anti Diabetic Activity of composite plant mixture to treat Diabetic symptoms.

Given the lack of funding availability over the last twelve months the Company has not been able to significantly progress the projects past the point to maximize potential as updated via market releases to date.

However, given the promising results reached to date on the ISF 402 project the Company's primary focus is on taking this to the next level. Plans continue for progressing phase 2 human clinical trials and commercialization with major international pharmaceutical groups.

Given the positive results and the size of the growing global diabetes market the Company will focus on expanding this project in collaboration with overseas pharmaceutical partners (who in the past have reviewed clinical data) to further develop and commercialize the project including potential licensing deals and joint ventures as commercially accessible to the Company.

The Company will also focus on opening an investigation on new drug (IND) with the USA FDA.

This is a key factor in the next stage of commercialization discussion in the industry.

The other two projects are encouraging and demonstrate commercial potential. The projects are still in early stages and are subject to strategic review.

Diabetes is a major epidemic of world wide proportions and the number of effective treatment options are limited. Accordingly the need for new drugs and treatments are paramount.

I would like to thank all our shareholders for their support during the past difficult period.



**Mr Ravindran Govindran**  
**Non Executive Chairman**

## Key Events Summary

- 31 December 2008 - the Company announced all projects were being put on hold, pending the resolution of some key issues. No expenditure is to be committed beyond those contracted. The ISF402 and IM014 projects were suspended as at 31 December 2008, and the CDA1's project contract expired on 31 March 2009;
- 12 February 2009 - the Company announced that it had agreed to acquire Pallane Medical Pty Ltd (**Pallane**), a company commercialising the RETCIFTM virology diagnostic test and would change its name to Pallane Medical Limited on completion of the transaction. Completion of the acquisition was subject to and conditional upon regulatory, ASX and shareholder approvals and the successful completion of a \$12.5 million capital raising;
- 13 February 2009 - the Company drew down \$450,000 from the Trafalgar Capital Specialised Investment Fund as a bridging facility. The Company was able to significantly reduced its operational costs since executing the Pallane acquisition and the facility was draw down to fund the working capital requirements of the Comapny through to the completion of the Pallane acquisition and the fully underwritten capital raising;
- 27 May 2009 - Initial Propectus issued to place 50,000,000 ordinary shares in the Company and raise up to \$15M (the **Offer**);
- 19 June 2009 - Supplementary Propectus issued, a further Supplementary Propectus was issued on 30 June 2009;
- 8 July 2009 - the Company advised that the process to consolidate the shares and options of the Company on a twenty (20) for one (1) basis was completed in accordance with section 254H(1) of the Corporations Act 2001. The consolidation was approved by shareholders at the Company's general meeting held on the 29th June 2009;
- 28 July 2009 - the Company announced that it has extended the offer period for its capital raising to fund the acquisition of Pallane Medical Pty Ltd 2009 until Friday, 31 July 2009, due to their being a substantial shortfall;
- 11 August 2009 - the Company announced there was a substantial shortfall in applications for shares under the offer and that Winteray Capital Pty Ltd, the underwriter, was in breach of the underwriting agreement. Immediately following the close of the Offer, the Company served on the Underwriter a shortfall notice for the Underwriter to take up the Shortfall;
- 13 August 2009 - the Company advised that it has received a notice of termination in relation to the share sale agreement for the acquisition of Pallane Medical Pty Ltd; and
- 5 October 2009 - Following extensive negotiations, the convertible note holder in DIA, Trafalgar Capital Specialized Investment Fund, will take control of the Company through an agreement to convert the majority of the current convertible debt holdings into equity, subject to shareholder approval. The outgoing Board believed this was in the best interest of all creditors and shareholders. Further, the Company announced that it had reached an agreement for a \$30 million funding facility with investment bank Fortrend Securities Pty Ltd, allowing the Company to continue its immediate operations, and most particularly, its commercialisation program and other opportunities in the medical field;

## Current Projects

ISF402 Type 2 Diabetes  
CDA1 Diabetes Complications

Both projects were suspended as at the expiration of contracts with the respective research organisations; ISF402 effective from 31 December 2008 and CDA1 effective from 31 March 2009. No expenditure was incurred beyond those contracted dates.

IM014 was abandoned as at 31 December 2008 after full consultation with Fusion Biosciences Pty Ltd. The project was not considered to be making any progress as the identification of a viable chemical entity to produce a commercial drug was proving extremely difficult.

Decisions on future progress of the two ongoing projects will be made by the incoming Board as part of a full review of operations.

### ISF402 Type 2 Diabetes

ISF402 moved toward a further human trial using subcutaneous delivery. Full development plans and costings were prepared, and the peptide manufactured for the human trials. U.S. FDA approval has not been sought as yet, due to the funding uncertainty. Discussions were conducted with several pharmaceutical companies, but they primarily wanted to see the outcomes from the next round of human trials before committing to any joint development.

### CDA1 Diabetes Complications

CDA1 continued to make progress and saw Dia-B lodge a provisional patent application to protect the key peptide binding sequence around CDA1. CDA1 continues to be an exciting project under the auspices of Prof Mark Cooper of Baker IDI, and worthy of future funding to bring it to a pre-clinical assessment.

## Corporate Activities

### Capital Raising - Pallane Medical

Dia-B Tech Ltd announced on February 12 that it had agreed to acquire Pallane Medical Pty Ltd (Pallane), a company commercialising the RETCIFTM virology diagnostic test. On the completion of the acquisition, Dia-B Tech was to change its name to Pallane Medical Limited.

Completion of the acquisition was subject to and conditional upon regulatory, ASX and shareholder approvals and the successful completion of a \$12.5 million capital raising.

The acquisition was expected to take approximately three months to complete. Some key points were:

- Capital consolidation on a 20 for 1 basis;
- Acquisition of Pallane for \$74.73 million to be satisfied by the issue of 282,860,190 Dia-B Tech shares (post share capital consolidation) at \$0.22 per share; and
- Capital raising of \$12.5 million (by way of a fully underwritten private placement). The capital raising was to finance the corporate development of the Pallane business and pay out the convertible security held by Trafalgar Capital Specialised Investment Fund.

Dia-B Tech also drew down \$450,000 from the Trafalgar Capital Specialised Investment Fund convertible facility, to fund corporate working capital throughout the transaction timeline.

Shareholder approval was achieved but the underwriting was not successful. Winteray Capital Pty Ltd defaulted on their commitment and is now the subject of proposed legal action to at least recoup costs incurred by Dia-B in the capital raising process.

### Biotechnology Companies – Inherent Risk

Some of the risks inherent in the development of a product to a marketable stage include the uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, the obtaining of the necessary drug regulatory authority approvals and difficulties caused by the rapid advancements in technology. Also a particular compound may fail the clinical development process through lack of efficacy or safety. Companies such as Dia-b Tech Limited are dependent on the success of their research projects and on the ability to attract funding to support these activities. Investment in research and development projects cannot be assessed on the same fundamentals as trading and manufacturing enterprises. Thus investment in these areas must be regarded as speculative taking into account these considerations.

This report may contain forward-looking statements regarding the potential of the Company's projects and interests and the development and therapeutic potential of the Company's research and development. Any statement describing a goal, expectation, intention or belief of the Company is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those inherent in the process of discovering, developing and commercialising drugs that are safe and effective for use as human therapeutics and the financing of such activities. There is no guarantee that the Company's research and development projects will be successful or receive regulatory approvals or prove to be commercially successful in the future. Actual results of further research could differ from those projected or detailed in this report.

As a result, you are cautioned not to rely on forward-looking statements. Consideration should be given to these and other risks concerning the Company's research and development program referred to in this report for the period ended 30 June 2009.

The Company is committed to implementing the highest standards of corporate governance. In determining what those standards should involve, the consolidated entity has considered the ASX Corporate Governance Council's ('the Council') *Corporate Governance Principles and Recommendations*.

A review of the Company's 'Corporate Governance Framework' is performed on a periodic basis to ensure that it is relevant and effective in light of changing legal and regulatory requirements. The Board of Directors ('the board') continues to adopt a set of Corporate Governance Practices and a Code of Conduct appropriate for the size, complexity and operations of the Company and its subsidiaries.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company has stated that fact in the annual report and has set out a mandate for future compliance when the size of the consolidated entity and the scale of its operations warrants the introduction of those recommendations. All Charters and Policies are available from the Company.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation, but rather the topic covered. The full details of each recommendation can be found on the ASX Corporate Governance Council's website.

<b>Recommendation</b>	<b>Section</b>
Functions of the Board and Management	1.1
Senior Executive Evaluation	1.4.10
Reporting on Principle 1	1.1; 1.4.10
Independent Directors	1.2
Independent Chair	1.2
Role of the Chair and CEO	1.2
Establishment of Nomination Committee	2.2
Board and Individual Director Evaluation	1.4.10
Reporting on Principle 2	1.2; 1.4.10; 2.2.2 and Directors' Report
Code of Conduct	3.1
Company Securities Trading Policy	1.4.9
Reporting on Principle 3	3.1
Establishment of Audit Committee	2.1
Structure of Audit Committee	2.1.2
Audit Committee Charter	2.1
Reporting on Principle 4	2.1
Policy for Compliance with Continuous Disclosure	1.4.4
Reporting on Principle 5	1.4.4
Communications Policy	1.4.8
Reporting on Principle 6	1.4.8
Policies on Risk Oversight and Management	2.1.3
Risk Management Report	1.4.12
CEO and CFO Assurance	1.4.11
Reporting on Principle 7	1.4.11; 1.4.12; 2.1.3
Establishment of Remuneration Committee	2.2
Executive and Non-Executive Director Remuneration	2.2.4.1; 2.2.4.2
Reporting on Principle 8	2.2; 2.2.4.1; 2.2.4.2

## **1. Board of Directors**

### **1.1 Role of the Board**

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interest of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the consolidated entity. The Board must also ensure that the consolidated entity complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the consolidated entity.

To assist the Board carry out its functions, it has a Code of Conduct in place to guide Directors, the Chief Executive Officer, the Chief Financial Officer and other senior executives and employees in the performance of their roles.

### **1.2 Composition of the Board**

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated in the Directors' Report under the section headed 'Information on Directors' along with the term of office held by each of the Directors.

The Board believes that the interests of all Shareholders are best served by:

- \* Directors having the appropriate skills, experience and contacts within the Company's industry;
- \* The Company striving to have a number of Directors being independent; and
- \* Some major Shareholders being represented on the Board.



The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Further, the Company also recognises the importance of Independent Directors in ensuring shareholders that the Board is properly fulfilling its role.

The Company considers a Non-Executive Director to be independent when they are not a substantial shareholder of the Company or an associate of a substantial holder of the Company or have any other material interest and within the past three years has not been employed in an executive capacity by the Company (or subsidiary) and is free from any business or other relationship which could materially interfere with the Director's ability to act in the best interests of the Company and shareholders.

A majority of the Directors are classified as being 'independent'. As at the date of this report the Chairman is an Independent Non Executive Officer of the Company.

### 1.3 Responsibility of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the consolidated entity.

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

1. Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. Strategy Formulation: to set and review the overall strategy and goals for the Company and ensure that there are policies in place to govern the operation of the consolidated entity.
3. Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long term budgets.
4. Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings.
5. Monitoring, Compliance and Risk Management: overseeing the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operation performance of the Company.
6. Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. Human Resources: appointing, and, where appropriate, removing the Executive Officers as well as reviewing the performance of the Chief Executive Officer and monitoring the performance of senior management in their implementation of Company's strategy.
8. Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
9. Delegation of Authority: delegating appropriate powers to executives of the Company to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

### 1.4 Board Policies

#### 1.4.1 Conflicts of Interest

Directors must:

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

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

#### 1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

#### 1.4.3 Confidentiality

In accordance with legal requirement and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

#### 1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The Company also posts all information disclosed in accordance with this policy on the Company's website in an area accessible by the public.

#### 1.4.5 Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Information conveyed to new Directors includes:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- an analysis of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development.

#### 1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

#### 1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing at each Board meeting. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

#### 1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company entity is committed to:

1. communicating effectively with shareholders through releases to the market via the ASX and the general meetings of the Company;
2. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
3. making it easy for shareholders to participate in general meetings of the Company; and
4. requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Shareholders are also able to ring the registered office of the Company to make enquiries of the Company or obtain updated announcements via the ASX website and the Company's website.

Information is communicated to shareholders through:

- the annual report which is published on the Company's website and distributed to shareholders where specifically requested;
- the half-year shareholder's report which is published on the Company's website and distributed to shareholders where specifically requested, containing summarised financial information and a review of the operations during the period since the annual report; and
- other correspondence regarding matters impacting on shareholders as required.

#### 1.4.9 Trading in the Consolidated Entity's Shares

The Company has a Share Trading Policy which states that Directors, members of senior management, certain other employees and their associates likely to be in possession of unpublished price sensitive information may not trade in the Company's securities prior to that unpublished price sensitive information being released to the market via the ASX. Unpublished price sensitive information is information regarding the Company, of which the market is not aware, that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

#### *1.4.10 Performance Review/Evaluation*

A 'Performance Evaluation Policy' has been established to evaluate the performance of the Board, individual Directors and Executive Officers of the Company. The Board is responsible for conducting evaluations on an annual basis in line with these policy guidelines.

During the reporting period, the Board conducted individual and group performance evaluations on an informal basis which provided the Board with valuable feedback for future development.

Further information on policies and procedures established to evaluate the performance of the Board are set out in the Director's Report under the section headed 'Remuneration Report'.

#### *1.4.11 Attestations by Chief Executive Officer (CEO) and Chief Financial Officer (CFO)*

In accordance with the Board's policy, the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report.

#### *1.4.12 Risk Management Accountability*

As part of the process of approving the financial statements, at each reporting date the CEO and other responsible senior executives provide statements in writing to the Board on the quality and effectiveness of the company's risk management and internal compliance and control systems.

## **2. Board Committees**

### **2.1 Audit, Risk and Compliance Committee**

Below is a summary of the role, composition and responsibilities of Audit, Risk and Compliance Committee ('Audit Committee'). Further details are contained in the Audit Committee's Charter, which is available from the Company.

#### *2.1.1 Role*

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external Auditors.

#### *2.1.2 Composition*

The Audit Committee, consisting of two Directors of the Company, with the Chairman being a Non-Executive Director. Due to the current composition of the full board, it is not possible to meet the recommendation to have a minimum of three Non-Executive Directors, with the majority being independent. The current members of the Committee as at the date of this report, and their qualifications are detailed in the Directors' Report.

The Audit Committee holds a minimum of two meetings a year. Details of meetings held during the year and attendance of the members of the Audit Committee are contained on pp 15.

#### *2.1.3 Responsibilities*

The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements before submission to the Board and recommends their approval.

The Audit Committee also recommends to the Board the appointment of the external auditor each year, reviews the appointment of the external auditor, their independence, the audit fee and any questions of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

### **2.2 Remuneration and Nomination Committee**

#### *2.2.1 Role*

The role of a Remuneration and Nomination Committee ('Remuneration Committee') is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees and achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

#### *2.2.2 Composition*

Due to the size of the Company's operations, it does not have a Remuneration and Nomination Committee. It is deemed to be more efficient to have the full Board consider membership nominations and configuration.

#### *2.2.3 Responsibilities*

The responsibilities of the Remuneration Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive and making recommendations to the Board on any proposed changes and undertake a review of the CEO's performance, including, setting with the CEO goals for the coming year and reviewing progress in achieving those goals.

The Nomination duties include devising criteria for Board membership, regularly reviewing the structure of the Board and identifying specific individuals for nomination/removal as Directors for review by the Board. Further responsibilities include overseeing management succession plans including the CEO and their direct reports and evaluation of the Board's performance.

#### *2.2.4 Remuneration Policy*

The Remuneration Report includes further details on the Company's remuneration policy and its relationship to the company's performance last year (pp 15 to pp 16). It also includes details of the remuneration of Directors and senior executives last year. Shareholders are invited to vote on the adoption of the report at the Company's annual general meeting.

##### *2.2.4.1 Senior Executive Remuneration Policy*

The Company is committed to remunerating its senior executives in a manner that is market competitive and consistent with best practice as well as supporting the interests of shareholders. Under the senior executive remuneration policy, remuneration of senior executives may comprise of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in the share/option scheme with thresholds approved by shareholders; and
- statutory superannuation.

The Company aims to align the interests of senior executives with those of shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

##### *2.2.4.2 Non-Executive Director Remuneration Policy*

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company without prior shareholder approval.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

### **3. Interests of Stakeholders**

#### **3.1 Company Code of Conduct**

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This code includes the following:

##### *Responsibilities to Shareholders and the Financial Community Generally*

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

##### *Responsibilities to Clients, Customers and Consumers*

The Company has an obligation to use its best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers and is committed to providing clients, customers and consumers with fair value.

##### *Employment Practices*

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

##### *Obligations Relative to Fair Trading and Dealing*

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws and strives to deal fairly with the Company's customers, suppliers and competitors and encourages its employees to strive to do the same.

##### *Responsibilities to the Community and to Individuals*

As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations and supports community charities.

The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

##### *Conflicts of Interest*

Directors and employees must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

##### *How the Company Complies with Legislation Affecting its Operations*

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

##### *How the Company Monitors and Ensures Compliance with its Code*

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

## PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)

ABN: 49 102 456 048

### DIRECTORS' REPORT

Your Directors present their report on the Company consisting of Pallane Medical Limited (formerly Dia-B Tech Limited) and the entities it controlled at the end of, or during, the year ended 30 June 2009.

#### Directors

The names of the Directors of Pallane Medical Limited (formerly Dia-B Tech Limited) in office at any time during or since the end of the financial year are:

Hon. Dr. Michael RL Wooldridge	(Resigned 2 October 2009)
Dr Jaydeep Biswas	(Appointed 12 February 2009 and Resigned 2 August 2009)
Mr H Neil Hewitt	(Resigned 2 October 2009)
Sir K George MM Alberti	(Resigned 12 February 2009)
Mr Ravindran Govindran	(Appointed 5 October 2009)
Mr Santino Di-Giacomo	(Appointed 5 October 2009)
Ms Joanna Broeders	(Appointed 5 October 2009)
Mr Peter Joseph Stafford	(Appointed 5 October 2009)

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

#### Company Secretary

The names of the Company Secretaries of Pallane Medical Limited (formerly Dia-B Tech Limited) in office at any time during or since the end of the financial year are:

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##### Mr Wojtek Luke Randla (Company Secretary)

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On 5 October 2009 Mr Wojtek Luke Randla was appointed as the Company Secretary.

Mr Randla completed his LLB and BA in 2003 and was admitted to practice in early 2005 as a solicitor and barrister of the Supreme Court of Victoria. After initially completing a few years with a small Melbourne-based firm, Mr Randla joined the Australian Securities and Investment Commission (ASIC) in 2006. At ASIC, Mr Randla managed investigations and provided high quality legal advice on matters relating to the contraventions of the Corporations Act 2001, Crimes Act (Vic) 1958, WA Criminal Code and the ASX listing rules.

In June 2008, Mr Randla joined Deacons Lawyers and is currently working for the Insolvency and Corporate Restructuring team. Mr Randla practices in all areas of security enforcement (both residential and commercial) and banking and financial services litigation, as well as insolvency and debt recovery litigation.

Mr Randla is also completing his Masters of Global Business Law (LLM) at La Trobe University.

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##### Mr Kenneth Smith (Chief Executive Officer and Company Secretary)

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Mr Smith joined Dia-B Tech Limited in October 2003 initially as Company Secretary, and assisted in leading the successful IPO launch of the Company on the Australian Stock Exchange in 2005. He was appointed CEO in March 2005.

Mr Smith's extensive experience in the health sector is from having spent nearly 10 years working firstly as a political advisor, then as a consultant.

From 1996 to 2000 he served as Chief of Staff to the Federal Health Minister, and was actively involved in the reforms to the Private Health sector. He was responsible for the implementation of the 30% PHI Rebate and the Lifetime Health Cover policies. Mr Smith also assumed a significant role in liaising with all major health industry lobby groups and their key corporate members, including the pharmaceutical group now known as Medicines Australia. After leaving the Chief of Staff role, he acted as a PR consultant, amongst other business interests.

Prior to entering the health sector, Mr Smith fulfilled many Directorial and managing roles including Director of Finance and Administration for TEAC Australia Pty Ltd (1988 - 1996).

He is holder of the Fellowship Diploma of Business - Accountancy (RMIT).

On 2 October 2009 Mr Kenneth Smith resigned as the Chief Executive Officer and the Company Secretary.

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#### Principal Activities

The principal activities of the Company during the financial year were the discovery and development of pharmaceuticals, diagnostics and treatments for diabetes and diabetes-related diseases. No significant change in the nature of these activities occurred during the year.

#### Review of Operations

The consolidated loss of the Company after providing for income tax amounted to \$3,432,208 (2008: \$3,100,496). For further detail, refer to the Review of Operations set out on pp 4 to 5.

#### Dividends

The Directors did not pay any dividends during the financial year. The Directors do not recommend the payment of a dividend in respect of the 2009 financial year.

#### Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company during the financial year under review not otherwise disclosed in this Annual Report.

## Subsequent Events

On the 8 July 2009, the Company advised that the process to consolidate the shares and options of the Company on a twenty (20) for one (1) basis was completed in accordance with section 254H(1) of the Corporations Act. The consolidation was approved by shareholders at the Company's general meeting held on the 29th June 2009.

The Company issued a Prospectus on 27 May 2009 and Supplementary Prospectuses' on 19 June 2009 and 30 June 2009, to raise up to \$15 million for the acquisition of Pallane Medical Pty Ltd (now Vita Vir Pty Ltd). There was a substantial shortfall in applications for shares under the offer and on 11 August 2009 the Company announced that Winteray Capital Pty Ltd, the underwriter, was in breach of the underwriting agreement. The Company will vigorously pursue Winteray on behalf of shareholders, for all costs associated with this matter. On 13 August 2009 the Company announced it had received a notice of termination of the share sale agreement for the acquisition of Vita Vir Pty

On 2 August 2009 Dr Jaydeep Biswas resigned as a Non-executive director of the Company. Further, on 2 October 2009 the Hon Dr Michael Wooldridge resigned as Non-executive Chairman, Mr H Neil Hewitt resigned as Non-executive Director, and Mr Kenneth Smith resigned as CFO and Company Secretary.

Following extensive negotiations, on the 5 October 2009, the Company announced that Trafalgar Capital Specialized Investment Fund (Trafalgar), the convertible note holder of the Company, would take control of the Company through an agreement to convert the majority of the current convertible debt holdings into equity, subject to shareholder approval, which the Board believed was in the best interest of all creditors and shareholders.

In conjunction with the above announcement, the Company announced the new issue of 1,250,000 shares at 12 cents per share to raise \$150,000, to sources working with Trafalgar to secure the future of the Company. Further, the appointment of the new Directors and management of the Company to replace the outgoing Board was announced, the new appointments were:

- Ravindran Govindran (Executive Chairman)
- Santino Di-Giacomo (Director)
- Joanna Broeders (Director, who represents Trafalgar Capital Specialized Investment Fund)
- Peter Joseph Stafford (Director)
- Wojtek Luke Randla (Company Secretary)

Also on the 5 October 2009, the Company announced that it had reached an agreement for a \$30 million funding facility with investment bank Fortrend Securities Pty Ltd, allowing Dia-B Tech to continue its immediate operations, and most particularly, its ambitious commercialisation program and other opportunities in the medical field and also seek additional capital as required.

## Future Developments

The likely developments in the Company's operations, to the extent that such matters can be commented upon, are covered in the Review of Operations on pp 4 to 5 of this Annual Report. In the opinion of the Directors, disclosure of information regarding the expected results of those operations are not predictable at this stage, or may prejudice the interests of the Company. Accordingly, this information has not been included in this report.

## Environmental Regulations

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

## Information on Directors

### Mr Ravindran Govindran (Non-Executive Chairman)

Appointed to the board	—	5 October 2009
Qualifications	—	LLB (Hons) (Singapore)
Experience	—	Mr Govindran studied Law at the University of Singapore and practiced as a solicitor in the Supreme Court of Singapore. Throughout the years he diversified into various business interests. As an experienced entrepreneur, he co-founded numerous businesses in markets including Singapore, Malaysia, India, China, Australia and others.

Mr Govindra is the Chairman of Mercatus Capital, a private equity venture firm specialising in the emerging technologies, bio-tech, retail and energy industries. With an eye to spot talent and a will to make every business he engages in a success, Mr Govindran spends his time managing operations of his portfolio companies and assists management in developing strategic acquisition programs and revenue enhancement initiatives. Along the years, he gained a reputation for his unlimited passion, fierce competitiveness and extraordinary business foresight.

Besides having strong entrepreneurial skills and a well-established business network, Mr Govindran also provides legal and business consultancy services to private and public enterprises, financial institutions and highly influential individuals in this region. He was involved in several large-scale acquisitions (both in public and private enterprises) such as the privatisation of Myanmar Airlines. Formerly the Group President of Fisher Scientific in the Asia Pacific region, Mr Govindran continues to provide strategic advice on the Asia Pacific region for Latone Associates Inc, a private investment and financial advisory firm based in New York.

Interest in shares and options	—	Nil
Committees	—	Nil
Directorships held in other listed entities	—	Agenix Ltd (Appointed 13/06/2000, Resigned 06/08/2008); MedTech Global Ltd (Appointed 25/9/2006); Holista CollTech Ltd (Appointed 30/05/2008); Costarella Design Ltd (Appointed 29/2/2008).

**PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)**

ABN: 49 102 456 048

**DIRECTORS' REPORT continued****Mr Santino Di-Giacomo (Non-Executive Director)**

Appointed to the board	—	5 October 2009
Qualifications	—	B Bus, ACA, CPA, FFNSA
Experience	—	After qualifying as a Chartered Accountant in 1984 with Ernst & Young, Mr Di-Giacomo worked in the Chairman's office of Mr Robert Holmes-a-Court's International Bell Group Ltd, as assistant to the Finance Director.  In 1988, Mr Di-Giacomo joined the international biopharmaceutical group, Cortecs International Ltd and Provalis PLC. During his 12 year tenure with the UK-based Provalis Group (listed on the LSE, NASDAQ and ASX), Mr Di-Giacomo held a number of senior international executive positions (including Director of Corporate Development) and was also responsible for the Group expansion and capital raising activities.  He was also a key figure in the Group's strategic and corporate structuring and international expansion including capital raisings (NASDAQ and the LSE), the capture of new intellectual property and major health care and licensing contracts.  Mr Di-Giacomo was a founder of Advance Healthcare Group Ltd (ASX: AHG) and is also a substantial shareholder in Advance. Advance has managed a unique and innovative medication management and supply business, Pharmeasy, together with its well-established pharmaceutical and medical surgical wholesale distribution business with Australian turnover in excess of \$100 million.
Interest in shares and options	—	Nil
Committees	—	Member of the Audit, Risk & Compliance Committee
Directorships held in other listed entities	—	Costarella Design Ltd (Appointed 01/03/2007, Resigned 17/08/2009) Apac Coal Ltd (Appointed 29/06/2007); Millipede International Ltd (Appointed 13/12/2006).

**Mr Peter J Stafford (Executive Director)**

Appointed to the board	—	5 October 2009
Qualifications	—	Dip Bus, CPA, MFAA
Experience	—	Mr Stafford is a founding partner of Stafford Whelan, a public accounting company that was established in 1980. Peter is a member of CPA Australia. In 2006 he became a member of the Mortgage Finance Association of Australia.  In his role as a Partner in his firm, he offers accounting, taxation and investment advice to a large range of trust and superannuation funds. Mr Stafford has also accumulated knowledge and experience recommending strategies and analysis in the areas of finance costing, asset protection and wealth creation.  Mr Stafford has been 'referee' for Business Victoria for the past 10 years. This interface allows Mr Stafford to view the health of the broader economy through the lens of an experienced analyst.
Interest in shares and options	—	250,001 Ordinary Shares
Committees	—	Member of the Audit, Risk & Compliance Committee
Directorships held in other listed entities	—	Nil

**Ms Joanne Broeders (Non-Executive Director)**

Appointed to the board	—	5 October 2009
Experience	—	Ms Broeders joined Trafalgar Capital in 2007 as Market Services Consultant where she has used her considerable experience and international knowledge to introduce the Group's services and products, and increase its exposure to corporate advisors, public companies and investors worldwide. Prior to joining Trafalgar Capital, Ms Broeders spent the last five years as an international Sales and Marketing VP in the video game business where she specialised in positioning growth stage companies for strong industry visibility with a concentration on establishing international distribution channels in the Middle East, Europe and the UK.  From 1998 to 2001, Ms Broeders was a founding partner of a Toronto-based venture capital firm whose focus was raising capital for small and mid cap companies in the technology and communications sectors. Ms Broeders, as President, oversaw all due diligence activities, research, marketing, regulatory filings and day to day operations for a staff of 25. In assisting over 30 companies gain entry into public markets, Ms Broeders liaised with in-house and outside counsel, brokers, bankers and private equity investors as well as regulatory officials from origination through to and beyond deal completion.  Ms Broeders began her career as a finance assistant at a highly regarded and prestigious Canadian merchant bank, Capital Canada Ltd, where she played an important role in public relations, marketing, corporate writing for transaction documents and day-to-day operations as well as acting as PA to the President.
Interest in shares and options	—	Nil
Committees	—	Nil
Directorships held in other listed entities	—	Nil

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**Hon. Dr. Michael RL Wooldridge (Non-Executive Chairman)**

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Appointed to the board	—	22 August 2003 (Resigned on 2 October 2009)
Qualifications	—	BSc, MBBS, MBA
Experience	—	Dr Wooldridge graduated in science, medicine and surgery and holds an MBA from Monash University.  After working as a medical practitioner, he was elected to the Australian Federal Parliament in 1987. He was appointed Deputy Leader of the Opposition in 1993, and became the Minister for Health and Family Services in 1996. His portfolio was extended to include Aged Care in 1998, during which period he also served as the chair for the World Health Organisation's East Asia and Western Pacific Region. Dr Woolridge was also Global Chairman on UN AIDS, the peak UN body dealing with HIV.  From 1996 to 2001 he was a member of the Cabinet Budget Committee (Expenditure Review) and thus played an integral part in Federal Budget allocations not only in the health sector but across all sectors of the Australian Government. Since retiring from Federal Parliament he holds an academic appointment at the University of Melbourne and  In 2000, he was the recipient for the Novo Nordisk Health Policy Award being determined as the individual with the most outstanding contribution to diabetes policy globally over the
Interest in shares and options	—	28,500 Ordinary Shares 25,000 Listed Options exercisable at \$0.20 on or before 31st December 2010.
Committees	—	Member of the Audit, Risk & Compliance Committee
Directorships held in other listed entities	—	CogState Limited (Appointed May 2004) Australian Pharmaceutical Industries Limited (Appointed February 2006)

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**Mr H Neil Hewitt (Non-Executive Director)**

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Appointed to the board	—	22 August 2003 (Resigned on 2 October 2009)
Qualifications	—	FCA, FCPA
Experience	—	Mr Hewitt has had a career in financial management and accounting and was a partner of KPMG from 1971 to 1998. Over more than 20 years he has had a heavy involvement in the health sector - both public and private. He was on the Board of International Diabetes Institute from 2000 to 2008 and is a past Chairman of the Board. He was also a Director of Southern Health and the Chairman of Jessie McPherson Private Hospital - both in Melbourne until 2005.
Interest in shares and options	—	5,000 Ordinary Shares
Committees	—	Chairman of the Audit, Risk & Compliance Committee
Directorships held in other listed entities	—	Nil

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**Sir K George MM Alberti (Non-Executive Director)**

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Appointed to the board	—	22 August 2003 (Resigned on 12 February 2009)
Qualifications	—	DPHIL (Oxon), FRCP, FRCP (ED), FRCPATH, HON DM (Athens, AARHUS,
Experience	—	Amongst many achievements, Sir George Alberti is one of the world leading experts in diabetes and is the immediate past President of the International Diabetes Federation, Vice President of Diabetes UK, past President of the European Association for the Study of Diabetes and a leading expert in diabetes and emergency medicine. He is also co-Director of a World Health Organisation Collaborating Centre for Research & Development in Laboratory Techniques in Diabetes and sits on the WHO Expert Advisory Panel on Chronic Diseases.  Currently he is a National Director for Emergency Access for the British National Health Services (NHS), Senior Research Fellow at Imperial College London and Emeritus Professor of Medicine of the University of Newcastle, UK.
Interest in shares and options	—	Nil
Committees	—	Member of the Audit, Risk & Compliance Committee
Directorships held in other listed entities	—	Nil

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**Dr Jaydeep Biswas (Non-Executive Director)**

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Appointed to the board	—	12 April 2009 (Resigned on 2 August 2009)
Qualifications	—	PhD, MBA
Experience	—	Dr Biswas graduated with a Bachelor of Engineering (Chemical) and Ph.D from the University of Queensland and holds an MBA from Queensland University of Technology  Dr Biswas has a number of senior management and business development experience in multinational and government-owned enterprises both in Australia and Internationally, which includes the Royal Dutch Shell Group of Companies in 1987. Since 2001, Dr Biswas has been involved with advising and directing start-up companies across industries such as resources, property, technology, energy sustainability and finance.
Interest in shares and options	—	Nil
Committees	—	Nil
Directorships held in other listed entities	—	Nil

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### Meetings of Directors

The number of meetings of the Company's board of Directors (including committees of Directors) held during the year ended 30 June 2009, and the number of meetings attended by each of the Directors were:

	Directors' Meetings		Committee Meetings	
	Number eligible to attend	Number attended	Audit, Risk and Compliance Committee Number eligible to attend	Number attended
<b>Directors</b>				
Hon. Dr. Michael RL Wooldridge	11	11	6	2
Mr H Neil Hewitt	11	11	6	6
Sir K George MM Alberti	9	-	4	1
Dr Jaydeep Biswas	1	1	-	-

### REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each Director of Pallane Medical Limited (formerly Dia-B Tech Limited), and for the Key Management Personnel.

#### Directors and Key Management Personnel

Name	Position
Hon. Dr. Michael RL Wooldridge	Non-Executive Chairman
Dr Jaydeep Biswas	Non-Executive Director
Mr H Neil Hewitt	Non-Executive Director
Sir K George MM Alberti	Non-Executive Director
Mr Ken Smith	Chief Executive Officer and Company Secretary

The above personnel includes the four highest paid executives.

#### Remuneration Policy

Remuneration of all Executive and Non-Executive Directors, Officers and Employees of the Company is determined by the Board.

The Company is committed to remunerating Executive Directors in a manner that is market-competitive and consistent with "Best Practice" including the interests of shareholders. Remuneration packages are based on fixed and variable components, determined by the Executives' position, experience and performance, and may be satisfied via cash or equity.

Non-Executive Directors are remunerated out of the aggregate amount approved by shareholders and at a level that is consistent with industry standards. Non-Executive Directors do not receive performance based bonuses and prior Shareholder approval is required to participate in any issue of equity. No retirement benefits are payable other than statutory superannuation, if applicable.

#### Remuneration Policy Versus Company Financial Performance

Directors have been compensated for work undertaken and the responsibilities assumed in being Directors of this publicly listed company based on industry practice, as opposed to company performance which has been difficult to assess given the nature of the activities undertaken.

The Company envisages its performance in terms of earnings will remain negative whilst the Company continues in the research and development phase. Shareholder wealth reflects the speculative and volatile biotechnology market sector. This pattern is indicative of the Company's performance over the past five years.

#### Performance Based Remuneration

The purposes of a performance bonus is to reward individual performance in line with Company objectives. Consequently, performance based remuneration is paid to an individual where the individual's performance clearly contributes to a successful outcome for the Company. This is regularly measured in respect of performance against key performance indicators (KPI's).

The Company uses a variety of KPI's to determine achievement, depending on the role of the executive being assessed. These include:

- \* successful contract negotiations
- \* Company share price consistently reaching a targeted rate on the ASX or applicable market over a period of time
- \* completion of set milestones

## Details of Remuneration for Year Ended 30 June 2009

The remuneration for each Director and each of the Key Management Personnel of the consolidated entity during the year was as follows:

	Short-Term Employment Benefits		Post Employment Benefits	Share-Based Payments	Total
	Cash, Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	
	\$	\$	\$	\$	
<b>Directors</b>					
Hon. Dr. Michael RL Wooldridge	75,000	-	-	6,750	81,750
Dr Jaydeep Biswas	-	-	-	-	-
Mr H Neil Hewitt	40,000	-	-	3,600	43,600
Sir K George MM Alberti	-	-	-	-	-
	115,000	-	-	10,350	125,350
<b>Key Management Personnel</b>					
Mr Ken Smith	175,577	-	-	16,200	191,777
	175,577	-	-	16,200	191,777

## Details of Remuneration for Year Ended 30 June 2008

	Short-Term Employment Benefits		Post Employment Benefits	Share-Based Payments	Total
	Cash, Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	
	\$	\$	\$	\$	
<b>2008</b>					
Hon. Dr. Michael RL Wooldridge	75,000	-	-	6,750	81,750
Mr H Neil Hewitt	40,000	-	-	3,600	43,600
Sir K George MM Alberti	40,000	-	-	-	40,000
	155,000	-	-	10,350	165,350
<b>Key Management Personnel</b>					
Mr Ken Smith	156,781	-	-	14,110	170,891
	156,781	-	-	14,110	170,891

## Performance Income as a Proportion of Total Remuneration

All Directors as key management personnel are eligible to receive incentives whether through employment contracts or by the recommendation of the Board. Their performance payments are based on a set monetary value, set number of shares or options or as a portion of base salary. Therefore there is no fixed proportion between incentive and non-incentive remuneration.

Non-Executive Directors are not entitled to receive bonuses and/or incentives.

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

	Fixed Remuneration		At Risk - LTI	
	2009	2008	2009	2008
<b>Directors</b>				
Hon. Dr. Michael RL Wooldridge	100%	100%	-	-
Dr Jaydeep Biswas	100%	100%	-	-
Mr H Neil Hewitt	100%	100%	-	-
Sir K George MM Alberti	100%	100%	-	-

At risk long term incentive (LTI) relates to remuneration in the form of share based payments. There are no short term incentives considered to be at risk in the current or prior year.

## Share-based Compensation

No Shares or options were issued as part of remuneration during this reporting period or the previous reporting period.

## Employment Contracts of Directors and Key Management Personnel

No Director or Senior Executive was under a formal contract as at 30 June 2009.

## Share Options on Issue at 30 June 2009

The unissued ordinary shares of Pallane Medical Limited (formerly Dia-B Tech Limited) under option at the following dates were:

Date of Expiry	Exercise Price \$	Number Under Option at 30 June 2009	Number Under Option at 30 June 2008
31 December 2010	\$0.20	87,381,699	87,381,699
31 December 2010	\$0.03	250,000	250,000
29 January 2013	\$0.07	1,000,000	1,000,000
		88,631,699	88,631,699

## Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2009 no ordinary shares of Pallane Medical Limited (formerly Dia-B Tech Limited) were issued as a result of the exercise of options.

### Indemnification of Officers and Auditors

During the financial year the Company maintained an insurance policy to indemnify Directors and Officers against certain liabilities incurred as such a Director or Officer, including costs and expenses associated in successfully defending legal proceedings. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an Officer or Auditor of the Company or any related body corporate against a liability incurred as such an Officer or Auditor.

### Proceedings on Behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

### 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 Group are important.

During the year ended 30 June 2009 the Company did not engage the external auditor to provide non-audit services.

### Auditor's Independence Declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2009 has been received and can be found on pp 18 of the annual report.

This report is made in accordance with a resolution of Directors.



**Mr Peter Stafford**  
**Executive Director**

Dated this 29th day of October 2009

29 October 2009

The Board of Directors  
Pallane Medical Limited  
Suite 1133-1139  
1 Queens Road  
MELBOURNE VIC 3004

Dear Board Members

**AUDITOR'S INDEPENDENCE DECLARATION  
IN ACCORDANCE WITH SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF PALLANE MEDICAL LIMITED**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Pallane Medical Limited.

As lead audit partner for the audit of the financial report of Pallane Medical Limited for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully  
**William Buck Audit (VIC) Pty Ltd**  
ABN 59 115 151 136



**Hugh D. Paton**  
Director

Dated in Melbourne, Australia on this 29<sup>th</sup> day of October 2009

PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)

ABN: 49 102 456 048

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Company	
		2009 \$	2008 \$
Revenue	2	19,396	96,901
Other income		400	-
Administration expenses	3	486,393	357,157
Borrowing Expenses	3	934,322	394,181
Employee & Consulting Expenses	3	924,275	616,664
Patent Cost	3	117,948	103,863
Research & Development Expenses	3	989,066	1,725,532
Loss before income tax		(3,432,208)	(3,100,496)
Income tax expense	4	-	-
<b>Loss Attributable to Members of the Company</b>		<b>(3,432,208)</b>	<b>(3,100,496)</b>
<b>Overall Operations</b>			
Basic loss per share (cents per share)	7a	(2.19)	(2.15)
Diluted loss per share (cents per share)	7a	(2.19)	(2.15)

The accompanying notes form part of these financial statements.

PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)

ABN: 49 102 456 048

BALANCE SHEET

AS AT 30 JUNE 2009

	Note	Company	
		2009	2008
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	1,259,527	926,474
Trade and other receivables	9	21,332	36,259
Other	11	7,753	9,092
<b>Total Current Assets</b>		<b>1,288,612</b>	<b>971,825</b>
<b>Non-Current Assets</b>			
Plant and equipment	10	679	1,564
<b>Total Non-Current Assets</b>		<b>679</b>	<b>1,564</b>
<b>Total Assets</b>		<b>1,289,291</b>	<b>973,389</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	2,577,684	214,118
Borrowings	13	2,982,710	-
Provisions	14	25,290	21,507
<b>Total Current Liabilities</b>		<b>5,585,684</b>	<b>235,625</b>
<b>Non-Current Liabilities</b>			
Borrowings	13	-	1,975,224
Provisions	14	-	6,493
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>1,981,717</b>
<b>Total Liabilities</b>		<b>5,585,684</b>	<b>2,217,342</b>
<b>Net Liabilities</b>		<b>(4,296,393)</b>	<b>(1,243,953)</b>
<b>Equity</b>			
Issued capital	15	9,696,460	9,316,692
Accumulated losses		(13,992,853)	(10,560,645)
<b>Total Deficiency</b>		<b>(4,296,393)</b>	<b>(1,243,953)</b>

The accompanying notes form part of these financial statements.

PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)

ABN: 49 102 456 048

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Issued Capital	Accumulated Losses	Total
<b>Company</b>		\$	\$	\$
<b>Balance at 01 July 2007</b>	15	9,162,752	(7,460,149)	1,702,603
Shares issued	15	112,000	-	112,000
Share issue costs	15	(10,560)	-	(10,560)
Options issued	15	37,500	-	37,500
Loss for the year		-	(3,100,496)	(3,100,496)
Shares issued from the exercise of options	15	15,000	-	15,000
<b>Balance at 30 June 2008</b>		9,316,692	(10,560,645)	(1,243,953)
Shares issued	15	397,640	-	397,640
Share issue costs	15	(17,872)	-	(17,872)
Loss for the year		-	(3,432,208)	(3,432,208)
<b>Balance at 30 June 2009</b>		<b>9,696,460</b>	<b>(13,992,853)</b>	<b>(4,296,393)</b>

The accompanying notes form part of these financial statements.

PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)

ABN: 49 102 456 048

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Company	
		2009	2008
		\$	\$
<b>Cash Flows Related To Operating Activities</b>			
Payments to suppliers and employees		(1,331,576)	(2,732,570)
Interest received		19,396	96,901
Other Income		400	-
Interest and other costs of finance paid		(1,006)	-
<b>Net Cash Flows Used In Operating Activities</b>	17a	<b>(1,312,786)</b>	<b>(2,635,669)</b>
<b>Cash Flows Related To Financing Activities</b>			
Receipt of shareholder funds		1,235,438	15,000
Capital raising costs		(10,269)	(10,560)
Loans received from other entities		449,980	2,000,000
Borrowing costs paid		(29,310)	(276,957)
<b>Net Cash Flows From Financing Activities</b>		<b>1,645,839</b>	<b>1,727,483</b>
<b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>		<b>333,053</b>	<b>(908,186)</b>
Cash and cash equivalents at the beginning of the year		926,474	1,834,660
<b>Cash And Cash Equivalents At The End Of The Year</b>	8	<b>1,259,527</b>	<b>926,474</b>

The accompanying notes form part of these financial statements.



**Note 1 Statement of Significant Accounting Policies****Statement of Compliance**

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

Pallane Medical Limited (formerly Dia-B Tech Limited) is a listed public Company, incorporated and domiciled in Australia. The Company's principal activities are development of pharmaceuticals, diagnostics and treatments for diabetes and diabetes-related diseases.

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the parent entity and consolidated financial statements and notes of Pallane Medical Limited (formerly Dia-B Tech Limited) comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the Directors on the date the Director's Declaration was signed.

**Basis of Preparation**

The financial report has been prepared on the basis of historical cost. Cost is based on fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Income Tax**

The income tax expense is based on the taxable income for the year. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or assets) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (excluding a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled. Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

**(b) Going Concern**

The Company is a development stage medical biotechnology company and as such expects to be utilising cash until its research activities have become marketable. As at 30 June 2009, the Company incurred an operating loss of \$3,432,208 (2008: \$3,100,496). As at year end, the Company had a negative net asset position of \$4,296,393 (2008: \$1,243,953). The Company's cash position has increased to \$1,259,527 (2008: \$926,474) at 30 June 2009.

The Directors believe that the going concern basis of preparation is appropriate given the following reasons:

1. The Company announced on the 5 October 2009, that it had reached an agreement for a \$30 million funding facility with investment bank Fortrend Securities Pty Ltd (Fortrend), allowing the Company to continue its immediate operations, and most particularly, its ambitious commercialisation program and other opportunities in the medical field. The funding facility is an equity draw-down variety, allowing the Company to place shares with Fortrend over the next three years as funds are drawn. No amounts have been drawn down on the facility, as at the date of signing this report.
2. At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the Balance Sheet at 30 June 2009. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

**(c) Plant and Equipment**

Plant and equipment is stated at cost, less accumulated depreciation and impairment.

Cost includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. 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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from the revaluation reserve to retained earnings.

**Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight line basis commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Office equipment	20%
Computer equipment	33%

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.

**(d) Financial Assets and Liabilities**

**Recognition**

Financial assets and liabilities are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and are no longer controlled by the entity. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

**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 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 carried at amortised cost using the effective interest rate method less impairment.

**Financial Liabilities**

Non-derivative financial liabilities are recognised at amortised cost using the effective interest rate method, comprising original debt less principal payments, amortisation and impairment.

**(e) Intangibles**

**Research and Development**

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to design and testing of new or improved technology) 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 appropriated proportion of overheads. Other development expenditures that do not meet these 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. Capitalised development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

**(f) Employee Benefits**

**Wages and Salaries, Annual Leave and Long Service Leave**

A liability is recognised for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

**(g) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably measured. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**(h) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**(i) Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

Revenue from investment properties is recognised on an accruals basis or straight line basis in accordance with leases agreements.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**(j) Borrowing Costs**

Borrowings costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

**(k) Trade and Other Receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

**(l) Trade and Other Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not billed to the Company.

**(m) Earnings per Share**

Basic earnings per share is determined by dividing the result from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

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

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

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

**(o) Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to the income statement over the expected useful life of the related asset on a straight-line basis.

**(p) Share Capital**

Ordinary share capital is recognised as the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(q) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(r) Segment Accounting**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and plant and equipment, net of allowances and accumulated depreciation and amortisation.

While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis.

Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

**(s) Critical Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

**(t) New Accounting Standards and Interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's assessment of the impact of these new standards and interpretations is only relevant to the below:

i) AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 23). The Group does not believe AASB 8 will have a material impact on the Group's financial report.

ii) Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosure.

(iii) AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

(iv) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may be applied earlier. The Group has not yet decided when it will apply the revised standards. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income;
- all transaction cost will be expensed;
- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest; and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

(v) Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate were issued in May 2008 and will apply to financial reporting periods commencing on or after 1 January 2009. Amendments to the corresponding Australian Accounting Standards are expected to be issued shortly. After application of these revised rules, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)

ABN: 49 102 456 048

NOTES TO THE FINANCIAL STATEMENTS continued

**Note 2 Revenue**

	Company	
	2009	2008
	\$	\$
Non-operating activities		
— Interest received	19,396	96,901
<b>Total non-operating revenue</b>	<b>19,396</b>	<b>96,901</b>

**Note 3 Loss from Ordinary Activities**

	Note	Company	
		2009	2008
		\$	\$
(a) Expenses			
Administration expenses			
— Audit Fees		20,000	18,000
— Other Fees		97,197	8,300
— Corporate Administration		318,054	330,857
— Foreign Exchange Loss		51,142	-
<b>Administration expenses</b>		<b>486,393</b>	<b>357,157</b>
Borrowing Expenses			
— Borrowing Expenses		934,322	394,181
<b>Borrowing Expenses</b>		<b>934,322</b>	<b>394,181</b>
Employee & Consulting Expenses			
— Directors and Employees		338,779	387,661
— Professional & Consulting Fees		585,496	229,003
<b>Employee &amp; Consulting Expenses</b>		<b>924,275</b>	<b>616,664</b>
Patent Cost			
— Patents		117,948	103,863
<b>Patent Cost</b>		<b>117,948</b>	<b>103,863</b>
Research & Development Expenses			
— ISF402 R&D Diabetes Project		780,620	1,327,661
— CDA1 Project (Baker)		117,321	193,704
— IM014 Project (Intramed)		91,125	204,167
<b>Research &amp; Development Expenses</b>		<b>989,066</b>	<b>1,725,532</b>
<b>Total Expenses</b>		<b>3,452,004</b>	<b>3,197,397</b>

**Note 4    Income Tax Expense**

	Company	
	2009	2008
	\$	\$
<b>(a) Income Tax Recognised in Profit or Loss</b>		
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Income tax benefit on loss from ordinary activities calculated at 30% (2008: 30%)	(1,029,662)	(930,149)
Tax effect of amounts which are not deductible in calculating taxable income:		
— borrowing costs	-	66,024
— other non-allowable items	227,034	8,843
Tax benefit associated with R&D rebate	(74,180)	(151,754)
Other deductible items	(54,262)	(8,364)
Over/under provision for tax in prior years	1,356	4,550
	(929,714)	(1,010,850)
Tax effect of current period losses not recognised as deferred tax assets	929,714	1,010,850
Income Tax Recognised in Profit or Loss	-	-
<b>(b) Deferred Tax Assets and Liabilities</b>		
Deferred tax assets and liabilities are attributable to the following:		
Tax losses	4,054,066	3,268,934
Trade and other payables	145,395	(7,550)
Employee provisions	(813)	4,550
	4,198,648	3,265,934
Temporary difference not recognised on the balance sheet	(4,198,648)	(3,265,934)
	-	-
<b>(c) Unrecognised Tax Asset Movements</b>		
Movements in deferred tax assets have not been recognised in respect of the following:		
Temporary difference	144,582	(3,000)
Tax losses	785,132	1,013,850
	929,714	1,010,850

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

**Note 5 Key Management Personnel Compensation**

**Key Management Personnel includes:**

**(a) Directors**

Names and positions of Directors of Pallane Medical Limited (formerly Dia-B Tech Limited) in office at any time during or since the financial year are:

Name	Position	
Hon. Dr. Michael RL Wooldridge	Non-Executive Chairman	(Resigned 2 October 2009)
Dr Jaydeep Biswas	Non-Executive Director	(Appointed 12 February 2009, Resigned 2 August 2009)
Mr H Neil Hewitt	Non-Executive Director	(Resigned 2 October 2009)
Sir K George MM Alberti	Non-Executive Director	(Resigned 12 February 2009)
Mr Ravindran Govindran	Non-Executive Chairman	(Appointed 5 October 2009)
Mr Santino Di-Giacomo	Non-Executive Director	(Appointed 5 October 2009)
Ms Joanna Broeders	Non-Executive Director	(Appointed 5 October 2009)
Mr Peter Joseph Stafford	Executive Director	(Appointed 5 October 2009)

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

**Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly during the financial year:

Name	Position
Mr Ken Smith	Chief Executive Officer and Company Secretary (Resigned 2 October 2009)
Mr Wojtek Luke Randra	Company Secretary (Appointed 5 October 2009)

**(b) Key Management Personnel Compensation**

The aggregate compensation made to key management personnel of the Company and the Group is set out below:

	Company	
	2009	2008
	\$	\$
Short-term employee benefits	290,577	311,781
Post-employment benefits	26,550	24,460
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<b>317,127</b>	<b>336,241</b>

Additional disclosures as required per AASB 124 can be found in the Remuneration Report on pages 15 to 16.

**(c) Key Management Personnel Compensation**

The compensation of each member of the key management personnel of the Group for the current year is set out below:

	Short-term employment benefits			Post Employment Benefits	Share-Based Compensation	Total
	Cash, salary & fees	Cash bonus	monetary benefits	Super-annuation	Shares/Options	
2009	\$	\$	\$	\$	\$	\$
Hon. Dr. Michael RL Wooldridge	75,000	-	-	6,750	-	81,750
Dr Jaydeep Biswas	-	-	-	-	-	-
Mr H Neil Hewitt	40,000	-	-	3,600	-	43,600
Sir K George MM Alberti	-	-	-	-	-	-
Total Directors	115,000	-	-	10,350	-	125,350
Mr Ken Smith	175,577	-	-	16,200	-	191,777
Total Key Management Personnel	175,577	-	-	16,200	-	191,777
Total	290,577	-	-	26,550	-	317,127

  

	Non-monetary benefits			Super-annuation	Shares/Options	Total
	Cash, salary & fees	Cash bonus	Non-monetary benefits	Super-annuation	Shares/Options	
2008	\$	\$	\$	\$	\$	\$
Hon. Dr. Michael RL Wooldridge	75,000	-	-	6,750	-	81,750
Mr H Neil Hewitt	40,000	-	-	3,600	-	43,600
Sir K George MM Alberti	40,000	-	-	-	-	40,000
Total Directors	155,000	-	-	10,350	-	165,350
Mr Ken Smith	156,781	-	-	14,110	-	170,891
Total Key Management Personnel	156,781	-	-	14,110	-	170,891
Total	311,781	-	-	24,460	-	336,241

**(d) Options and Rights Holdings**

The number of options over ordinary shares in the Company held during the financial year by each Director of Pallane Medical Limited (formerly Dia-B Tech Limited) and other key management personnel of the Group, including their personally related parties, are set out below:

	Balance at Start of the Year	Granted as Compensation	Options Exercised	Net Change Other	Balance at End of the Year	Vested and Exercisable	Unvested
<b>2009</b>							
<b>Directors</b>							
Hon. Dr. Michael RL Wooldridge	500,000	-	-	-	500,000	-	-
Dr Jaydeep Biswas	-	-	-	-	-	-	-
Mr H Neil Hewitt	-	-	-	-	-	-	-
Sir K George MM Alberti	-	-	-	-	-	-	-
<b>Other key management personnel</b>							
Mr Ken Smith	-	-	-	-	-	-	-
<b>Total</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>500,000</b>	<b>-</b>	<b>-</b>
<b>2008</b>							
<b>Directors</b>							
Hon. Dr. Michael RL Wooldridge	500,000	-	-	-	500,000	500,000	-
Dr Jaydeep Biswas	-	-	-	-	-	-	-
Mr H Neil Hewitt	-	-	-	-	-	-	-
Sir K George MM Alberti	-	-	-	-	-	-	-
<b>Other key management personnel</b>							
Mr Ken Smith	-	-	-	-	-	-	-
<b>Total</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>500,000</b>	<b>500,000</b>	<b>-</b>

**(e) Shareholdings**

The number of shares in the Company held during the financial year by each Director of Pallane Medical Limited (formerly Dia-B Tech Limited) and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the period as remuneration.

	Balance at the Start of the Year	Received as Compensation	Options Exercised	Net Change Other	Balance at the End of the Year
<b>2009</b>					
<b>Directors</b>					
Hon. Dr. Michael RL Wooldridge	570,000	-	-	-	570,000
Dr Jaydeep Biswas	-	-	-	-	-
Mr H Neil Hewitt	100,000	-	-	-	100,000
Sir K George MM Alberti	-	-	-	-	-
<b>Other key management personnel</b>					
Mr Ken Smith	-	-	-	-	-
<b>Total</b>	<b>670,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>670,000</b>
<b>2008</b>					
<b>Directors</b>					
Hon. Dr. Michael RL Wooldridge	570,000	-	-	-	570,000
Mr H Neil Hewitt	100,000	-	-	-	100,000
Sir K George MM Alberti	-	-	-	-	-
<b>Other key management personnel of the Group</b>					
Mr Ken Smith	-	-	-	-	-
<b>Total</b>	<b>670,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>670,000</b>

**(f) Loans to key management personnel**

There were no loans made to the Directors or other key management personnel of the Group, including their personally related parties.

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

There were no further transactions with key management personnel not disclosed above.

**(h) Contracts for Services of Key Management Personnel**

No Director or Senior Executive was under a formal contract as at 30 June 2009.



**Note 6 Auditor's Remuneration**

	Note	Company	
		2009	2008
		\$	\$
Remuneration of the auditor of the parent entity for:			
— auditing or reviewing the financial report		20,000	18,000
— taxation services		-	8,300
		20,000	26,300

**Note 7 Loss per Share**

	2009	2008
	cents	cents
(a) Basic and diluted loss per share	(2.19)	(2.15)
	\$	\$
(b) Loss used to calculate basic and diluted loss per share	(3,432,208)	(3,100,496)
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No. 156,377,051	No. 144,527,217
(d) Options that are considered to be potential ordinary shares are excluded from the weighted average number of ordinary shares used in the calculation of basic loss per share. Where dilutive, potential ordinary shares are included in the calculation of diluted loss per share.		

All the options on issue do not have the effect to dilute the loss per share, as exercise of the options would decrease the basic loss per share, and have been excluded from the calculation of diluted loss per share.

**Note 8 Cash and Cash Equivalents**

	Note	Company	
		2009	2008
		\$	\$
Cash at bank and in hand	(i)	1,259,527	926,474
		1,259,527	926,474

**Reconciliation of cash**

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	1,259,527	926,474
	1,259,527	926,474

- (i) The cash at bank balance of \$1,259,527 includes an amount of \$1,235,438, which relates to shareholder subscription funds received in relation to a placement under the Prospectus dated 27 May 2009 (and supplementary prospectus). The placement was not successful and as such the total amount of these shareholder funds were refunded to the shareholders post year end.

**Note 9 Trade and Other Receivables**

	Company	
	2009	2008
	\$	\$
<b>Current</b>		
Other receivables	21,332	36,259
	21,332	36,259

There are no balances within other receivables that contain assets that are impaired and past due. It is expected these balances will be received when due.

**Note 10 Property, Plant and Equipment**

	Company	
	2009	2008
	\$	\$
<b>Plant &amp; Equipment</b>		
<b>Office Equipment</b>		
At cost	391	391
Accumulated depreciation	(339)	(262)
	52	129
<b>Computer Equipment</b>		
At cost	8,312	8,312
Accumulated depreciation	(7,685)	(6,877)
	627	1,435
<b>Total Plant and Equipment</b>	<b>679</b>	<b>1,564</b>

(a) **Movements in Carrying Amounts**

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial

	Office Equipment	Computer Equipment	Total
	\$	\$	\$
<b>2009</b>			
<b>Company:</b>			
Balance at the beginning of year	129	1,435	1,564
Depreciation expense	(77)	(808)	(885)
Carrying amount at the end of year	52	627	679
<b>2008</b>			
<b>Company:</b>			
Balance at the beginning of year	208	3,260	3,468
Depreciation expense	(79)	(1,825)	(1,904)
Carrying amount at the end of year	129	1,435	1,564

**Note 11 Other Assets**

	Company	
	2009	2008
	\$	\$
<b>Current</b>		
Prepayments	7,753	9,092
	7,753	9,092

**Note 12 Trade and Other Payables**

	Note	Company	
		2009	2008
		\$	\$
<b>Current</b>			
<b>Unsecured liabilities</b>			
Trade payables		769,504	16,561
Sundry payables and accrued expenses		572,742	197,557
Subscription funds on ordinary shares not issued		1,235,438	-
		2,577,684	214,118

**Note 13 Borrowings**

	Note	Company	
		2009	2008
		\$	\$
<b>Current</b>			
<b>Secured liabilities:</b>			
Convertible loan	13 (a)(b)	2,458,885	-
Bridge loan	13 (a)(c)	523,825	-
		2,982,710	-
<b>Non-Current</b>			
<b>Secured liabilities:</b>			
Convertible loan	13 (a)(b)	-	1,975,224
		-	1,975,224
Total		2,982,710	1,975,224

- (a) The carrying amounts of non-current assets pledged as security are:  
Fixed & Floating charge over the net assets of the Company

	(1,313,683)	731,271
	(1,313,683)	731,271

- (b) Convertible loan  
The Convertible Loan Agreement was provided by Trafalgar Capital Specialised Investment Fund (Trafalgar). Trafalgar agreed to advance to the Company \$4 million. On 29 January 2008 a \$2 million advance was drawn down. The term of the Agreement is two years. Interest accrues on the outstanding amount of the Loan at the rate of 9.5% per annum. The loan is repayable via the issue of shares in the Company and or cash.

Since 30 June 2009, the Company has reached an agreement with Trafalgar to convert the majority of the current convertible debt into equity, subject to shareholder approval.

- (c) Bridge loan  
The Bridge Loan Agreement was provided by Trafalgar Capital Specialised Investment Fund (Trafalgar). Trafalgar agreed to advance to the Company \$0.450 million. During the current financial year the loan was fully drawn down. The term of the Agreement is three months. Interest accrues on the outstanding amount of the Loan at the rate of 10.0% per annum. The loan is repayable via the issue of shares in the Company and or cash.

**Note 14 Provisions**

	Company	
	2009	2008
	\$	\$
<b>Current</b>		
Annual leave	25,290	21,507
	25,290	21,507
<b>Non-Current</b>		
Long service leave	-	6,493
	-	6,493

**Provision for Employee Entitlements**

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

## Note 15 Issued Capital

The company has unlimited authorised share capital of no par value ordinary shares.

	Note	Company	
		2009	2008
		\$	\$
Fully Paid Ordinary shares (2009:166,967,502) (2008:147,342,117)	15a	9,658,960	9,279,192
Listed Options and Unlisted Options	15b	37,500	37,500
		9,696,460	9,316,692

### (a) Movement in Ordinary Shares on issue

	Note	2009		2008	
		No.	\$	No.	\$
At the beginning of reporting period		147,342,117	9,279,192	143,670,019	9,147,752
Shares issued during year	(i)	19,625,385	397,640	3,172,098	112,000
Exercise of options	(ii)	-	-	500,000	15,000
Transfer to/from other equity classes		-	-	-	15,000
Transaction costs relating to share issues		-	(17,872)	-	(10,560)
At reporting date		166,967,502	9,658,960	147,342,117	9,279,192

(i) 2009	Details	Number	Issue Price \$	\$
07-Jul-08	Conversion of \$10,000 of Convertible Loan	392,157	0.025	10,000
25-Jul-08	Conversion of \$5,000 of Convertible Loan	196,078	0.026	5,000
05-Aug-08	Conversion of \$15,000 of Convertible Loan	587,664	0.026	15,000
25-Aug-08	Conversion of \$7,000 of Convertible Loan	376,181	0.019	7,000
05-Sep-08	Conversion of \$10,000 of Convertible Loan	606,605	0.016	10,000
12-Sep-08	Conversion of \$10,000 of Convertible Loan	818,760	0.012	10,000
06-Oct-08	Conversion of \$10,000 of Convertible Loan	864,798	0.012	10,000
25-Nov-08	Conversion of \$5,000 of Convertible Loan	604,278	0.008	5,000
13-Feb-09	Issue shares to Trafalgar for Bridge Loan Finance	14,540,813	0.022	319,898
19-Mar-09	Issue shares to Trafalgar for Bridge Loan Finance	638,051	0.009	5,742
		19,625,385		397,640

2008	Details	Number	Issue Price \$	\$
29-Jan-08	Convertible Loan Agreement (1)	714,286	0.056	40,000
04-Mar-08	Convertible Loan Agreement (2)	125,156	0.040	5,000
19-Mar-08	Convertible Loan Agreement (3)	442,728	0.034	15,000
06-May-08	Convertible Loan Agreement (4)	221,141	0.023	5,000
12-May-08	Convertible Loan Agreement (5)	230,681	0.022	5,000
12-May-08	Convertible Loan Agreement (6)	219,491	0.023	5,000
16-May-08	Convertible Loan Agreement (7)	300,558	0.023	7,000
13-Jun-08	Convertible Loan Agreement (8)	282,127	0.035	10,000
25-Jun-08	Convertible Loan Agreement (9)	635,930	0.031	20,000
		3,172,098		112,000

(ii) 2008	Details	Number	Issue Price \$	\$
02-Aug-07	Exercise of Options	250,000	0.030	7,500
13-Jun-08	Exercise of Options	250,000	0.030	7,500
		500,000		15,000

### Terms and Conditions of Issued Capital

Ordinary Shares: have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy at a meeting of the Company.

**(b) Movement in Options on issue**

The option reserve recognises the proceeds from the issue of options over ordinary shares. Upon exercise of these options, amounts recorded in the option reserve are transferred to contributed equity.

	Note	2009		2008	
		No.	\$	No.	\$
At the beginning of reporting period		88,631,699	37,500	87,881,699	15,000
Options issued during year	(i)	-	-	1,250,000	37,500
Exercise of Options	(ii)	-	-	(500,000)	(15,000)
At reporting date		88,631,699	37,500	88,631,699	37,500

Options: option holders do not have the right to receive dividends and are not entitled to vote at the meeting of the Company. Options may be exercised at any time from the date they vest to their expiry date. Share options convert into ordinary shares on a one for one basis on the date they are exercised.

(i) 2008	Details	Number	Issue Price \$	\$
29-Jan-08	Convertible Loan Agreement	1,000,000	0.030	30,000
12-May-08	In lieu of consulting fees	250,000	0.030	7,500
		1,250,000		37,500

  

(ii) 2008	Details	Number	Issue Price \$	\$
02-Aug-07	Exercise of 250,000 unlisted options	(250,000)	0.030	(7,500)
13-Jun-08	Exercise of 250,000 unlisted options	(250,000)	0.030	(7,500)
		(500,000)		(15,000)

## Note 16 Segment Reporting

The company has the following three business segment being:

ISF402 - Insulin Sensitizing Factor 402

CDA1 - Baker IDI Heart & Diabetes Institute Project

IM014 - Fusion Biosciences Pty Ltd

	ISF402 - Insulin Sensitizing Factor 402 \$	CDA1 - Baker IDI Heart & Diabetes Institute \$	IM014 - Fusion Biosciences Pty Ltd \$	Unallocated \$	Total \$
<b>2009</b>					
Primary Reporting Format - Business Segments					
Revenue	-	-	-	-	-
External sales	-	-	-	-	-
Intersegment sales	-	-	-	-	-
Unallocated revenue	-	-	-	19,796	19,796
<b>Total segment revenue/income</b>	-	-	-	19,796	19,796
Segment Result	(780,620)	(117,321)	(91,125)	-	(989,066)
Unallocated Revenue	-	-	-	19,796	19,796
Unallocated Expenses	-	-	-	(2,462,938)	(2,462,938)
Income Tax Expense	-	-	-	-	-
<b>Net Loss</b>	<b>(780,620)</b>	<b>(117,321)</b>	<b>(91,125)</b>	<b>(2,443,142)</b>	<b>(3,432,208)</b>
Segment Assets	-	-	-	-	-
Unallocated Assets	-	-	-	1,289,291	1,289,291
<b>Total Assets</b>	-	-	-	1,289,291	1,289,291
Segment Liabilities	-	-	-	-	-
Unallocated Liabilities	-	-	-	5,585,684	5,585,684
<b>Total Liabilities</b>	-	-	-	5,585,684	5,585,684
<b>2008</b>					
Primary Reporting Format - Business Segments					
Revenue	-	-	-	-	-
External sales	-	-	-	-	-
Intersegment sales	-	-	-	-	-
Unallocated revenue	-	-	-	96,901	96,901
<b>Total segment revenue/income</b>	-	-	-	96,901	96,901
Segment Result	(1,327,661)	(193,704)	(204,167)	-	(1,725,532)
Unallocated Revenue	-	-	-	96,901	96,901
Unallocated Expenses	-	-	-	(1,471,865)	(1,471,865)
Income Tax Expense	-	-	-	-	-
<b>Net Loss</b>	<b>(1,327,661)</b>	<b>(193,704)</b>	<b>(204,167)</b>	<b>(1,374,964)</b>	<b>(3,100,496)</b>
Segment Assets	-	-	-	-	-
Unallocated Assets	-	-	-	973,389	973,389
<b>Total Assets</b>	-	-	-	973,389	973,389
Segment Liabilities	-	-	-	-	-
Unallocated Liabilities	-	-	-	2,217,342	2,217,342
<b>Total Liabilities</b>	-	-	-	2,217,342	2,217,342

**Note 17 Cash Flow Information**

**(a) Reconciliation of Loss for the Period to Net Cash Flows from Operating Activities**

	Company	
	2009	2008
	\$	\$
<b>Net Cash Flows from operating activities</b>		
Loss for the period	(3,432,208)	(3,100,496)
Add back depreciation expense	885	1,903
Add back borrowing costs	933,316	394,181
Add back equity issued for nil consideration	-	7,500
Add back foreign exchange loss	51,140	-
(Increases)/Decreases in accounts receivable	14,927	7,047
(Increases)/Decreases in other current assets	1,339	(5,810)
Increases in accounts payable	1,120,525	44,841
Increase/(Decrease) in provisions	(2,710)	15,165
Cash flow used in operations	(1,312,786)	(2,635,669)

**Note 18 Events After the Balance Sheet Date**

On the 8 July 2009, the Company advised that the process to consolidate the shares and options of the Company on a twenty (20) for one (1) basis was completed in accordance with section 254H(1) of the Corporations Act. The consolidation was approved by shareholders at the Company's general meeting held on the 29th June 2009.

The Company issued a Prospectus on 27 May 2009 and Supplementary Prospectuses' on 19 June 2009 and 30 June 2009, to raise up to \$15 million for the acquisition of Pallane Medical Pty Ltd (now Vita Vir Pty Ltd). There was a substantial shortfall in applications for shares under the offer and on 11 August 2009 the Company announced that Winteray Capital Pty Ltd, the underwriter, was in breach of the underwriting agreement. The Company will vigorously pursue Winteray on behalf of shareholders, for all costs associated with this matter. On 13 August 2009 the Company announced it had received a notice of termination of the share sale agreement for the acquisition of Vita Vir Pty Ltd.

On 2 August 2009 Dr Jaydeep Biswas resigned as a Non-executive director of the Company. Further, on 2 October 2009 the Hon Dr Michael Wooldridge resigned as Non-executive Chairman, Mr H Neil Hewitt resigned as Non-executive Director, and Mr Kenneth Smith resigned as CFO and Company Secretary.

Following extensive negotiations, on the 5 October 2009, the Company announced that Trafalgar Capital Specialized Investment Fund (Trafalgar), the convertible note holder of the Company, would take control of the Company through an agreement to convert the majority of the current convertible debt holdings into equity, subject to shareholder approval, which the Board believed was in the best interest of all creditors and shareholders.

In conjunction with the above announcement, the Company announced the new issue of 1,250,000 shares at 12 cents per share to raise \$150,000, to sources working with Trafalgar to secure the future of the Company. Further, the appointment of the new Directors and management of the Company to replace the outgoing Board was announced, the new appointments were:

- Ravindran Govindran (Executive Chairman)
- Santino Di-Giacomo (Director)
- Joanna Broeders (Director, who represents Trafalgar Capital Specialized Investment Fund)
- Peter Joseph Stafford (Director)
- Wojtek Luke Randla (Company Secretary)

Also on the 5 October 2009, the Company announced that it had reached an agreement for a \$30 million funding facility with investment bank Fortrend Securities Pty Ltd, allowing Dia-B Tech to continue its immediate operations, and most particularly, its ambitious commercialisation program and other opportunities in the medical field and also seek additional capital as required.

**Note 19 Related Party Transactions**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Transactions with related parties:

	Company	
	2009	2008
	\$	\$
Director Related Entities	-	3,000
	-	3,000

In the prior year, the Baker IDI Heart and Diabetes Institute, an entity associated with Mr. H Neil Hewitt, provided research and development services to the Company.

**Note 20 Financial Risk Management**

The Company's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. Price risk is not a risk exposure. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The Company does not have written policies regarding risk management, however, these risks are managed prudently by senior management.

(a) **Market Risk**

(i) **Foreign Currency Risk**

The Company engages in international transactions and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the Euro. The Company does not make use of derivative financial instruments to hedge foreign exchange risk.

The carrying amount of the foreign currency denominated monetary assets and liabilities at the reporting date is as follows, all amounts in the table below are displayed in \$AUD:

	Company	
	2009	2008
	\$	\$
Financial liabilities - borrowings (€EUR)	2,982,710	1,975,224
	2,982,710	1,975,224

The Company has conducted a sensitivity analysis of its exposure to foreign currency risk, currently the Euro (€ EUR). The sensitivity analysis below has been based on the average annual movement in the AUD/EUR exchange rate over the past 5 years based on the year-end spot rates, being 0.5%.

All the amounts in the table below are displayed in \$AUD. A positive number indicates an increase in profit and equity. A negative number indicates a decrease in profit and equity.

	Company	
	2009	2008
	\$	\$
AUD/EUR + 0.5%	14,988	9,926
AUD/EUR - 0.5%	(14,839)	(9,827)

(ii) **Interest Rate Risk**

The Company's exposure to interest rate risk is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities.

2009							
Company	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Fixed Interest Rate Within Year \$	Fixed Interest Rate 1 to 5 years \$	Fixed Interest Rate Over 5 years \$	Non-Interest Bearing \$	Total \$
<b>Financial Assets:</b>							
Cash and cash equivalents	1.17%	1,259,527	-	-	-	-	1,259,527
Total Financial Assets		1,259,527	-	-	-	-	1,259,527
<b>Financial Liabilities:</b>							
Trade and other payables		-	-	-	-	2,577,684	2,577,684
Borrowings	9.59%	-	2,982,710	-	-	-	2,982,710
Total Financial Liabilities		-	2,982,710	-	-	2,577,684	5,560,394
2008							
Company	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Fixed Interest Rate Within Year \$	Fixed Interest Rate 1 to 5 years \$	Fixed Interest Rate Over 5 years \$	Non-Interest Bearing \$	Total \$
<b>Financial Assets:</b>							
Cash and cash equivalents	7.15%	926,474	-	-	-	-	926,474
Trade and other receivables		-	-	-	-	36,259	36,259
Total Financial Assets		926,474	-	-	-	36,259	962,733
<b>Financial Liabilities:</b>							
Trade and other payables		-	-	-	-	214,118	214,118
Borrowings	9.50%	-	-	1,975,224	-	-	1,975,224
Total Financial Liabilities		-	-	1,975,224	-	214,118	2,189,342

There has been no change to the Company's exposure to interest rate risk or the manner in which it manages and measures its risk in the current year.

The Company has conducted a sensitivity analysis of the entity's exposure to interest rate risk. The analysis shows that if the entity's interest rate varied by +/- 1%, being reflective of the movement of the weighted average interest rates from financial years 2008 to 2009, and all other variables had remained constant, then the interest rate sensitivity impact on the entity's loss after tax and equity would be as follows:

	Company	
	2009	2008
	\$	\$
+1% (100 basis points)	12,595	9,265
-1% (100 basis points)	(12,595)	(9,265)



**(b) Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has no significant concentration of credit risk in the current or prior year.

The Company ensures that surplus cash is invested with financial institutions of appropriate credit worthiness and limits the amount of credit exposure to any one counter party.

There has been no significant change in the Company's exposure to credit risk since the previous year. The carrying amount of the Company's financial assets represent the maximum credit exposure.

**Ageing of Trade Receivables**

2009				
Company	0-30 Days	30-60 Days	60-90 Days	90+ Days
Trade and other receivables	21,332	-	-	-
2008				
Company	0-30 Days	30-60 Days	60-90 Days	90+ Days
Trade and other receivables	36,259	-	-	-

The credit period offered by the Group is 30 days from the date of invoice. No interest is charged on trade receivables.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Company will not pay its debtors when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company manages liquidity risk by maintaining sufficient bank balances to fund its operations and the availability of funding through committed credit facilities.

Management manages this risk by monitoring rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

**Maturities of Financial Liabilities**

2009					
Company	Less than 6 months	6-12 months	Greater than 12 months	Total contracted cashflows	Carrying Amounts
Trade and other payables	2,577,684	-	-	2,577,684	2,577,684
Borrowings	523,825	2,458,885	-	2,982,710	2,982,710
	3,101,509	2,458,885	-	5,560,394	5,560,394
2008					
Company	Less than 6 months	6-12 months	Greater than 12 months	Total contracted cashflows	Carrying Amounts
Trade and other payables	214,118	-	-	214,118	214,118
Other financial liabilities	-	-	1,975,224	1,975,224	1,975,224
	214,118	-	1,975,224	2,189,342	2,189,342

The total contracted cashflow amounts included in the above table does not include future interest payments.

**(d) Capital Risk Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Company may issue new shares or reduce its capital, subject to the provisions of the Company's constitution. The capital structure of the Company consists of equity attributed to equity holders of the Company, comprising contributed equity, reserves and accumulated losses disclosed in Note 15. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Company's Management the Board monitors the need to raise additional equity from the equity markets.

**(e) Fair Value Estimation**

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their respective fair values determined in accordance with the accounting policies disclosed in Note 1.

**Note 21 Company Details**

The registered office of the Company is:  
 Pallane Medical Limited (formerly Dia-B Tech Limited)  
 Suites 1133-1139/1 Queens Road  
 Melbourne Victoria 3004

**PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)**  
**ABN: 49 102 456 048**  
**DIRECTORS' DECLARATION**

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 19 to 39, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



**Mr Peter Stafford**  
**Executive Director**

Dated this 29th day of October 2009

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**

**PALLANE MEDICAL LIMITED**  
ABN 49 102 456 048

***Report on the Financial Report***

We have audited the accompanying financial report of Pallane Medical Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and directors' declaration.

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

The directors of the company are responsible for preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporation Act 2001*. This responsibility includes establishing and maintaining internal control 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, the director also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

***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 directors, as well as evaluating the overall presentation of the financial report.

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

**Independence**

In conducting our audit, we followed applicable independence requirements of the *Corporation Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**

**PALLANE MEDICAL LIMITED**

ABN 49 102 456 048

*(Continued)*

**Audit Opinion**

In our opinion:

- (a) the financial report of Pallane Medical Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the company's financial position as at 30 June 2009 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 also complies with International Financial Reporting Standards as disclosed in Note 1.

**Inherent Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in note 1(b) to the financial statements, there is inherent uncertainty whether the company will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 15 to 16 of the report of the directors for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s300A 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.

**Audit Opinion**

In our opinion the Remuneration Report of Pallane Medical Limited for the year ended 30 June 2009, complies with s300A of the *Corporations Act 2001*.



**Hugh D. Paton**  
Director  
William Buck Audit (VIC) Pty Ltd  
ABN 59 116 151 136

Dated in Melbourne, Australia on this 29<sup>th</sup> day of October 2009

**PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)**  
**ABN: 49 102 456 048**  
**SHAREHOLDER INFORMATION**

As at 22 October 2009

**NUMBER OF HOLDERS OF EQUITY SECURITIES**

**Ordinary Shares**

9,598,973 fully paid ordinary shares are held by 2,183 individual shareholders  
 All ordinary shares carry one vote per share.

**Options**

4,369,433 [ASX: DIAO] listed options exercisable at \$4.00 on or before 31/12/2010, are held by 1,086 individual shareholders  
 12,500 [ASX: DIAAU] unlisted options exercisable at \$0.60 on or before 31/12/2010, are held by 1 individual option holder  
 50,000 [ASX: DIAAY] unlisted options exercisable at \$1.40 on or before 29/01/2012, are held by 1 individual option holder  
 Options do not carry a right to vote. Voting rights will be attached to the unissued shares when the options have been exercised.

**DISTRIBUTION OF HOLDERS IN EQUITY SECURITIES**

	<b>Fully paid ordinary shares</b>
1 - 1,000	1,370
1,001 - 5,000	539
5,001 - 10,000	123
10,001 - 100,000	136
100,001 - and over	15
<b>Total number of shareholders</b>	<b>2,183</b>
<b>Unmarketable parcels</b>	<b>2,521</b>

	<b>Listed Options</b>
1 - 1,000	726
1,001 - 5,000	230
5,001 - 10,000	46
10,001 - 100,000	78
100,001 - and over	6
<b>Total number of optionholders</b>	<b>1,086</b>

**TWENTY LARGEST HOLDERS OF QUOTED SECURITIES**

<b>Shareholders</b>	<b>Fully Paid Ordinary Shares</b>	<b>Number</b>	<b>%</b>
1 ANZ NOMINEES LIMITED		768,649	8.01%
2 POLARITY B PTY LTD		412,998	4.30%
3 BAKER IDI HEART & DIABETES INSTITUTE		250,000	2.60%
4 D J RICHARD PTY LTD		250,000	2.60%
5 MR P YAKUB		208,333	2.17%
6 MASLON INTERNATIONL PTY LTD		208,333	2.17%
7 MR P J STAFFORD		166,668	1.74%
8 MS J L CHRISTOPHERSEN		161,723	1.68%
9 CARDIA TECHNOLOGIES LTD		156,877	1.63%
10 MONASH INVESTMENT HOLDINGS PTY LTD		125,000	1.30%
11 EIGHT POINT INVESTMENT PTY LTD		125,000	1.30%
12 MR H MIKLAS		120,000	1.25%
13 RIOTEK PTY LTD		110,000	1.15%
14 MR F CARBONE		103,872	1.08%
15 MR W D & BH WHITFIELD & MR S D GARLICK		100,000	1.04%
16 CHOAY NOMINEES PTY LTD		98,750	1.03%
17 MR TERENCE ROBERT RULE		97,147	1.01%
18 FORTIS CLEARING NOMINEES PTY LTD		92,250	0.96%
19 STAFFORD WHELAND PTY LTD		83,333	0.87%
20 OPTIC MEDICUS PTY LTD		83,333	0.87%
		<b>3,722,266</b>	<b>38.76%</b>

**PALLANE MEDICAL LIMITED (FORMERLY DIA-B TECH LIMITED)**  
**ABN: 49 102 456 048**  
**SHAREHOLDER INFORMATION continued**

Optionholders	Listed Options	Number	%
1 FERNSHA PTY LTD		294,364	6.74%
2 MR R BOMAN		221,084	5.06%
3 MR D IACOVANTUONO		204,250	4.67%
4 POLARITY B PTY LIMITED		182,108	4.17%
5 MR R GORDON		140,834	3.22%
6 KINETIC CONSULTANTS PTY LTD		110,875	2.54%
7 MS J B MCWILLIAM		82,500	1.89%
8 WAYDAN PTY LTD		76,154	1.74%
9 MR M E ELLISON & P WALLACE		75,000	1.72%
10 MR H T CHEN		65,000	1.49%
11 TODBERN PTY LTD		61,250	1.40%
12 MR G J HEFREN		60,938	1.39%
13 MR G A & H DOBIE		58,750	1.34%
14 MR S TILLEY		57,900	1.33%
15 KATOR PTY LTD		55,556	1.27%
16 ROSECROSS PTY LTD		54,500	1.25%
17 MR C BROWNE		51,409	1.18%
18 SIMPOL PTY LTD		50,000	1.14%
19 MR M MUNRO		50,000	1.14%
20 KWANDO PTY LTD		50,000	1.14%
		<b>2,002,472</b>	<b>45.82%</b>

**UNQUOTED EQUITY SECURITIES HOLDINGS GREATER THAN 20%**

There are no unquoted equity holding greater then 20%.

**SUBSTANTIAL SHAREHOLDERS**

There are no substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act.

**SHAREHOLDER ENQUIRIES**

Shareholders with enquiries about their shareholders should contact the share registry:

Security Transfer Registrars

770 Canning Highway

APPLECROSS WA 6153

Telephone (08) 9315 2333

Facsimile (08) 9315 2233

Email registrar@securitytransfer.com.au

**CHANGE OF ADDRESS, CHANGE OF NAME, CONSOLIDATION OF SHAREHOLDINGS**

Shareholders should contact the Share Registry to obtain details of the procedure required for any of these changes.

**REMOVAL FROM THE ANNUAL REPORT MAILING LIST**

Shareholders who wish to receive the Annual Report should advise the Share Registry in writing. These shareholders will continue to receive all other shareholder information.

**TAX FILE NUMBERS**

It is important that Australian resident shareholders, including children, have their tax file number or exemption details noted by the Share Registry.

**CHES (Clearing House Electronic Subregister System)**

Shareholders wishing to move to uncertified holdings under the Australian Stock Exchange CHES system should contact their stockbroker.

**UNCERTIFICATED SHARE REGISTER**

Shareholding statements are issued at the end of each month that there is a transaction that alters the balance of your holding.