

Innovance Ltd

ABN 15 117 330 757

Annual Financial Report

for the year ended 30 June 2007

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Corporate Information

This annual report covers Innovance Ltd (ABN 15 117 330 757) as an individual entity. The Company's functional and presentation currency is AUD \$.

A description of the Company's operations and principal activities is included in the review of operations and activities in the directors' report on pages 4-8. The directors' report is not part of the financial report.

Directors

Dr David Brookes (Non-Executive Director, Chairman)

Mr Robert Greenslade (Non-executive Director)

Mr Stephen Evans (Non-executive Director)

Company Secretary

Mr Donald Stephens

Registered Office

C/- HLB Mann Judd (SA) Pty Ltd

82 Fullarton Road

NORWOOD SA 5067

Principal place of business

C/- HLB Mann Judd (SA) Pty Ltd

82 Fullarton Road

NORWOOD SA 5067

Share Registry

Comptuershare Investor Services Pty Ltd

Level 5, 115 Grenfell Street

ADELAIDE SA 5000

Legal Advisors

O'Loughlins Lawyers

Level 2, 99 Frome Street

ADELAIDE SA 5000

Bankers

National Australia Bank

180 Greenhill Road

PARKSIDE SA 5063

Auditors

PKF

Level 2, 139 Frome Street

ADELAIDE SA 5000

Directors' report

Your directors submit their report for the year ended 30 June 2007.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Dr David Brookes	
Mr Patrick Ford	(retired 31 May 2007)
Mr Robert Greenslade	
Mr Stephen Evans	(appointed 31 May 2007)
Mr David Whiting	(retired 29 September 2006)

Names, qualifications, experience and special responsibilities

David Brookes

Non Executive Director/Chairman

David is a medical graduate of the University of Adelaide who had practiced as a rural general practitioner in the Northern Territory supervising regional paediatric services until 1995. He moved back to Adelaide with his family and practices in the Adelaide Hills. Since 1996 he has been a biotechnology analyst for Taylor Collison Limited in an informal capacity.

Stephen Evans BA(Acc),AU FAICD

Non Executive Director

Stephen Evans is the Managing Director of a leading Adelaide based accounting firm, "RJC Evans & Co" which was established in 1920. Stephen has over 25 years experience in advising small, medium and large corporations in relation to tax, accounting, financial and business related matters. He is a member of the Taxation Institute of Australia, National Institute of Accountants and a Fellow of the Institute of Company Directors. He brings to the Board a wealth of experience in the accounting, financial and taxation fields. Stephen is a non-executive director of WCP Resources Limited and Uranoz Limited and the non-executive chairman of Chesser Resources Ltd.

Robert Greenslade BA(Ec)

Non-Executive Director

Mr Greenslade is a founding director of Adelaide-based boutique investment bank Gryphon Partners Pty Limited specialising in resource transactions in the public and private sectors. Prior to 2002, Mr Greenslade was Group Executive Corporate for Normandy Mining Limited heading up the company's corporate division. Following the takeover of Normandy Mining Limited by Newmont Mining Corporation Inc, he was appointed Vice President of Newmont Capital Limited responsible for the Group's Australian and Asian Pacific corporate and business development activities. Mr Greenslade is also a non-executive director of Oaks Hotel and Resorts Limited.

Directors' report

Company Secretary

Donald Stephens, BA (Acc), FCA

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years experience in the accounting industry, including 14 years as a partner of a firm of Chartered Accountants. He is a non-executive director of Mithril Resources Ltd and Papyrus Australia Ltd and is company secretary to Minotaur Exploration Ltd, Mithril Resources Ltd, FerrAus Ltd, Petrathern Ltd, Toro Energy Ltd, Arasor International Ltd and Chesser Resources Ltd. He holds other directorships with private companies and provides corporate advisory services to a wide range of organisations.

Principal Activities

Innovance is an investment company. Initially, the focus of the Company will be on investment opportunities in the biotechnology sector, although the Board will consider other investment opportunities.

Operating result

The Company's loss after providing for income tax amounted to \$172,143.

Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payments of dividends has been made.

Review of Operations

Innovance is an investment company with an Australian focus that is looking for investment opportunities in the biotechnology sector.

Corporate- The company was officially admitted to the NSX on the 8th Feb 2007 with the total number of issued shares being 16,571,833 of which 1,701,833 are unlisted escrowed stock.

The total capital raised after costs was \$1,572,000 and the cash balance was \$1,378,941 as of 30 June 2007.

Operations- Since listing as an investment vehicle, many projects have been reviewed by the directors and some remain under consideration. Market volatility in recent times has been a factor in delaying decisions.

On the 5/07/2007 a small wholly owned subsidiary was formed, called "Amadori Pty Ltd" to fund a biotechnology pilot project being done in conjunction with Professor. R. Elliot (Auckland, NZ). The intention of this subsidiary was to encapsulate the project and the funding (to \$100,000 pending results which will determine the further funding issues). This subsidiary remains wholly owned by Innovance Ltd. The results from current experiments to confirm proof of principle will be available by early next year.

Directors' report

Significant Changes in State of Affairs

There have been no significant changes to the state of affairs of the Company during the period.

Likely developments and expected results

The group expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

Share Options

At the date of this report, the following unlisted options to acquire shares in the company were on issue:

Issue Date	Expiry Date	Exercise Price	Balance at 1 July 2006	Net Issued/ (Exercised) during Year	Balance at 30 June 2007
9/02/2007	9/02/2012	\$0.10	-	300,000	300,000
9/02/2007	9/02/2012	\$0.10	-	300,000	300,000
9/02/2007	9/02/2012	\$0.10	-	300,000	300,000
2/02/2012	1/02/2012	\$0.20	-	1,000,000	1,000,000
2/02/2012	1/02/2012	\$0.20	-	30,000,000	30,000,000
			-	31,900,000	31,900,000

Interest in shares and options of the company

As at the date of this report, the interests of the directors in the shares and options of Innovance Ltd were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Dr David Brookes	1,175,000	300,000
Mr Patrick Ford	700,000	300,000
Mr Robert Greenslade	2,000,000	300,000
Mr Stephen Evans	200,000	

* Held by directors and entities in which directors have a relevant interest.

Directors' report

Directors' Meetings

The number of meetings of directors held during the year and the number of meetings attended by each director are as follows:

Directors' Meetings		
Number of meetings held	2	
	Number of meetings eligible to attend	Number of meetings attended
Dr David Brookes	2	2
Mr Patrick Ford	2	1
Mr Robert Greenslade	2	2
Mr Stephen Evans	1	1
Mr David Whiting	-	-

Audit Committee

As at the end of the reporting period, the board was yet to form an audit committee.

Remuneration Report - Audited

This report outlines the remuneration arrangements in place for directors and executives of Innovance Limited.

Remuneration philosophy

The board is responsible for determining remuneration policies applicable to directors and key management personnel of the Company. The broad policy is to ensure that remuneration properly reflects the individuals' duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people with appropriate skills and experience. At the time of determining remuneration consideration is given by the board to the Company's financial performance.

Directors' report

	Short-term Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Value of Options	
Dr David Brookes				
2007	-	-	19,770	19,770
2006	-	-	-	-
Mr Patrick Ford				
2007	-	-	19,770	19,770
2006	-	-	-	-
Mr Robert Greenslade				
2007	-	-	19,770	19,770
2006	-	-	-	-
Mr Stephen Evans				
2007	-	-	-	-
2006	-	-	-	-
Mr David Whiting				
2007	-	-	-	-
2006	-	-	-	-
2007	-	-	59,310	59,310
2006	-	-	-	-

Proceedings on behalf of the 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 year.

Auditor independence and non-audit services

PKF in its capacity as auditor of Innovance Limited, has not provided any non-audit services throughout the reporting period. A related entity, PKF Corporate (SA) Pty Ltd, received a fee of \$5,000 for the preparation of an Independent Accountant's Report. The auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 9.

Signed in accordance with a resolution of the board of directors.



David Brookes
Non-executive director, chairman

Dated 27 September 2007

AUDITOR'S INDEPENDENCE DECLARATION

**To : The Directors
Innovance Limited**

As lead engagement partner for the review of Innovance Limited for the year ended 30 June 2007, 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 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.


PKF

Chartered Accountants

P J Whelan
Partner

Signed in Adelaide this 27th day of September 2007

Corporate Governance Statement

The board of directors is responsible for the corporate governance of Innovance Limited (the Company). Summarised in this statement are the main corporate governance practices that have been developed by the board and were in place at the end of the financial year.

Board Responsibilities

The board of directors is accountable to shareholders for the performance of the Company and has an overall responsibility for its operations. Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the managing director.

The key responsibilities of the board include:

Developing the strategic direction and related objectives for the Company and monitoring management performance in the achievement of these objectives.

- Adopting budgets and monitoring the financial performance of the Company.
- Reviewing the performance of the managing director.
- Overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring that the Company meets its legal and statutory obligations.

Managing Director and Company Secretary Declaration to the Board of Directors

The declaration made by the managing director and the company secretary to the board with regard to the integrity of the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Board Composition

At the date of this statement the board consists of three non-executive directors, Mr D Brookes who is chairman of the board, Mr R Greenslade and Mr S Evans.

The board considers this to be an appropriate composition given the size and development of the Company at the present time. The names of directors including details of their qualification and experience are set out in the Directors' Report of this Annual Report.

The composition/membership of the board is subject to review in a number of ways, as outlined below:

- The Company's constitution provides that at every Annual General Meeting, one third of the directors shall retire from office but may stand for re-election.
- Board composition is also reviewed periodically either when a vacancy arises or if it is considered that the board would benefit from the services of a new director, given the existing mix of skills and experience of the board which should match the strategic demands of the Company. Once it has been agreed that a new director is to be appointed, a search would be undertaken, sometimes using the services of external consultants. Nominations are subsequently received and reviewed by the board.

Corporate Governance Statement

Board Remuneration

The maximum aggregate annual remuneration which may be paid to non-executive directors is currently \$200,000. This cannot be increased without approval of the Company's shareholders.

Remuneration of the non-executive directors and the managing director are reviewed and approved by the board on an annual basis.

Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's constitution directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes that a significant conflict exists the director concerned does not receive the relevant board papers, is not present at the meeting whilst the item is considered and takes no part in any decision.

Director and Senior Management Dealings in Company Securities

The Company's constitution permits directors to acquire securities in the Company, however Company policy prohibits directors and senior management from dealing the Company's securities at any time whilst in possession of price sensitive information and for 24 hours after:

- Any major announcements;
- The release of the Company's half yearly and annual financial results to the National Stock Exchange; and
- The Annual General Meeting.

Directors must advise the chairman of the board before buying or selling securities in the Company. All such transactions are reported to the board. In accordance with the provisions of the Corporations Act and the Listing Rules of the National Stock Exchange, the Company advises the Exchange of any transaction conducted by directors in securities in the Company.

Board Committees

The board of directors takes ultimate responsibility for corporate governance including the functions of:

- Establishing compensation arrangements of its managing director, chief executive officer and its senior executives and officers
- Appointment and retirement of non-executive directors
- Appointment of auditors
- Areas of business risk
- Maintenance of ethical standards

The board of directors seeks independent professional advice as necessary in carrying out their duties and responsibilities.

Corporate Governance Statement

External Auditor Attendance at Annual General Meeting

An external auditor attends the Company's Annual General Meeting and is available to answer questions from shareholders on the auditors' report and the conduct of the audit.

Continuous Disclosure

The Company has a policy that all shareholders and investors have equal access to the Company's information. The chairman ensures that all price sensitive information is disclosed to the NSX in accordance with the continuous disclosure requirements of the Corporation's Act and NSX Listing Rules. The company secretary has primary responsibility for all communications with the NSX.

Code of Ethics

Directors, management and staff are expected to perform their duties for the Company in a professional manner and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Role of Shareholders

The board of directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:-

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document);
- The half-yearly report contains summarised financial information and a review of the operations of the Company during the period (the financial report is sent to any shareholder who requests it);
- Notices of all meetings of shareholders.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$	2006 \$
Revenue	2 (a)	35,819	-
Employee benefits expense	2 (b)	(121,310)	-
Other expenses	2 (c)	(86,652)	(2,695)
Loss before income tax		(172,143)	(2,695)
Income tax expense		-	-
Loss for the period		(172,143)	(2,695)
Overall Operations		<i>Cents</i>	<i>Cents</i>
Basic earnings per share	4	(0.02)	N/A
Diluted earnings per share	4	(0.02)	N/A

The accompanying notes form part of these financial statements

Balance Sheet

AS AT 30 JUNE 2007

	Note	2007 \$	2006 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	1,378,941	750
Trade and other receivables	6	34,208	-
TOTAL CURRENT ASSETS		1,413,149	750
TOTAL ASSETS		1,413,149	750
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	8	10,358	2,695
TOTAL CURRENT LIABILITIES		10,358	2,695
TOTAL LIABILITIES		10,358	2,695
NET ASSETS		1,402,791	(1,945)
EQUITY			
Issued capital	9	1,466,803	750
Reserves	10	121,310	-
Retained Earnings	11	(185,322)	(2,695)
TOTAL EQUITY		1,402,791	(1,945)

The accompanying notes form part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

	Share Capital Ordinary \$	Accumulated Losses \$	Share Option Reserve \$	Total \$
Balance at 1 July 2005	-	-	-	-
Loss attributable to members	-	(2,695)	-	(2,695)
Shares Issued	750	-	-	750
Balance at 30 June 2006	750	(2,695)	-	(1,945)
Balance at 1 July 2006	750	(2,695)	-	(1,945)
Loss attributable to members	-	(172,143)	-	(172,143)
Shares Issued	1,571,350	-	-	1,571,350
Transaction costs	(105,297)	(10,484)	-	(115,781)
Share options issued	-	-	121,310	121,310
Balance at 30 June 2007	1,466,803	(185,322)	121,310	1,402,791

The accompanying notes form part of these financial statements

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$	2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(89,258)	
Interest received		11,880	-
NET CASH USED IN OPERATING ACTIVITIES	5	(77,378)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for Establishment Costs		-	(2,695)
NET CASH USED IN INVESTING ACTIVITIES		-	(2,695)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,571,350	750
Transaction costs of issue of shares		(115,781)	
Proceeds from borrowings			2,695
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,455,569	3,445
Net increase/(decrease) in cash and cash equivalents		1,378,191	750
Cash at the beginning of the reporting period		750	-
CASH AT END OF FINANCIAL YEAR	5	1,378,941	750

The accompanying notes form part of these financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers Innovance Ltd as an individual entity. Innovance Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report of Innovance Ltd complies with all International Financial Reporting Standards (IFRS) in their entirety.

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

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 income assets are recognised to the extent that future tax profits will be available against which deductible temporary differences can be utilised.

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 future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

b. Cash and cash equivalents

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

c. Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

d. Goods and Services Tax

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

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

e. Comparative Figures

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

f. Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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

Revenue from the rendering of services 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).

g. Share Capital

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	2007 \$	2006 \$
2. REVENUE AND EXPENSES		
(a) Revenue		
Bank interest received or receivable	35,819	-
	<u>35,819</u>	<u>-</u>
(b) Employees benefits expense		
Share-based payments expense	121,310	-
	<u>121,310</u>	<u>-</u>
(c) Other expenses from ordinary activities		
Professional fees	22,680	-
Consultant Fees	6,273	-
Audit fees	8,800	-
Research & Development	25,179	-
Stock exchange fees	7,853	-
Share registry fees	8,274	-
Other expenses	7,593	2,695
	<u>86,652</u>	<u>2,695</u>

3. INCOME TAX

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

	(172,143)	(2,695)
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2006: 30%)		
	(51,643)	(809)
Tax effect of permanent differences		
Non allowable items	36,393	809
Other deductible items	(1,687)	(162)
Future income tax benefit not realised as recognition criteria of AASB 112 not met	16,937	162
	<u>-</u>	<u>-</u>

Income tax losses

Future income tax asset arising from carried forward tax losses and temporary differences not recognised at reporting date as the asset is not regarded as meeting the probable criteria

Timing Difference at 30%	6,749	647
Tax losses at 30%	17,099	162
	<u>23,848</u>	<u>809</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

4. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2007
	\$
	<hr/>
Net loss attributable to ordinary equity holders	(172,143)
	<hr/>
	2007
	<hr/>
Weighted average number of ordinary shares for basic earnings per share	7,343,365

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taking into account in 2007.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	\$	\$
5. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	30,720	-
Short-term deposits	1,348,221	750
	1,378,941	750

The average effective interest rate on short-term bank deposits was 6.31%.

Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at banks and in hand	30,720	-
Short-term deposits	1,348,221	750
	1,378,941	750

Reconciliation of net profit after tax to net cash flows from operations

Net loss	(172,143)	-
Share options expensed	121,310	-
(Increase) in trade and other receivables	(34,208)	-
Increase in trade and other payables	7,663	2,695
Net cash used in operating activities	(77,378)	2,695

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

6. TRADE AND OTHER RECEIVABLES

Trade receivables	34,208	-
	34,208	-

7. SHARE-BASED PAYMENTS

The expense recognised in the income statement in relation to share-based payments is disclosed in note 2.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) and movements in share options issued during the year:

	2007 No.	2007 WAEP
Outstanding at the beginning of the year	-	
Granted during the year	31,900,000	0.10
Outstanding at the end of the year	31,900,000	0.10
Exercisable at the end of the year	31,900,000	0.10

The outstanding balance as at 30 June 2007 is represented by:

- A total of 300,000 options exercisable any time until 9 February 2012 with a strike price of \$0.10.
- A total of 300,000 options exercisable any time until 9 February 2012 with a strike price of \$0.10.
- A total of 300,000 options exercisable any time until 9 February 2012 with a strike price of \$0.10.
- A total of 1,000,000 options exercisable any time until 9 February 2012 with a strike price of \$0.20.
- A total of 30,000,000 treasury options exercisable any time until 9 February 2012 with a strike price of \$0.20.

Contractual life of options

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 4.61 years.

Exercise price of options

The range of exercise prices for options outstanding at the end of the year was \$0.10 - \$0.20.

Fair value of options

The weighted average fair value of options granted during the year was \$0.004.

The fair value of the equity-settled share options granted under the option scheme is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the years ended 30 June 2007:

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	2007
Historical volatility (%)	20%
Risk-free interest rate (%)	6%
Expected life of option (years)	5

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

8. TRADE AND OTHER PAYABLES (CURRENT)

Trade payables (i)	10,358	2,695
	10,358	2,695

i. Trade payables are non-interest bearing and are normally settled on 30-day terms.

Information regarding the credit risk of current payables is set out in note 6.

9. ISSUED CAPITAL

	2007	2006		
	\$	\$		
Issued Capital				
	1,466,803	750		
	1,466,803	750		
	2007	2006		
	Number	\$	Number	\$
Balance at beginning of financial year	75,000	750	75,000	750
Shares issued during the year :				
Seed capital issued	1,833,333	105,000	-	-
Shares issued pursuant to initial public offering	14,663,500	1,466,350	-	-
Transaction costs on share issue	-	(105,297)	-	-
Balance at end of financial year	16,571,833	1,466,803	75,000	750

Fully paid ordinary shares carry one vote per share and carry the right to dividends (in the event such a dividend was declared).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

10. SHARE OPTION RESERVE

Reserves

Share-option reserve	121,310	-
	121,310	-

Share-option reserve

Balance at beginning of financial year	-	-
Options expensed during the year	121,310	-
Balance at end of financial year	121,310	-

The share-option reserve records items recognised as expenses on valuation of directors share options and other equity settled transactions.

11. RETAINED EARNINGS

Retained Earnings

Balance at beginning of financial year	(2,695)	-
Net loss attributable to members of the Company	(172,143)	(2,695)
Tax Portion of IPO Costs	(10,484)	
Balance at end of financial year	(185,322)	(2,695)

12. CONTINGENT ASSETS AND LIABILITIES

At the date of signing this report, the Company is not aware of any contingent asset or liability that should be disclosed in accordance with AASB 137.

13. AUDITOR'S REMUNERATION

Audit or review of financial report	5,000	-
	5,000	-

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS

Credit risk

The Company trades only with recognised, creditworthy third parties.

Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Company.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Company trades only with recognised third parties, there is no requirement for collateral.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Interest rate risk

	< 1year \$	> 1 - <3 years \$	> 5 years \$	Non-Interest Bearing \$	Total \$
Year ended 30 June 2007					
<i>FINANCIAL ASSETS</i>					
<i>Fixed rate</i>					
Cash assets	1,378,941	-	-	-	1,378,941
Receivables	-	-	-	34,208	34,208
Weighted average effective interest rate	6.50%	-	-	-	-

For the year ended 30 June 2006, Innovance had \$750 cash on hand, which was non-interest bearing.

15. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION

Payments to related parties

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$12,154. Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Ltd.

Key management personnel remuneration and equity holdings

The board currently determines the nature and amount of remuneration for board members and senior executives of the Company. No directors fees are currently paid. The board will review directors fees on a regular basis in line with the company's activities.

Some directors have received unlisted options. Executives are also entitled to participate in the Company share option scheme. Options are valued using the Black-Scholes model.

Specified directors' remuneration

	Short-term Benefits	Post Employment	Share-based Payments	Total
	Salary & Fees	Superannuation	Value of Options	
Dr David Brookes				
2007	-	-	19,770	19,770
2006	-	-	-	-
Mr Patrick Ford				
2007	-	-	19,770	19,770
2006	-	-	-	-
Mr Robert Greenslade				
2007	-	-	19,770	19,770
2006	-	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Compensation options: Granted and vested during the year

During the financial year options were granted as equity compensation benefits to directors as disclosed above. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price equal to the market price of the shares on the date of grant. The contractual life of each option granted is five years. There are no cash settlement alternatives. For further details relating to the options, refer to note 10.

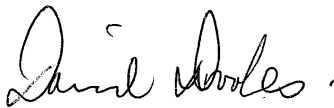
30 June 2007	Grant number	Grant date	Vesting date	Value per option at grant date (\$)	Exercise price per option	Expiry date	Last exercise date
Directors							
Dr David Brookes	300,000	2/02/2007	02/02/07	\$ 0.066	\$ 0.10	09/02/12	09/02/12
Mr Patrick Ford	300,000	2/02/2007	02/02/07	\$ 0.066	\$ 0.10	09/02/12	09/02/12
Mr Robert Greenslade	300,000	2/02/2007	02/02/07	\$ 0.066	\$ 0.10	09/02/12	09/02/12
Mr Stephen Evans	-	-	-	-	-	-	-
Mr David Whiting	-	-	-	-	-	-	-
	<u>900,000</u>						

Directors' Declaration

In accordance with a resolution of the directors of Innovance Ltd, I state that:

1. In the opinion of the directors:
 - a. the financial statements and notes of the Company and of the Company are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2007 and its performance for the year ended on that date; and
 - ii. complying with Accounting Standards and Corporations Regulations 2001; and
 - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2007.

On behalf of the board



David Brookes
Non-executive director, chairman

Dated 28 September 2007

INDEPENDENT AUDIT REPORT TO MEMBERS OF INNOVANCE LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the financial statements and the directors' declaration for Innovance Limited (the company), for the year ended 30 June 2007.

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 that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in 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 as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, 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 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

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

Audit opinion

In our opinion, the financial report of Innovance 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 2007 and of its performance for the year ended 30 June 2007; and
 - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

The PKF logo consists of the letters 'PKF' in a stylized, blue, handwritten font.

PKF
Chartered Accountants

A blue ink signature in a cursive script, reading 'P J Whelan'.

P J WHELAN
Partner

Signed at Adelaide this 27th day of September 2007.