

Vet Biotechnology Ltd



ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2006

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CORPORATE DIRECTORY

Board of Directors	Dougals Peter LeMessurier Lusia Halina Guthrie Paul Andrew Mariani Paul Lawrence Kerr
General Manager	David Bridgland
Company Secretary	Paul James Mansfield
Registered Office	253 Sturt Street ADELAIDE SA 5000
Principal Place of Business	Suite 7 114 Rundle Street KENT TOWN SA 5067
Share Register	Link Market Services Limited Level 12 300 Queen Street BRISBANE QLD 4000
Accountants	MSI Tilley 253 Sturt Street ADELAIDE SA 5000
Auditors	HLB Mann Judd 82 Fullarton Road NORWOOD SA 5067

Chairman's Letter

Dear Fellow Shareholder

It is with pleasure I present the 2006 Annual Report for Vet Biotechnology Limited.

During the 2006 financial year your company has continued its path encouraging research for veterinary products.

On the 26th May 2006 the board received notice from Plantcorp Ltd that the takeover bid will not be accomplished. The directors were disappointed, however commenced a process to find other means to expand the company and its financial resources.

Our General Manager, Hugo LeMessurier resigned during the year to pursue other business interests and the directors thank him for his efforts.

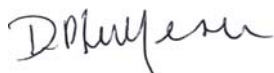
Your company has trained Vets throughout the year to use our stem cell technology. The board is pleased to advise shareholders that the process has been successful and looks forward to positive outcomes in the next financial year.

With the ongoing rattles and horse breath test providing some interest. We look forward to further advising shareholders in the future of any outcomes of our research.

The directors look forward to future positive announcements during the next financial year.

The board has a policy of contacting shareholders regularly on the progress of our research.

I take this opportunity to thank the management, directors and shareholders for their contribution this financial year.



DP LeMessurier
Chairman
29 September 2006

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2006

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Vet Biotechnology Limited is responsible for the corporate governance of the company. The Board guides and monitors the business and affairs of Vet Biotechnology Limited on behalf of the members to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities it has established corporate governance guidelines for the operation of the Board.

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board shall constitute not less than three (3) nor more than ten (10) Directors, all being natural persons.
- one third of directors shall be elected by the members at an annual general meeting and will themselves be members throughout their term; such term expiring at the conclusion of the second annual general meeting of the company after the annual general meeting at which the directors were elected. Retiring directors are eligible for re-election.
- the Board may after each annual general meeting appoint as directors up to three (3) other persons, the first two (2) of whom shall not be members of the company. Such appointed directors shall hold office until the conclusion of the next annual general meeting of the company and shall be eligible for reappointment.
- the Board has the power to appoint any other qualified person as a director to fill a casual vacancy or as an addition to the Board but so that the total number of directors shall not at any time exceed the maximum number. Any director so appointed shall hold office only until the conclusion of the next annual general meeting of the company and shall be eligible for re-election.
- the chairman should be an appointed non executive director.

The directors in office at the date of this report are:

Mr Douglas Peter LeMessurier
Mrs Lusia Halina Guthrie
Mr Paul Andrew Mariani
Mr Paul Lawrence Kerr

Board Responsibilities

As the Board acts on behalf of and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders, as well as other interested parties. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the company is delegated by the board to the managing director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board.

This is achieved by:

- development and adoption of strategic aims;
- constantly reviewing the future direction of the company;

CORPORATE GOVERNANCE STATEMENT

- implementation of operating plans and budgets by management and monitoring by the board of progress against budget;
- supervision and direction of management;
- monitoring of performance indicators against plans and prior year performance;
- procedures to allow the directors, whilst performing their duties, to seek independent professional advice;
- establishment of the remuneration package of the managing director and review of executive remuneration packages with the help of the remuneration committee;
- the review and approval of business acquisitions and disposals, mergers, joint ventures and the acquisition and disposal of strategic assets.

Audit Committee

The board is responsible for the company's accounting policies and practices, internal controls and financial reporting requirements. However the board has established an audit committee to assist in fulfilling these obligations. The audit committee reports to and operates in accordance with guidelines established by the board. The audit committee's responsibilities include:

- evaluating the adequacy and effectiveness of the company's administrative and accounting policies through active communication with management and the external auditors;
- reviewing the financial statements to ensure accuracy and adequacy of disclosure and compliance with statutory requirements prior to their release to the members and the public;
- reviewing and monitoring the effectiveness, efficiency and compliance with internal controls;
- evaluating the adequacy of the company's accounting control system by reviewing written reports from external auditors and monitor managements' responses and actions to correct any deficiencies;
- reviewing and approving all significant accounting policy changes;
- the safeguarding of company assets;
- the reliability of non financial information;
- nomination of the external auditor and reviewing the scope and adequacy of the annual statutory external audit;
- evaluating the overall effectiveness of the external statutory audit through regular meetings with the external auditors;
- evaluation of insurance cover by discussion with or review of broker's reports.

The members of the audit committee are:

Mrs Lusia Halina Guthrie
Mr Paul Andrew Mariani

Remuneration Committee

The board is responsible for the company's remuneration policy and compliance with environmental and health welfare and safety issues. However the board has established a remuneration committee to assist in fulfilling these obligations. The remuneration committee reports to and operates in accordance with guidelines established by the board. The remuneration committee's responsibilities include:

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CORPORATE GOVERNANCE STATEMENT

- to determine and monitor the application of the remuneration policy that best suits the achievement of the objectives of the company;
- evaluate the adequacy of the company's levels of remuneration by monitoring the remuneration packages that are available both nationally and in the local area;
- annually review the management recommendations for the remuneration packages of all employees;
- review management proposals for individual employee remuneration packages where changes in responsibilities are to be made;
- evaluate the company's exposure to risk through lack of compliance to statutory regulations relating to environmental issues;
- evaluate the company's exposure to risk through lack of compliance to statutory regulations relating to occupational health, safety and welfare;
- monitor management's responses and actions to correct any deficiencies in relation to environmental and occupational health, safety and welfare issues.

The members of the remuneration committee are:

Mrs Lusia Halina Guthrie
Mr Paul Andrew Mariani

Monitoring of the Board's Performance and Communications to Shareholders

The board aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. Information is communicated through:

- the annual report which is distributed to all members
- the annual general meeting of the company
- regular newsletters.

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DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the year ended 30 June 2006.

Directors

The names of directors in office at any time during or since the end of the year are:

Douglas Peter LeMessurier
Lusia Halina Guthrie
Paul Andrew Mariani
Paul Lawrence Kerr

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

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Paul James Mansfield - Chartered Accountant. Mr Mansfield was appointed company secretary on 15 April 2004.

Principal Activities

The principal activities of the company during the financial year were those of a veterinary biotechnology marketer.

The company launched its bone marrow stem cell service during the financial year.

Operating Results

The loss of the company for the year ended 30 June 2006 after tax was \$621,520 (2005 (\$696,130)). Please refer to Note 2 to the Financial Statements for the adjustments arising on the transition to AIFRS which affected the 2005 year.

Dividends Paid or Recommended

There were no dividends paid or recommended to be paid.

Review of Operations

Vet Biotechnology Ltd. was granted regulatory approval to market the autologous equine stem cell technology in Australia, by the Australian Pesticides and Veterinary Medicines Authority (APVMA). The company signed a Manufacture and Supply Agreement with Medvet Science Pty Ltd for the manufacture of bone marrow and umbilical cord derived adult stem cells. Under this agreement, manufacture of the stem cell services was to be conducted by the Institute of Medical and Veterinary Science (IMVS), who were subsequently awarded a Good Manufacturing Practice (GMP) license for the stem cell services.

In July 2005 the first bone marrow sample was collected with expanded numbers of adult stem cells dispatched in early August. The company intends to launch the umbilical cord stem cell service in the latter half of 2006, to coincide with the Southern Hemisphere foaling season.

The company entered into an exclusive Licence, Distribution and Supply Agreement with VetCell BioScience Ltd for the commercialisation of the proprietary umbilical cord derived stem cell based technologies. The agreement provides the company with an exclusive licence to the worldwide rights for the provision of the horse umbilical cord stem cell services to international customers.

The company, in association with Veterinary Research Synergies Pty Ltd (VRS), is developing a novel, non-invasive breath test technology to aid in the diagnosis of Equine Gastrointestinal Ulcer Syndrome (EGUS), a common contributing factor to poor performance in horses. The pre-clinical (Phase I) investigations are nearing completion with commencement of the large scale clinical trial (Phase II) expected in the coming months.

DIRECTORS' REPORT

Review of Operations (cont.)

The company is continuing its research utilising the VapA technology to develop products for the long-term management of the *Rhodococcus Equi* pneumonia in foals, commonly known as 'Rattles'.

On the 12 of August, 2005 the company received a Bidder's Statement from Plantcorp Ltd. in a bid to acquire all of the company's shares and options. The Independent Directors recommended in the company's Target's Statement that the offer should be accepted. Whilst the share and option holders accepted the offer, Plantcorp Ltd. failed to raise the \$3.25 million and obtain permission for admission to quotation of Plantcorp's securities being granted on the ASX. The bid was not extended and lapsed on the 30 June 2006.

Financial Position

The net assets of the company have decreased by \$415,485 from 30 June 2005 to (\$142,732) in 2006. The decrease has resulted from the following factors:

- Borrowings of \$605,200 advanced during the year to finance the following:
 - Costs associated with the preparation of the target statement in response to the bidders statement received from Plantcorp Ltd on 12 August 2005 totalling \$236,855.
 - Ongoing operating expenditure by the company as it proceeds to commercialisation of its stem cells services technology and continued review of technologies for suitability to commercialise.
- The exercise of options of \$198,100 also contributed to financing received during the year.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the company occurred during the year:

- On 1 July 2005 the company launched its bone marrow stem cell services for the treatment of tendon and ligament injury in horses.
- On 4 July 2005 the company issued 10,000 shares from the conversion of 10,000 options with an exercise price of 30 cents.
- On 8 July 2005 the company signed a Manufacture and Supply Agreement with Medvet Science Pty Ltd for the manufacture of the equine stem cell services to treat tendon and ligament injuries in horses. Manufacturing will be conducted at the Therapeutic Products Facility, Department of Haematology, Institute of Medical and Veterinary Science (IMVS) in Adelaide. Medvet acts as IMVS' authorised agent for science and technology commercialisation.
- On 11 July 2005 the company signed a Research and Development Agreement, with Veterinary Research Synergies Pty Ltd (VRS), to conduct clinical trials and develop an easy to use, non-invasive diagnostic for the detection and management Equine Gastric Ulcer Syndrome (EGUS). This agreement supercedes the previous Heads of Agreement between the companies signed on December 23 2004.
- On 18 July 2005 the company issued 70,000 shares from the conversion of 70,000 options with an exercise price of 30 cents.
- On 1 August 2005 the company issued 318,166 shares from the conversion of 318,166 options with an exercise price of 30 cents.
- On 3 August 2005 the company issued 170,000 shares from the conversion of 170,000 options with an exercise price of 30 cents.

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DIRECTORS' REPORT

Significant Changes in State of Affairs (cont.)

- On 9 August 2005 the company issued 15,167 shares from the conversion of 15,167 options with an exercise price of 30 cents.
- On 10 August 2005 the company signed an exclusive world wide Licence, Distribution and Supply Agreement with VetCell BioScience Ltd (UK) to market their equine umbilical cord stem cell storage technology. Vet Biotechnology Ltd will market and sell the equine umbilical cord stem cell storage service to major international customers involved in the breeding of performance horses.
- On 11 August 2005 the company signed an exclusive sub-license agreement with Nidor Pty Ltd securing the worldwide right to commercialise the equine applications of a breath test technology for the diagnosis of Equine Gastric Ulcer Syndrome (EGUS) in horses.
- On 12 August 2005 the company received a Bidder's Statement issued by Plantcorp Ltd. The conditional offer from Plantcorp Ltd was for the acquisition of all of the issued Vet Biotechnology Ltd shares for a consideration of 7 Plantcorp Ltd shares for every 2 Vet Biotechnology Ltd shares and all the issued Vet Biotechnology Ltd options for a consideration of 3 Plantcorp Ltd options for every 2 Vet Biotechnology Ltd options.
- On 15 August 2005 the company announced that the Australian launch of equine stem cell storage service would be delayed. From an analysis of the manufacturing process supplied to the company by VetCell BioScience Ltd (VetCell), the Licensor of the technology, the company determined that further refinement of the process would be required in order to meet the regulatory requirements of the Australian Pesticides and Veterinary Medicines Authority (APVMA). As a result of this, the launch of the equine stem cell storage services in Australia will be delayed until the company can confirm that a compliant manufacturing process has been implemented.
- On 19 August 2005 the company issued 152,000 shares from the conversion of 152,000 options with an exercise price of 30 cents.
- On 25 August 2005 the company issued 33,333 shares at 30 cents each with a free attaching option.
- On 31 August 2005 the company issued 100,000 shares from the conversion of 100,000 options with an exercise price of 30 cents.
- On 13 of September 2005 the company issued its Target's Statement in response to a Bidder's Statement issued by Plantcorp Ltd on 12 August 2005. The Independent Directors of Vet Biotechnology Limited recommended that all shareholders and optionholders accept the offer for all shares and options.
- On 29 September 2005 the company issued 101,667 shares from the conversion of 101,667 options with an exercise price of 30 cents.
- On 20 October 2005 the company issued 133,332 shares from the conversion of 133,332 options with an exercise price of 30 cents.
- On 20 December 2005 the company and UK based VetCell Bioscience Ltd agreed to extend the date of the Heads of Agreement to negotiate the terms and conditions of a contract to commercialise and distribute VetCell Bioscience's proprietary equine stem cell services in the United States of America. The date of the Heads of Agreement has been extended to June 30 2006 to allow additional time to complete the contract negotiation.
- On 25 May 2006 the company announced that they had received notification from Plantcorp Ltd that the takeover bid for the company would not be accomplished. There was an adverse impact on the company's financial position as a consequence of the withdrawal of Plantcorp Ltd from its takeover bid. An amount of \$236,855 was expended by the company with respect to preparation of the target statement which significantly impacted on the company's cash flow and operating result for the year triggering the need to borrow funds of \$605,200 on a short term basis.
- On 27 May 2006 the company announced the resignation of the company's general manager, Mr. Hugo Le Messurier.

Significant Changes in State of Affairs (cont.)

- On 27 June 2006 the company announced the appointment of Mr David Bridgland as the company's general manager for a contracted period of 6 months.

After Balance Date Events

On 11 September 2006 the company announced the validation launch of the horse umbilical cord stem cell storage service. Leading studs, Arrowfield, Widden, Eureka, Swettenham and Lindsay Park will collect umbilical cords from newborn foals in September 2006 as part of the validation study.

Future Developments, Prospects and Business Strategies

Revenues from the Vet Biotechnology bone marrow stem cell service are expected to continue as the service continues to be offered in Australia. Revenues from the umbilical cord stem cell storage service are expected following the commercial launch of the service, dependant upon successful validation. Furthermore revenues from further veterinarian training courses are expected in the 2007 financial year.

Revenues from the Rattles and EGUS research and development programs are subject to achieving satisfactory research milestones and are not expected to provide revenues for the 2007 financial year.

Environmental Issues

The company's operations are not subject to significant environmental regulation under the law of the Commonwealth and State.

Remuneration Policy

The Remuneration Policy of Vet Biotechnology Ltd (VBT) has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting VBT's financial results.

The key objectives of the Remuneration Policy are to appropriately and effectively attract and retain the best executives and directors to run and manage the company, as well as create goals congruent between directors, executives and shareholders.

The Remuneration Policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Remuneration Committee and approved by the Board after seeking professional advice from independent external consultants.

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives with:

- Performance-based bonus based on Key Performance Indicators (KPI's); and
- Issue of Options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

The VBT Board's policy for determining the nature and amount of remuneration for board members and senior company executives follows.

Terms & Conditions

All executives receive a base salary, based on length of service, professional qualifications and experience, superannuation, fringe benefits, options and performance incentives.

Remuneration Policy (cont.)

The remuneration committee reviews executive packages annually by reference to the company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

Performance Measurement

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value.

All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Remuneration Committee's recommendations.

Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

Superannuation

The executive directors and executives receive a superannuation guarantee contribution, required by the government, which is currently 9% and do not receive any other retirement benefits. Individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

Shares & Options

Shares given to directors and executives are valued at their fair value on the date granted based on market prices.

Options given to directors and executives are valued at their fair value using the Black-Scholes option pricing model.

Non-executive Directors

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Fees for non-executive directors are not linked to the performance of the company. To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

Performance Based Remuneration

As part of each executive director and executives' remuneration package there is a performance-based component consisting of key performance indicators. The intention of this programme is to facilitate goal congruence between directors and executives with that of the business and shareholders.

Key Performance Indicators - KPI's:

- Are set annually in consultation with directors/executives. The measures are specifically tailored to the areas in which the director/executive is directly involved and has a level of control over.
- Target areas the board believes hold greater potential for business expansion and profit.
- Cover financial and non-financial as well as short- and long-term goals.
- The level set for each KPI is based on budgeted figures for the company and respective industry standards.
- Performance in relation to KPI's is assessed annually, with minor quarterly reviews.

VET BIOTECHNOLOGY LIMITED**ACN 105 577 017****DIRECTORS' REPORT****Remuneration Policy (cont)**

- Bonuses being awarded depend on the number and difficulty of the KPI's achieved.

Following the assessment, the KPI's are reviewed by the remuneration committee in light of the desired and actual outcomes. The efficacy of the KPI's is assessed in relation to the company's goals and shareholder wealth, before the KPI's are set for the following year. Where advisable, independent reports are obtained from external organisations.

Information on Directors**Douglas Peter LeMessurier**

Qualifications	-	Sharebroker
Experience	-	Various company directorships
Interest in Shares and Options	-	950,000 ordinary shares of Vet Biotechnology Limited and options to acquire a further 950,000 ordinary shares of Vet Biotechnology Limited
Third Party Holdings	-	1,000,000 ordinary shares of Vet Biotechnology Limited and options to acquire a further 1,000,000 ordinary shares of Vet Biotechnology Limited in the name of Palpet Pty Ltd
	-	900,000 ordinary shares of Vet Biotechnology Limited and options to acquire a further 900,000 ordinary shares of Vet Biotechnology Limited in the name of First Avenue Investments Pty Ltd
	-	500,000 ordinary shares of Vet Biotechnology Limited and options to acquire a further 500,000 ordinary shares of Vet Biotechnology Limited in the name of Kytron Pty Ltd
Directorships held in other listed entities	-	Current director of LabTech Systems Ltd (since 19 January 2005)

Lusia Halina Guthrie

Qualifications	-	Consultant
Experience	-	Various company directorships
Interest in Shares and Options	-	500,000 ordinary shares of Vet Biotechnology Limited and options to acquire a further 500,000 ordinary shares of Vet Biotechnology Limited
Directorships held in other listed entities	-	Current director of LabTech Systems Ltd (since 1 March 2004)

Paul Andrew Mariani

Qualifications	-	Executive
Experience	-	Various company directorships
Interest in Shares and Options	-	Nil
Third Party Holdings	-	500,000 ordinary shares of Vet Biotechnology Limited and options to acquire a further 500,000 ordinary shares of Vet Biotechnology Limited in the name of Brentwood Pty Ltd
Directorships held in other listed entities	-	Current director of LabTech Systems Ltd (since 1 March 2004)

Paul Lawrence Kerr

Qualifications	-	Executive
Experience	-	Various company directorships
Interest in Shares and Options	-	500,000 ordinary shares of Vet Biotechnology Limited and options to acquire a further 500,000 ordinary shares of Vet Biotechnology Limited

VET BIOTECHNOLOGY LIMITED**ACN 105 577 017****DIRECTORS' REPORT**

Option Details - Exercise Price \$0.30 at any time until 30 June 2011

At the date of this report, the unissued ordinary shares of Vet Biotechnology Limited under option are as follows:-

Grant Date	Date of Expiry	Exercise Price	Number Under Option
10/09/03	30/06/11	\$0.30	54,000
15/09/03	30/06/11	\$0.30	5,346,000
12/11/03	30/06/11	\$0.30	1,173,333
18/12/03	30/06/11	\$0.30	100,000
11/03/04	30/06/11	\$0.30	282,333
31/03/04	30/06/11	\$0.30	68,334
21/06/04	30/06/11	\$0.30	68,000
24/06/04	30/06/11	\$0.30	154,000
30/06/04	30/06/11	\$0.30	172,427
11/08/04	30/06/11	\$0.30	760,000
17/12/04	30/06/11	\$0.30	1,214,333
29/03/05	30/06/11	\$0.30	500,000
			<u>9,892,760</u>

Director and Executive Option Plan

The company has a Director and Executive Option Plan. Directors and executives, at the discretion of the board, may be granted options under this plan. To date there have been no options issued under this plan.

Meetings of Directors

During the year to 30 June 2006, seventeen meetings of directors (including committees of directors) were held. Attendances by each director during the reporting period were:

	DIRECTORS MEETINGS	
	Number eligible to attend	Number Attended
Douglas Peter LeMessurier	17	17
Lusia Halina Guthrie	17	16
Paul Andrew Mariani	17	12
Paul Lawrence Kerr	17	17

There were no meetings held during the year by the audit committee. Matters of audit and remuneration were discussed at board level.

Indemnifying Officers or Auditor

During or since the end of the financial year the company has not given any indemnity or entered into any agreement to indemnify or paid or agreed to pay any insurance premiums of officers or the auditor.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 16 of the directors' report.

DIRECTORS' REPORT

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the reporting period.

Signed in accordance with a resolution of the Board of Directors



Director
Douglas Peter LeMessurier



Director
Lusia Halina Guthrie

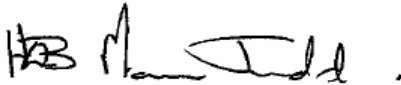
Dated at Adelaide this 29th day of September 2006

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**AUDITORS' INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF VET BIOTECHNOLOGY LIMITED**

As auditor for the audit of Vet Biotechnology Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

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



HLB MANN JUDD
(SA Partnership)
Chartered Accountants



PHIL PLUMMER
PARTNER

Adelaide,
29 September 2006

VET BIOTECHNOLOGY LIMITED
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INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Revenue from ordinary activities	3	76,629	32,309
Employee benefits expense	4	(148,672)	(424,336)
Depreciation and amortisation expense		(17,259)	(11,388)
General administration expenses		(52,802)	(50,592)
Target statement expenses	4	(236,855)	-
Other expenses	4	(226,294)	(242,123)
Finance costs		(16,267)	-
Loss before income tax	1a	(621,520)	(696,130)
Income tax expense		-	-
Net loss for the year		(621,520)	(696,130)
Basic earnings per share (cents per share)	18	(5.23)	(7.08)
Diluted earnings per share (cents per share)	18	(5.23)	(7.08)

The accompanying notes should be read in conjunction with these financial statements

VET BIOTECHNOLOGY LIMITED
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BALANCE SHEET
AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
CURRENT ASSETS			
Cash and cash equivalents	6	308,254	145,540
Trade and other receivables	7	<u>31,278</u>	<u>13,032</u>
TOTAL CURRENT ASSETS		<u>339,532</u>	<u>158,572</u>
NON-CURRENT ASSETS			
Plant and equipment	8	5,549	8,959
Intangible assets	9	232,102	245,696
Other asset	11	<u>526</u>	<u>781</u>
TOTAL NON-CURRENT ASSETS		<u>238,177</u>	<u>255,436</u>
TOTAL ASSETS		<u>577,709</u>	<u>414,008</u>
CURRENT LIABILITIES			
Trade and other payables	12	98,974	141,255
Short term borrowings	13	<u>621,467</u>	<u>-</u>
TOTAL CURRENT LIABILITIES		<u>720,441</u>	<u>141,255</u>
TOTAL LIABILITIES		<u>720,441</u>	<u>141,255</u>
NET ASSETS		<u>(142,732)</u>	<u>272,753</u>
EQUITY			
Issued Capital	14	1,151,106	945,071
Reserve	15	100,000	100,000
Retained Profits		<u>(1,393,838)</u>	<u>(772,318)</u>
TOTAL EQUITY		<u>(142,732)</u>	<u>272,753</u>

The accompanying notes should be read in conjunction with these financial statements

VET BIOTECHNOLOGY LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Option Reserve	Share Capital	Accumulated Losses	Total
Balance at 1 July 2004		-	244,922	(76,188)	168,734
Shares issued during the period	14		866,400		866,400
Increase in capital raising costs	14		(166,251)		(166,251)
Options granted as remuneration	15, 19, 22	100,000			100,000
Recognition of share based payments expense	15, 19, 22			(300,000)	(300,000)
Recognition of research costs expensed	2c			(69,447)	(69,447)
Loss attributable to members				(326,683)	(326,683)
Balance at 30 June 2005		100,000	945,071	(772,318)	272,753
Balance at 1 July 2005		100,000	945,071	(772,318)	272,753
Shares issued during the year	14		208,100		208,100
Increase in capital raising costs	14		(2,065)		(2,065)
Loss attributable to members				(621,520)	(621,520)
Balance at 30 June 2006		100,000	1,151,106	(1,393,838)	(142,732)

The accompanying notes should be read in conjunction with these financial statements

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		51,573	28,984
Payments to Suppliers and Employees		(696,904)	(313,818)
Interest Received		<u>6,810</u>	<u>8,028</u>
Net cash provided by (used in) operating activities	17	<u>(638,521)</u>	<u>(276,806)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for Option Fee		-	-
Payment for VetCell Licence Fee		-	(154,003)
Payment for Sucrose Breath Test Research		-	(24,345)
Payment for Plant & Equipment		<u>-</u>	<u>(6,843)</u>
Net cash used in investing activities		<u>-</u>	<u>(185,191)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares			
- Seed Capital	14	-	137,000
- Initial Public Offering	14	-	292,400
- Shares Issued to Underwriter as Placement Commission	14	-	114,000
- Exercise of Options	14	198,100	123,000
- Capital Raising Costs inclusive of Placement Commission	14	(2,065)	(166,251)
Proceeds from borrowings	13	<u>605,200</u>	<u>-</u>
Net cash provided by (used in) financing activities		<u>801,235</u>	<u>500,149</u>
Net increase in cash held		162,714	38,152
Cash at beginning of period		<u>145,540</u>	<u>107,388</u>
Cash at end of period	6	<u>308,254</u>	<u>145,540</u>

The accompanying notes should be read in conjunction with these financial statements

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 1: Basis of Preparation

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

The financial report covers Vet Biotechnology Limited a public company incorporated and domiciled in Australia.

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

Basis of Preparation

First-time adoption of Australian Equivalents to International Financial Reporting Standards

Vet Biotechnology Limited have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the company's accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of Vet Biotechnology Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets in relation to tax losses have not been brought to account due to the uncertainty of the probability that future tax profits will be available against which deductible temporary differences can be utilised.

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 1: Basis of Preparation (cont.)

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Plant and Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all plant and equipment is depreciated on a straight-line basis over their useful life to the company commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Plant and Equipment	5 - 33%

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

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(c) Intangible Assets

Licence fees and option fees are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

Option Fee and Medvet Licence Fee

The option fee and the Medvet Licence fee are being amortised over a fifteen year period commensurate with the terms of the sub-licence agreement and licence agreement.

VetCell Licence Fee

The VetCell licence fee is being amortised over a twenty one year period commensurate with the terms of the licence agreement negotiated with the company in respect of the relative technology, commencing 10 November 2004.

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 1: Basis of Preparation (cont.)

(d) Research Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred.

(e) Financial Instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(f) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(g) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, net of bank overdrafts.

(h) Revenue

Interest revenue is recognised on a proportional basis taking in to account the interest rates applicable to the financial assets.

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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 1: Basis of Preparation (cont.)

(i) Share-Based Payments

Equity Settled Transactions

The company provides benefits to directors of the company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The company currently has a Director and Executive Option Plan in place to provide these benefits.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 18).

(j) Goods and Services Tax

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 Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the assets or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

(k) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

(l) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred.

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 1: Basis of Preparation (cont.)

(m) Going Concern

Notwithstanding the company's deficiency of net assets at 30 June 2006 of \$142,732 and the deficiency of current assets of \$380,909 at that date the financial report has been prepared on a going concern basis. This basis has been adopted because:

- The company has a commitment from Mr D P LeMessurier by way of indemnification to the company and each of the directors which at the time of the execution of the deed of indemnification dated 4 May 2006 keeps each of the Indemnified and their respective personal representatives and estates indemnified against all actions, proceedings, liability, claims, damages, costs and expenses in relation to or arising out of debts as at 4 May 2006 of the company including any payment of those debts that is subject to a successful preference claim to the extent that the company is unable to pay or satisfy the claims.

At 30 June 2006 the total amount of those debts amounted to \$260,620.

- The company at a board meeting held on 21 September 2006 resolved to engage Paradigm Capital Pty Ltd corporate advisers to raise \$1.5 million equity. Paradigm Capital has agreed to assist in sourcing the funds but is not obliged. It is the intention that this capital raising will be completed by 31 October 2006.

It is the belief of the directors of the company that the undertakings given by way of indemnification by Mr D P LeMessurier and the engagement of Paradigm Capital to raise the capital referred will enable the company to meet its liabilities.

(n) Comparative Figures

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

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.

Key Estimates - Impairment

The company assess impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 2: First time Adoption of Australian Equivalents to International Financial Reporting Standards

Reconciliation of equity at 1 July 2004

	Note	Previous GAAP at 1 July 2004	Effect of Transition to AIFRS	AIFRS at 1 July 2004
CURRENT ASSETS				
Cash and cash equivalents		107,388	-	107,388
Trade and other receivables		8,306	-	8,306
TOTAL CURRENT ASSETS		115,694	-	115,694
NON-CURRENT ASSETS				
Plant and equipment		4,319	-	4,319
Intangible assets	2b, 2c	64,174	(14,000)	50,174
Other non-current asset		37,485	-	37,485
TOTAL NON-CURRENT ASSETS		105,978	(14,000)	91,978
TOTAL ASSETS		221,672	(14,000)	207,672
CURRENT LIABILITIES				
Trade and other payables		52,938	-	52,938
Short term borrowings		-	-	-
TOTAL CURRENT LIABILITIES		52,938	-	52,938
TOTAL LIABILITIES		52,938	-	52,938
NET ASSETS		168,734	(14,000)	154,734
EQUITY				
Issued Capital		244,922		244,922
Reserve		-		-
Retained Profits	2f	(76,188)	(14,000)	(90,188)
TOTAL EQUITY		168,734	(14,000)	154,734

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 2: First time Adoption of Australian Equivalents to International Financial Reporting Standards (cont.)

Reconciliation of equity at 30 June 2005

	Note	Previous GAAP at 30 June 2005	Effect of Transition to AIFRS	AIFRS at 30 June 2005
CURRENT ASSETS				
Cash and cash equivalents		145,540	-	145,540
Trade and other receivables		13,032	-	13,032
TOTAL CURRENT ASSETS		158,572	-	158,572
NON-CURRENT ASSETS				
Plant and equipment		8,959	-	8,959
Intangible assets	2b, 2c	315,143	(69,447)	245,696
Other non-current asset		781	-	781
TOTAL NON-CURRENT ASSETS		324,883	(69,447)	255,436
TOTAL ASSETS		483,455	(69,447)	414,008
CURRENT LIABILITIES				
Trade and other payables		141,255	-	141,255
Short term borrowings		-	-	-
TOTAL CURRENT LIABILITIES		141,255	-	141,255
TOTAL LIABILITIES		141,255	-	141,255
NET ASSETS		342,200	(69,447)	272,753
EQUITY				
Issued Capital	2d, 2f	745,071	200,000	945,071
Reserve	2e, 2f	-	100,000	100,000
Retained Profits	2f	(402,871)	(369,447)	(772,318)
TOTAL EQUITY		342,200	(69,447)	272,753

Reconciliation of Profit or Loss for 2005

	Note	Previous GAAP at 30 June 2005	Effect of Transition to AIFRS	AIFRS at 30 June 2005
Revenue from ordinary activities		32,309		32,309
Employee benefits expense	2a	(120,699)	(300,000)	(420,699)
Depreciation and amortisation expense		(11,388)		(11,388)
General administration expenses		(50,592)		(50,592)
Other expenses	2b	(176,313)	(69,447)	(245,760)
Loss before income tax		(326,683)	(369,447)	(696,130)
Income tax expense			-	-
Net loss for the year		(326,683)	(369,447)	(696,130)

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 2: First time Adoption of Australian Equivalents to International Financial Reporting Standards (cont.)

Notes to the reconciliation of equity and profit and loss at 1 July 2004 and 30 June 2005

	Note	30 June 2005 \$	1 July 2004 \$
a The adjustment to employee benefits expense is made up as follows:			
Expensing of fair value of shares and options issued to directors (share based payments) which were not recognised under previous Australian GAAP were recognised under AIFRS			
- Options granted as remuneration		100,000	-
- Shares granted as remuneration		200,000	-
	19	<u>300,000</u>	<u>-</u>
b All research costs under GAAP have been reversed. Research costs amounting to \$14,000 have been reversed to retained earnings at 1 July 2004 and research costs amounting to \$69,447 have been reversed at 30 June 2005.			
c The adjustment to intangibles is as follows:			
Reversal of research costs			
- Sucrose Breath Test		(24,345)	(14,000)
- Vap A		(45,102)	-
		<u>(69,447)</u>	<u>(14,000)</u>
d The adjustment to issued capital is as follows:			
Valuation of director shares		<u>200,000</u>	<u>-</u>
e The adjustment to option reserve is as follows:			
Option reserve of valuation of director share options		<u>100,000</u>	<u>-</u>
f Adjustments to retained earnings comprise:			
Expensing of director shares and share options		(300,000)	-
Reversal of research costs		(69,447)	(14,000)
		<u>(369,447)</u>	<u>(14,000)</u>
	Note	2006 \$	2005 \$
Note 3: Revenue			
Operating Activities			
Stem Cell Services	1(h)	60,661	-
Freight Received		3,773	
Training Courses		5,385	24,281
Interest Received	1(h)	<u>6,810</u>	<u>8,028</u>
		<u>76,629</u>	<u>32,309</u>

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

		2006 \$	2005 \$
Note 4: Profit for the Year			
a Employee benefits expense:			
Key management personnel compensation	23(c)	94,738	393,943
Others		53,934	30,393
		<u>148,672</u>	<u>424,336</u>
b Other Expenses:			
Auditors' remuneration	6	12,625	7,050
Lab cost		19,000	-
Consulting fees		6,790	41,475
Freight		9,854	183
Insurance		25,032	1,137
Legal fees		22,757	11,106
Marketing		21,242	16,283
Patent fees		9,745	7,581
Rent		6,500	6,500
Research		25,513	69,447
Share registry costs		14,399	6,195
Training course expenses		9,073	2,882
Travel and accommodation		21,057	45,352
VetCell expenses		7,573	17,167
Others		15,134	9,765
		<u>226,294</u>	<u>242,123</u>
c Significant Revenue and Expenses			
The following significant expense item is relevant in explaining the financial performance:			
Target statement expenses		<u>236,855</u>	<u>-</u>
Target statement expenses include legal and other costs relating to the preparation of the target statement in response to the bidder's statement received from Plantcorp Ltd.			
Note 5: Auditors' Remuneration			
Remuneration of the auditor for:			
- auditing or reviewing the financial report		<u>12,625</u>	<u>7,050</u>
		<u>12,625</u>	<u>7,050</u>
Note 6: Cash and Cash Equivalents			
Cash at bank		<u>308,254</u>	<u>145,540</u>
		<u>308,254</u>	<u>145,540</u>
Reconciliation of Cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash at bank		<u>308,254</u>	<u>145,540</u>
		<u>308,254</u>	<u>145,540</u>

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Note 7: Trade and Other Receivables			
CURRENT			
Sundry Debtors		31,278	13,032
		<u>31,278</u>	<u>13,032</u>

Note 8: Plant and Equipment

Plant and Equipment at Cost	1(b)	11,315	11,315
Less: Accumulated Depreciation		(5,915)	(2,554)
		<u>5,400</u>	<u>8,761</u>
Leasehold Improvements at Cost	1(b)	248	248
Less: Accumulated Amortisation		(99)	(50)
		<u>149</u>	<u>198</u>
Total Plant and Equipment at Cost		<u>5,549</u>	<u>8,959</u>

Movements in Carrying Amount

Movements in carrying amounts of plant and equipment between the beginning and the end of the financial year were as follows:

	Plant and Equipment	Leasehold Improve- ments	Total
Balance at the beginning of year	8,761	198	8,959
Depreciation expense	(3,361)	-	(3,361)
Amortisation expense		(49)	(49)
Carrying amount at end of year	<u>5,400</u>	<u>149</u>	<u>5,549</u>

Note 9: Intangible Assets

Option Fee at Cost	1(c)	25,000	25,000
Less: Accumulated Amortisation		(4,160)	(2,493)
		<u>20,840</u>	<u>22,507</u>
Medvet Licence Fee at Cost	1(c)	40,000	40,000
Less: Accumulated Amortisation		(4,356)	(1,499)
		<u>35,644</u>	<u>38,501</u>
VetCell Licence Fee at Cost	1(c)	190,452	190,452
Less: Accumulated Amortisation		(14,834)	(5,765)
		<u>175,618</u>	<u>184,688</u>
Total Intangible Assets		<u>232,102</u>	<u>245,696</u>

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Note 10: Tax			
a	The prima facie tax on losses before income tax is reconciled to the income tax as follows:		
	Prima facie tax payable on losses from before income tax at 30%	(186,456)	(208,839)
	Add:		
	Tax effect of:		
	Permanent Differences		
	Share based payment	-	90,000
	Research costs	7,654	20,834
	Legal fees	6,827	3,332
		<u>14,481</u>	<u>114,166</u>
	Income tax attributable to the company	<u><u>(171,975)</u></u>	<u><u>(94,673)</u></u>
b	Deferred Tax Asset		
	Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in note 1(a) occur:		
	Temporary differences		
	- Employee benefits	1,204	1,247
	- Loss on capital raising costs	53,973	53,353
	Tax Loss		
	- Operating losses	171,975	94,673
		<u><u>227,152</u></u>	<u><u>149,273</u></u>
c	Reconciliations		
	(i) Gross movements		
	The overall movement in the deferred tax account is as follows:		
	Opening balance	149,273	-
	(Charge)/credit to income statement	171,975	94,673
	(Charge)/credit to equity	620	53,353
	Provision	(43)	1,247
	Closing balance	<u><u>321,825</u></u>	<u><u>149,273</u></u>
	(ii) Deferred Tax Assets		
	The movements in deferred tax asset for each temporary difference during the year:		
	Opening balance		-
	Employee Benefits		
	Opening balance	1,247	-
	(Charge)/credit to income statement	(43)	1,247
	Closing balance	<u><u>1,204</u></u>	<u><u>1,247</u></u>
	Capital Raising Costs		
	Opening balance	53,353	-
	(Charge)/credit to income statement	620	53,353
	Closing balance	<u><u>53,973</u></u>	<u><u>53,353</u></u>

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Note 10: Tax (cont.)			
(d) Deferred tax assets not brought to account the benefits of which will only be realised if the conditions of deductibility set out in note 1(a) occur:			
Temporary differences			
- Employee benefits		1,204	1,247
- Capital raising costs		53,973	53,353
Tax losses		266,648	94,673
		<u>321,825</u>	<u>149,273</u>
Note 11: Other Asset			
NON-CURRENT			
Formation Expenses at Cost		1,276	1,276
Less: Accumulated Amortisation		<u>(750)</u>	<u>(495)</u>
		<u>526</u>	<u>781</u>
Total Other Asset		<u>526</u>	<u>781</u>
Note 12: Trade and Other Payables			
CURRENT			
Trade creditors and accrued expenses		50,960	115,096
Medvet Licence Fee at Cost		44,000	22,000
Unpaid employee entitlements		4,014	4,159
		<u>98,974</u>	<u>141,255</u>
Note 13: Borrowings			
Loans		621,467	-
		<u>621,467</u>	<u>-</u>
On 18 January 2006, Diana Evans lent the company \$50,000 for a period of nine months with interest payable on repayment of the principal at 12% per annum.			
On 30 January 2006, Diana Evans lent the company \$50,000 for a period of nine months with interest payable on repayment of the principal at 12% per annum.			
On 20 March 2006, Diana Evans lent the company \$57,700 for a period of nine months with interest payable on repayment of the principal at 15% per annum.			
On 21 April 2006, Diana Evans lent the company \$7,500 for a period of nine months with interest payable on repayment of the principal at 15% per annum.			
On 2 May 2006, Diana Evans lent the company \$50,000 for a period of nine months with interest payable on repayment of the principal at 15% per annum.			

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Note 13: Borrowings (cont.)			
On 24 May 2006, Raymond Pank lent the company \$350,000 for a period of six months with interest payable on repayment of the principal at 12% per annum.			
On 21 April 2006, Westglade Pty Ltd lent the company \$20,000 for a period of nine months with interest payable on repayment of the principal at 3% per month.			
On 29 March 2006, WHI Securities lent the company \$20,000 for a period of nine months with interest payable on repayment of the principal at 3% per month.			
Note 14: Issued Capital			
12,033,424 (2005: 10,929,759) fully paid ordinary shares		1,331,015	1,122,915
Less: Costs associated with Capital Raising		<u>(179,909)</u>	<u>(177,844)</u>
		<u>1,151,106</u>	<u>945,071</u>
(a) Ordinary Shares			
At the beginning of the reporting period		945,071	244,922
Shares issued during the year			
- 360,000 at \$0.15 each			54,000
- 415,000 at \$0.20 each			83,000
- 974,666 at \$0.30 each			292,400
- 380,000 at \$0.30 each as payment for underwriting commission			114,000
- 500,000 at \$0.40 each to director Paul Kerr			200,000
- 33,333 at \$0.30 each		10,000	
- 410,000 from the exercise of options during the year	12(a)(i)		123,000
- 660,332 from the exercise of options during the year		198,100	
Less: Costs associated with Capital Raising		<u>(2,065)</u>	<u>(166,251)</u>
		<u>1,151,106</u>	<u>945,071</u>
(i) 410,000 options with an exercise price of 30 cents each amounting to \$123,000 were exercised in June 2005. Shares relating to this conversion were issued in July 2005.			
(b)			
Each option entitles the holder to subscribe for one ordinary share in the capital of the company at an exercise price of 30 cents. Options may be exercised in whole or in part at any time up until 30 June 2011. At 30 June 2006 there were 9,892,760 options on issue.			
(c) Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.			
(d) If in the event of winding up of the company there remains a surplus of assets available for distribution to Members, ordinary shareholders will be repaid in proportion to the number of fully paid ordinary shares held by them.			

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Note 15: Reserve			
Option Reserve			
Option reserve of valuation of directors' share options		100,000	100,000
		<u>100,000</u>	<u>100,000</u>
The option reserve records items recognised as expense on valuation of directors share based payments. The reserve recognises 500,000 options on issue with an exercise price of 30 cents expiring 30 June 2011.			
Note 16: Leasing Commitments Outstanding			
Operating Lease Commitments for Office Premises Non-cancellable operating leases contracted for but not capitalised in financial statements			
Payable			
- not later than 1 year		13,000	10,725
		<u>13,000</u>	<u>10,725</u>
Note 17: Cash Flow Information			
Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax			
Loss from ordinary activities after income tax		(621,520)	(696,130)
Non-cash flows in loss from ordinary activities			
Amortisation		13,898	9,186
Depreciation		3,361	2,153
(Increase)/decrease in receivables		(18,246)	4,726
Increase/(decrease) in trade creditors and accruals		(16,014)	33,812
(Increase)/decrease in intangible asset		-	69,447
Non-cash directors fee		-	300,000
		<u>(638,521)</u>	<u>(276,806)</u>
Note 18: Earnings Per Share			
Reconciliation of Earnings to Net Loss			
Net Loss		<u>(621,520)</u>	<u>(696,130)</u>
Earnings used in the calculation of basic earnings per share		<u>(621,520)</u>	<u>(696,130)</u>
Earnings used in the calculation of diluted earnings per share		<u>(621,520)</u>	<u>(696,130)</u>
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share		11,875,288	9,838,490
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share		11,875,288	9,838,490

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Note 18: Earnings Per Share (cont.)			
Potential ordinary shares arising from options issued:			
Balance at beginning of year		10,929,759	9,838,490
Movements of weighted average number of options due to:			
- Exercise of options		(917,310)	-
- Options issued on shares issued		<u>28,219</u>	<u>-</u>
Weighted average number of potential ordinary shares		<u>10,040,668</u>	<u>9,838,490</u>
Weighted average number of potential ordinary shares that could potentially dilute basic earnings per share in future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period presented		<u>(10,040,668)</u>	<u>(9,838,490)</u>
Weighted average number of ordinary shares outstanding at 30 June 2006 used in the calculation of diluted earnings per share		<u><u>11,875,288</u></u>	<u><u>9,838,490</u></u>

The options over ordinary shares on issue by the company have not been included in the calculation of diluted earnings per share because they are antidilutive. The options are considered antidilutive because their conversion would decrease the loss per share.

Since reporting date the company has issued no shares (2005: 410,000) and no options (2005: nil) which would have had no impact on the number of ordinary shares if these transactions had occurred before the end of the reporting period.

Note 19: Key Management Personnel Compensation

(a) Names and positions of key management personnel of Vet Biotechnology Limited by directors in office at any time during the financial year:

Directors

Mr D P LeMessurier	Chairman - Non-Executive
Mrs L H Guthrie	Director - Non-Executive
Mr P A Mariani	Director - Non-Executive
Mr P L Kerr	Director - Non-Executive

Specified Executives

Mr H F LeMessurier	General Manager	<i>Terminated 2 June 2006</i>
Mr D R Bridgland	General Manager	<i>Appointed 19 June 2006</i>

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 19: Key Management Personnel Compensation (cont.)

(b) Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the company is as follows:

All executives receive a base salary, based on length of service, professional qualifications and experience, superannuation, fringe benefits, options and performance incentives.

Packages are reviewed annually by reference to the company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value.

(c) Key Management Personnel Compensation

2006

	Short-term Benefits				Post Employ- ment	Share-based Payment		Total
	Cash, salary and commiss ions	Cash profit share	Non- cash benefit	Other	Super- annu- ation	Shares	Options	
Mr D P LeMessurier	-	-	-	-	-	-	-	-
Mrs L H Guthrie	-	-	-	-	-	-	-	-
Mr P A Mariani	-	-	-	-	-	-	-	-
Mr P L Kerr	-	-	-	-	-	-	-	-
Mr H F LeMessurier	84,066	-	-	-	7,150	-	-	91,216.00
Mr D R Bridgland	3,231	-	-	-	291	-	-	3,522.00
	<u>87,297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,441</u>	<u>-</u>	<u>-</u>	<u>94,738.00</u>

2005

	Short-term Benefits				Post Employ- ment	Share-based Payment		Total
	Cash, salary and commiss ions	Cash profit share	Non- cash benefit	Other	Super- annu- ation	Shares	Options	
Mr D P LeMessurier	-	-	-	-	-	-	-	-
Mrs L H Guthrie	3,637	-	-	-	-	-	-	3,637.00
Mr P A Mariani	-	-	-	-	-	-	-	-
Mr P L Kerr	-	-	-	-	-	200,000	100,000.00	300,000.00
Mr H F LeMessurier	82,890	-	-	-	7,416	-	-	90,306.00
	<u>86,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,416</u>	<u>200,000</u>	<u>100,000.00</u>	<u>393,943.00</u>

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 19: Key Management Personnel Compensation (cont.)

(d) Remuneration Equity

2006

Options Granted as Remuneration

There were no options granted as remuneration during the year ended 30 June 2006.

Shares Granted as Remuneration

There were no shares granted as remuneration during the year ended 30 June 2006.

2005

Options Granted as Remuneration

Key Management Personnel	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date	Value of Remuneration \$
Mr D P LeMessurier	-	-	-	-	-	-	-	-
Mrs L H Guthrie	-	-	-	-	-	-	-	-
Mr P A Mariani	-	-	-	-	-	-	-	-
Mr P L Kerr	500,000	500,000	29/03/05	0.20	0.30	29/03/05	30/06/11	100,000
Mr H F LeMessurier								
	<u>500,000</u>	<u>500,000</u>						<u>100,000</u>

As a consequence of applying AIFRS the valuation of the options have now been re-stated to \$100,000 by applying the Black-Scholes option pricing model.

Shares Granted as Remuneration

Key Management Personnel	Grant Date	Granted No.	Value per Share at Grant Date \$	Value of Remuneration \$
Mr D P LeMessurier	-	-	-	-
Mrs L H Guthrie	-	-	-	-
Mr P A Mariani	-	-	-	-
Mr P L Kerr	29/03/05	500,000	0.40	200,000
Mr H F LeMessurier	-	-	-	-
		<u>500,000</u>		<u>200,000</u>

At a general meeting of shareholders held on 29 March 2005 the shareholders approved the allotment to Paul Kerr of 500,000 ordinary shares and 500,000 options with an exercise price of 30 cents expiring 30 June 2011 for services rendered as a director.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 19: Key Management Personnel Compensation (cont.)

(e) Options Holdings

2006

Key Management Personnel	Balance 01/07/05	Granted as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/06	Total Vested 30/06/06	Total Exercisable 30/06/06	Total Unexercise-able 30/06/06
Mr D P LeMessurier	3,350,000	-	-	-	3,350,000	3,350,000	3,350,000	-
Mrs L H Guthrie	500,000	-	-	-	500,000	500,000	500,000	-
Mr P A Mariani	500,000	-	-	-	500,000	500,000	500,000	-
Mr P L Kerr	500,000	-	-	-	500,000	500,000	500,000	-
Mr H F LeMessurier	500,000	-	-	-	500,000	500,000	500,000	-
Mr D R Bridgland	-	-	-	-	-	-	-	-
	<u>5,350,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,350,000</u>	<u>5,350,000</u>	<u>5,350,000</u>	<u>-</u>

2005

Key Management Personnel	Balance 01/07/04	Granted as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/05	Total Vested 30/06/05	Total Exercisable 30/06/05	Total Unexercise-able 30/06/05
Mr D P LeMessurier	3,350,000	-	-	-	3,350,000	3,350,000	3,350,000	-
Mrs L H Guthrie	500,000	-	-	-	500,000	500,000	500,000	-
Mr P A Mariani	500,000	-	-	-	500,000	500,000	500,000	-
Mr P L Kerr	-	500,000	-	-	500,000	500,000	500,000	-
Mr H F LeMessurier	500,000	-	-	-	500,000	500,000	500,000	-
	<u>4,850,000</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>5,350,000</u>	<u>5,350,000</u>	<u>5,350,000</u>	<u>-</u>

*Net change other reflects those options that have been forfeited by holders as well as options issued during the year.

Options over ordinary shares can be exercised at any time up to 30 June 2011 at an exercise price of 30 cents.

(f) Shareholdings

2006

Key Management Personnel	Balance 01/07/05	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/06
Mr D P LeMessurier	3,350,000	-	-	-	3,350,000
Mrs L H Guthrie	500,000	-	-	-	500,000
Mr P A Mariani	500,000	-	-	-	500,000
Mr P L Kerr	500,000	-	-	-	500,000
Mr H F LeMessurier	500,000	-	-	-	500,000
Total	<u>5,350,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,350,000</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 19: Key Management Personnel Compensation (cont.)

2005

Key Management Personnel	Balance 01/07/04	Received as Remun- eration	Options Exercised	Net Change Other*	Balance 30/06/05
Mr D P LeMessurier	3,350,000	-	-	-	3,350,000
Mrs L H Guthrie	500,000	-	-	-	500,000
Mr P A Mariani	500,000	-	-	-	500,000
Mr P L Kerr	-	500,000	-	-	500,000
Mr H F LeMessurier	500,000	-	-	-	500,000
Total	4,850,000	500,000	-	-	5,350,000

*Net change other refers to shares purchased or sold during the year.

(g) Employees

Number of employees (including directors) at year end (2005: 6)

6

Note 20: 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.

Directors' Transactions with the Company

D P LeMessurier

An option agreement between Medvet Science Pty Ltd and D P LeMessurier and or his nominee was entered into on 3 June 2003.

The option agreement grants an exclusive worldwide option to enter into good faith negotiations with Medvet Science Pty Ltd with a view to it granting an exclusive worldwide sublicense in respect of their intellectual property rights in the technology to an invention known as the *Rhodococcus equi* ELISA Diagnostic Assay.

The terms and conditions for which this option is granted are that Mr D P LeMessurier having the option agreement and exercised his option shall pay Medvet Science Pty Ltd the non refundable sum of \$25,000.

On 9 September 2003, D P LeMessurier agreed to assign and transfer all of the rights, title and interest in the option and the Agreement to Vet Biotechnology Pty Ltd.

The consideration for the transfer of the Option and the Agreement was that Vet Biotechnology Pty Ltd:

- (a) Grants to D P LeMessurier and or his nominee a royalty in relation to net sales of any Vet Biotechnology product an overriding royalty of 1.8% (with net sales defined as gross sales minus returns that are actually credited). (Gross sales are the total amount on invoices billed to customers). The royalty stream also applies if and when the company converts to a public company or any other commercial entity.
- (b) Vet Biotechnology Pty Ltd agrees to issue 500,000 shares and 500,000 share options when Vet Biotechnology Pty Ltd or any of its subsidiaries list on the Australian Stock Exchange or any Stock Exchange in Australia or internationally other than the Newcastle Stock Exchange.

On 11 August 2005 D P LeMessurier relinquished his rights to a royalty on net sales of any Vet Biotechnology product other than a royalty of 1.8% of net sales of all products resulting from the development of the technology to an invention known as *Rhodococcus equi* ELISA Diagnostic Assay.

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 20: Related Party Transactions (cont.)

Directors' Related Entity Transactions with the Company

Hugo LeMessurier was appointed General Manager on 14 January 2004. He is the cousin of D P LeMessurier. H LeMessurier's salary is \$85,000 per annum.

Total income paid or payable, or otherwise made available, to all directors of the company from the company or any related party is \$91,216 (2005: \$253,637), including payments to a prescribed superannuation fund.

Other Related Parties

Transactions with the Company

Medvet Science Pty Ltd

Medvet Science Pty Ltd is a shareholder in Vet Biotechnology Limited, holding 600,000 ordinary shares and 600,000 options with an exercise price of 30 cents expiring 30 June 2011.

Licence Agreement - Antigenic Peptide Fragments of Vap A Protein and uses thereof

On 23 December 2003 Medvet Science Pty Ltd entered into a sublicense agreement to commercialise and further research the application of Antigenic Peptide Fragments of Vap A Protein and uses thereof with Vet Biotechnology Pty Ltd.

Both parties have certain obligations to meet during the term of this licence.

Details of the licence fees, other fees, patent issuance fees and royalties payable to Medvet Science Pty Ltd as set out in the Licence Agreement are summarised below.

(a) Licence Fees

The company has paid to Medvet Science Pty Ltd half the licence fee of \$20,000. There is \$20,000 outstanding.

(b) Other Fees

- (i) Each year for the term of the licence, the company will pay Medvet Science Pty Ltd an Annual IP Fee comprising 2% (two percent) of the previous year's net sales of the product (+GST). This fee is payable to Medvet Science Pty Ltd on 23 December each year.
- (ii) Each year for the term of the licence, the company will pay Medvet Science Pty Ltd an Annual Research Fee comprising 3% (three percent) of the previous year's net sales of the Product (+GST). This fee is payable to Medvet Science Pty Ltd on 23 December each year.

(c) Patent Issuance Fee

- (i) Patent Issuance Fee

When the Patent is granted in the United States of America, the company will pay Medvet Science Pty Ltd a Patent Issuance Fee of \$75,000.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 20: Related Party Transactions (cont.)

(ii) Reimbursement of Patent Fees

The company will reimburse to Medvet Science Pty Ltd any actual and reasonable out of pocket expenses incurred by Medvet Science Pty Ltd, whether before or after 23 December 2003 in connection with the preparation, filing, prosecution and maintenance of all patent applications and grant of patents relevant to the Patent Applications, within 30 days after receipt of an itemised invoice.

(d) Royalties

(i) Royalties on Products Sold

The company will pay the Royalties to Medvet Science Pty Ltd comprising 5% (five percent) on net sales of the product. Medvet Science Pty Ltd may at its absolute, sole and unfettered discretion convert its Royalty to a lower percentage in return for shares in the company.

Licence, Sub-licence, Service, Manufacture and Supply Agreement

On 27 April 2005 Medvet Science Pty Ltd entered into a Licence, Sub-licence, Service, Manufacture and Supply Agreement with Vet Biotechnology Limited for the provision of services being, growth of bone marrow derived mature equine stem cells to treat equine tendon and ligament injuries and other treatments as agreed and cryo-storage of equine umbilical cord or cord blood and its recovery and growth for use and future treatment of equine tendon and ligament injuries and other treatments as agreed.

(a) Price

- (i) \$25,000 has been paid to Medvet Science for the completion of the validation study and provision of the validation report.
- (ii) The cost of the provision of each growth of bone marrow derived mature equine stem cells to treat equine tendon and ligament injuries is \$750.
- (iii) The cost of the provision of each cyro-storage of equine umbilical cord or cord bloods and its recovery and growth of use and future treatment of equine tendon and ligament injuries is \$850.
- (iv) For each three year period of cryo-storage of cord blood a fee of \$40 will be charged.
- (v) The cost for the provision of bone marrow collection consumables for veterinarians will be \$55.
- (vi) A sample-handling price of \$350 is payable for the provision of each service.

VetCell Bioscience Ltd (UK Registered)

John Cook is a shareholder of Vet Biotechnology Limited as well as a director of VetCell Bioscience Ltd.

On 26 May 2004, VetCell Bioscience Ltd entered into an exclusive heads of agreement with Vet Biotechnology Ltd.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 20: Related Party Transactions (cont.)

Under the heads of agreement VetCell Bioscience Ltd has agreed to grant an exclusive Licence of its mesenchymal stem cell technology and umbilical cord and blood derived stem cell collection and storage service to Vet Biotechnology Ltd.

On 10 November 2004 the licence agreement was signed by Vet Biotechnology Limited and VetCell Bioscience Ltd.

Licence Fees

Details of the licence fees payable to VetCell Bioscience Ltd as set out in the Licence Agreement are summarised below.

The company has paid the licence fee to VetCell Bioscience Ltd in milestone payments being:

- (i) A payment of \$36,354 on 26 May 2004 for the exclusive option to undertake due diligence by 31 October 2004.
- (ii) A payment of \$73,916 on 12 November 2004 upon signing the licence agreement covering the licence, manufacture and compliance for the technology.
- (iii) A payment of \$75,131 on 2 March 2005 upon signing the licence agreement covering the licence, manufacture and compliance for the technology.

Royalties

Royalties are payable to VetCell Bioscience Ltd in accordance with the number of Licensed Products sold.

No. of Licensed Products sold in each year	Royalty Rate
0 - 750	10.0%
751 - 1,000	7.5%
1,001 and greater	5.0%

On 24 January 2005 the company signed a Heads of Agreement with VetCell Bioscience Limited to negotiate the terms and conditions of a Joint Venture Agreement to commercialise and distribute VetCell's proprietary equine stem cell services in the United States of America.

Note 21: Financial Instruments

(a) Interest Rate Risk

The company has no long term financial assets or liabilities upon which it earns or pays interest. Cash is held in an interest yielding cheque account where the interest rate can vary from day to day. The weighted average interest rate achieved was 5.00%.

(b) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets, excluding investments, of the company which have been recognised in the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 22: Share-Based Payments

The following share-based payment arrangements existed at 30 June 2006:

At a general meeting of shareholders held on 29 March 2005 the shareholders approved the allotment to Paul Kerr of 500,000 ordinary shares and 500,000 options with an exercise price of 30 cents expiring 30 June 2011 for services rendered as a director.

	2006	Weighted Average Exercise Price \$	2005	Weighted Average Exercise Price \$
	Number of Options		Number of Options	
Outstanding at the beginning of the year	500,000	0.30	-	-
Granted	-		500,000	0.30
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	<u>500,000</u>		<u>500,000</u>	
Exercisable at year end	<u>500,000</u>		<u>500,000</u>	

The price was calculated using the Black- Scholes option pricing model applying the following inputs:

Exercise price	\$0.30
Life of the option	6.25 years
Underlying share price	\$0.40
Expected share price volatility	20.00%
Risk free interest rate	6.00%

Note 23: Segment Reporting

The company will operate in one business and several geographical segments, providing veterinary biotechnological research and products for the horse breeding industry.

Note 24: Credit Standby Arrangements

There are no credit standby facilities in place.

Note 25: Events Occurring After Balance Date

On 11 September 2006 the company announced the validation launch of the horse umbilical cord stem cell storage service. Leading studs, Arrowfield, Widden, Eureka, Swettenham and Lindsay Park will collect umbilical cords from newborn foals in September 2006 as part of the validation study.

VET BIOTECHNOLOGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 26: Contingent Liabilities

Acquisition of Invention and Technology - *Rhodococcus equi* ELISA Diagnostic Assay:

	Nature	Details
(a) D P LeMessurier	Shares and options to be issued and royalty payable as consideration for assignment of rights under an option agreement	Note 20

Acquisition of Invention and Technology - Antigenic Peptide Fragments of Vap A Protein and uses thereof:

(a) Medvet Science Pty Ltd	Licence, patent, royalties and other fees payable	Note 20
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Acquisition of Technology - Mesenchymal stem cell technology and umbilical cord and blood derived stem cell collection and storage services:

(a) VetCell Biosciences Ltd (UK)	Royalties payable in accordance with the number of licensed products sold	Note 20
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Licence, Distribution and Supply Agreement for Equine Umbilical Stem Cell Storage Technology

(a) VetCell Biosciences Ltd (UK)	Royalties payable of 5% on net sales	Note 20
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Equine Gastric Ulcer Syndrome in Horses - Sub-Licence

(a) Nidor Pty Ltd	Royalties each year of the higher amount of 4% of net sales in the 12 month period or \$5,000 and a pass-through fee of 25% of fees and royalties collected from under-licensees in the relevant 12 month period.
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Note 27: Company Details

The registered office of the company is:

253 Sturt Street
ADELAIDE SA 5000

The principal place of business is:

Suite 7,114 Rundle Street
KENT TOWN SA 5067

VET BIOTECHNOLOGY LIMITED

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DIRECTORS' DECLARATION

The directors of the company declare that:

- 1 the financial statements and notes, as set out on pages 17 to 44, 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 2006 and of the performance for the year ended on that date of the company;
- 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.



Director
Douglas Peter LeMessurier



Director
Lusia Halina Guthrie

Dated at Adelaide this 29th day of September 2006

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

INDEPENDENT AUDIT REPORT

To the members of Vet Biotechnology Limited:

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Vet Biotechnology Limited ("the company") for the year ended 30 June 2006.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The Directors Report attached to the financial statements includes a copy of the Independence Declaration dated 29 September 2006 given to the Directors by us for the audit.

Audit opinion


In our opinion, the financial report of Vet Biotechnology Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1 to the financial statements, at 30 June 2006 Vet Biotechnology Limited has a deficiency of net assets of \$142,732 and a deficiency of current assets over current liabilities of \$380,909. The company's equine stem cell storage service Australian Launch has been delayed as the manufacturing process supplied by Vet Cell BioSciences Ltd (UK) requires further refinement in order to meet Australian Pesticides and Veterinary Medicines Authority requirements. Notwithstanding this, the financial report has been prepared on a going concern basis. Loans however are indemnified by Peter LeMessurier up to \$260,620. Additionally the company has engaged Paradigm Capital Pty Ltd, corporate advisors to raise \$1,500,000 of equity which is scheduled for completion by 31 October 2006. The directors believe that with the undertaking given by Peter LeMessurier by way of indemnification and the capital raising referred to, the company will be able to pay its debts as and when they become due and payable. In the absence of sufficient appropriate audit evidence to corroborate the financial implications of these events, there is still significant uncertainty that the company will be able to pay its debts as and when they become due and payable and continue as a going concern.



HLB MANN JUDD

(SA Partnership)

Chartered Accountants

Adelaide, 29 September 2006



PHIL PLUMMER
PARTNER

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is required by the Newcastle Stock Exchange in respect of listed public companies only.

STATEMENT OF ISSUED SECURITIES

The total number of shareholders is 72 and there are 12,033,424 ordinary fully paid shares on issue.

The total number of optionholders is 57 and there are 9,892,760 options on issue.

DISTRIBUTION OF SECURITIES

Equity Distribution	No. of Shareholders	No. of Class A Option- holders
1 - 1,000	-	-
1,001 - 5,000	1	-
5,001 - 10,000	13	-
10,001 - 100,000	33	5
100,001 and over	25	15
	72	20

There are no shareholders holding less than a marketable parcel.

SUBSTANTIAL SHAREHOLDERS

The name of the substantial shareholder listed in the company's register as at 22 September 2006 are:

Name	Number of Shares Held	% Held of Issued Capital
LeMessurier, Douglas Peter	3,350,000	27.84

VOTING RIGHTS

The voting rights attached to each class of security are as follows:

Ordinary Shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options Expiring 30 June 2011 with an Exercise Price of 30 cents

- These options have no voting rights.

VET BIOTECHNOLOGY LIMITED
ACN 105 577 017

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

TOP 20 SHAREHOLDERS

Rank	Name	Number of Shares	% of Shares
1	Palpet Pty Ltd	1,000,000	8.31
2	LeMessurier, Douglas Peter	950,000	7.89
3	First Avenue Investments Pty Ltd	900,000	7.48
4	Medvet Science Pty Ltd	600,000	4.99
5	Emu Cards Pty Ltd	550,000	4.57
6	Mills, Nicholas Greenaway Mills	525,000	4.36
7	Pank, Raymond George	503,000	4.18
8	Brentwood Pty Ltd	500,000	4.16
9	Guthrie, Hugh Berkley & Guthrie, Lusia Halina	500,000	4.16
10	Kerr, Paul Lawrence	500,000	4.16
11	Kytron Pty Ltd	500,000	4.16
12	LeMessurier, Hugo Frederick	500,000	4.16
13	Evans, Diana Mary O'Halloran	434,000	3.61
14	Porter, Adrian John & Wallace, Neil Lachlan <Adrian Porter Family A/c>	400,000	3.32
15	Cook, John P M	352,427	2.93
16	LeMessurier, Jane Mary	350,000	2.91
17	Alcardo Investments Ltd <Styled 102501 A/c>	200,000	1.66
18	MPT Nominees Pty Ltd <McCormack Practice A/c>	200,000	1.66
19	Sojo Strategic Pty Ltd	199,998	1.66
20	Cook, Wendy	180,000	1.50
		9,844,425	81.83

TOP 20 OPTIONHOLDERS

Rank	Name	Number of Options	% of Options
1	Palpet Pty Ltd	1,000,000	10.11
2	LeMessurier, Douglas Peter	950,000	9.60
3	First Avenue Investments Pty Ltd	900,000	9.10
4	Medvet Science Pty Ltd	600,000	6.07
5	Brentwood Pty Ltd	500,000	5.05
6	Guthrie, Hugh Berkley & Guthrie, Lusia Halina	500,000	5.05
7	Kerr, Paul Lawrence	500,000	5.05
8	Kytron Pty Ltd	500,000	5.05
9	LeMessurier, Hugo Frederick	500,000	5.05
10	Mills, Nicholas Greenaway	447,000	4.52
11	Porter, Adrian John & Wallace, Neil Lachlan <Adrian Porter Family A/c>	400,000	4.04
12	Cook, John P M	352,427	3.56
13	LeMessurier, Jane Mary	350,000	3.54
14	Evans, Diana Mary O'Halloran	234,000	2.37
15	Alcardo Investments Ltd <Styled 102501 A/c>	200,000	2.02
16	Cook, Wendy	180,000	1.82
17	Dronkay Pty Ltd <BJ Dawes Super Fund A/c>	170,000	1.72
18	H H Sutton Nominess Pty Ltd	170,000	1.72
19	Emu Cards Pty Ltd	130,000	1.31
20	Pank, Raymond George	103,000	1.04
		8,686,427	87.79

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

REGISTER OF SECURITIES

The register of securities is located at:

Link Market Services Limited
Level 12
300 Queen Street
BRISBANE SA 4000
Phone: (02) 8280 7454 (Sydney Contact Centre)
Fax: (07) 3228 4999
Website: www.linkmarketservices.com.au