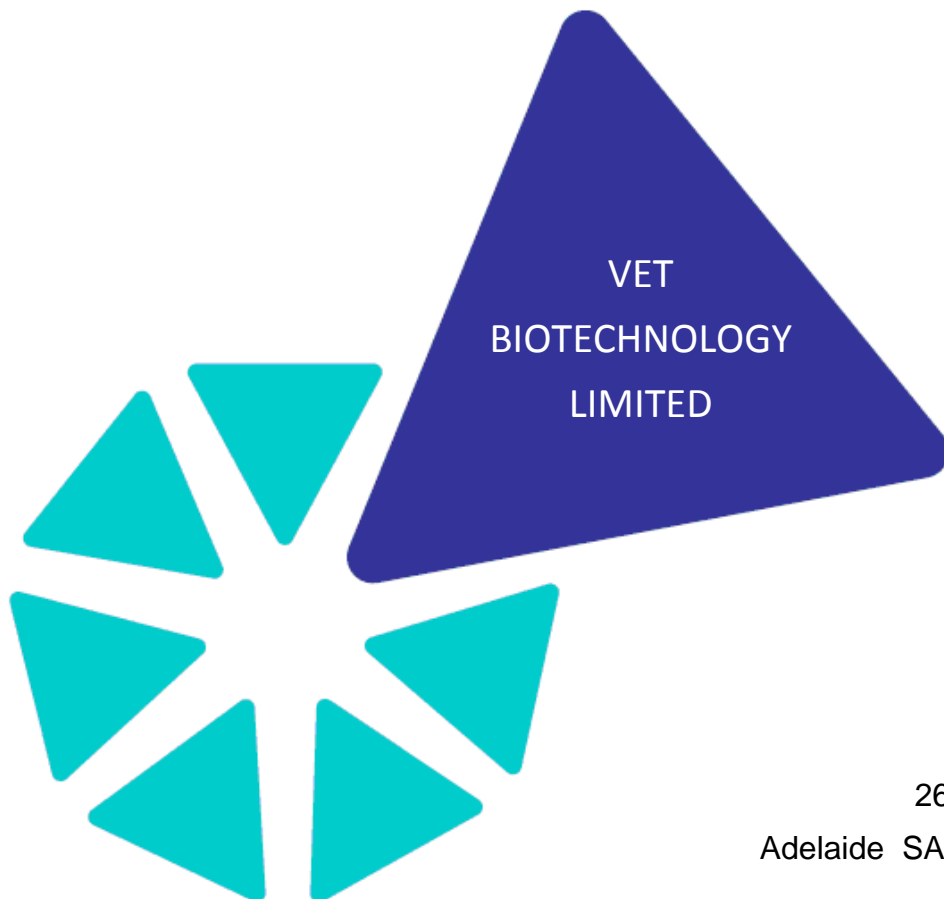


**VET BIOTECHNOLOGY LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 105 577 017**

**REPORT PURSUANT TO SECTION 439A OF
THE CORPORATIONS ACT 2001**

3 June 2010



Level 10
26 Flinders Street
Adelaide SA 5000 Australia

GPO Box 1471
Adelaide SA 5001

Disclaimer

This report is formulated on information obtained from books and records recovered from the Company, the Directors, management, parties responding to our requests for information and interviews with relevant persons. In reviewing this report, creditors should note the following:

- Our investigations have been limited due to the time constraints placed on us by the Corporations Act 2001 (“the Act”). There may be certain issues that require additional investigation for an absolute determination to be formed. Where appropriate, we have highlighted these issues throughout the body of the report and to the extent necessary, have considered the possible impact of them when making our recommendations to creditors. It is normal for an Administrator’s report to creditors to not form conclusive views in relation to all areas of investigation. Should a Liquidator be appointed to the Company, the Liquidator will continue those investigations should there be a perceived commercial benefit to creditors.
- We have not carried out an audit of the Company documents, nor have we had adequate opportunity to verify any of the information given to us by the Company and referred to above, except where expressly stated.
- The statements and opinions given in the report are given in good faith and in the belief that such statements and opinions are not false or misleading. Except where otherwise stated, we reserve the right to alter any conclusions reached on the basis of any changes in, or additional to, information which may become available to us between the date of this report and the date of the second meeting of creditors.
- Neither PPB, nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of any errors in this report rising from incorrect information provided to us.
- In considering the options available to creditors and formulating their recommendations, the Administrators have made the necessary forecasts with respect to asset realisations and the quantum of total creditors. These forecasts and estimates may change as asset realisations progress and claims are received by creditors. Whilst the forecasts and estimates are the result of the Administrators’ best assessment in the circumstances, creditors should note that the ultimate deficiency and thus the distribution or outcome for creditors may differ from the information provided in this report.

1	Preamble	6
	1.1 Purpose of this Report.....	6
	1.2 Role of the Administrator.....	6
	1.3 Administrators' Independence.....	7
2	Executive Summary	8
	2.1 Background and Reasons for Failure.....	8
	2.2 First Meeting of Creditors.....	8
	2.3 Investigations/Potential Recoveries	9
	2.4 Assets Realisations.....	9
	2.5 DOCA Proposal.....	9
	2.6 Estimated Return to Creditors.....	9
	2.7 Administrators' Opinion	10
	2.8 Remuneration.....	10
3	Background and Statutory Information	11
	3.1 History	11
	3.2 Statutory Information.....	11
	3.3 Company's Officers and Shareholders.....	12
	3.4 Secured Interests	12
4	Books and Records	13
5	Historical Financial Information	13
	5.1 Summary of Financial Performance.....	13
	5.2 Summary of Financial Position.....	14
6	Report as to Affairs.....	16
	6.1 Directors' RATA.....	16
	6.2 Administrators' Comments	16
7	Reasons for Insolvency.....	18
8	Actions Taken by Administrators.....	19
	8.1 Statutory.....	19
	8.2 Debtors.....	19
	8.3 Assets.....	19
	8.4 Employees.....	20
	8.5 Unsecured Creditors	20
	8.6 Trading	21
9	Offences, Insolvent Trading and Voidable Transactions	21
	9.1 Background.....	21

9.2	Offences	21
9.3	Insolvent Trading	21
9.4	Voidable Transactions	24
10	Deed of Company Arrangement	26
11	Estimated Return to Creditors	27
12	Statement of Administrators' Opinion	29
13	Voting at Meeting	31
14	Administrators' Remuneration	31
14.1	Administrators' Remuneration	31
14.2	Deed Administrators' Future Remuneration	31
14.3	Liquidators' Future Remuneration	31
15	Summary.....	32

Summary of Annexures

Annexure	Description
A	Declaration of Independence, Relevant Relationships and Indemnities
B	Updated Declaration of Independence, Relevant Relationships and Indemnities
C	Remuneration Report

Glossary of Terms

In this report the following terms have been used:

Term	Meaning
\$	All references are to Australian Dollars
A.B.N.	Australian Business Number
Act	Corporations Act 2001
A.C.N.	Australian Company Number
Administrators	Timothy James Clifton and Peter Ivan Macks
APVMA	Australian Pesticides & Veterinary Medicines Authority
ASIC	Australian Securities and Investments Commission
Bank	ANZ and/or Westpac
Company	Vet Biotechnology Limited (Administrators Appointed)
COGS	Cost of Goods Sold
Directors	Douglas Peter LeMessurier and John Cook
Deed	Deed of Company Arrangement
DOCA	Deed of Company Arrangement
ERV	Estimated Realisable Value
GEERS	General Employee Entitlements & Redundancy Scheme
GST	Goods and Services Tax
NSX	Newcastle Stock Exchange
Liquidator	Person(s) appointed as Liquidator of a company by creditors or the Court
NPBT	Net Profit Before Tax
RATA	Report as to Affairs

1 Preamble

1.1 Purpose of this Report

On 30 March 2010, Timothy James Clifton and Peter Ivan Macks were appointed Joint and Several Administrators of the Company.

The appointment was made pursuant to a resolution of the Directors in accordance with section 436A of the Act, as they were of the opinion that the Company was, or was about to become, insolvent.

Pursuant to section 439A of the Act, the Administrators must convene a meeting of creditors of the Company and provide a report to inform creditors about the business, property, affairs and financial circumstances of the Company.

In addition, the Administrators' must provide a statement setting out their opinion and reasons whether it would be in the interests of the creditors:

- for the Company to execute a DOCA;
- for the administration to end; or
- for the Company to be wound up.

This is the report the Administrators are required to provide to creditors under section 439A of the Act and our opinions are contained in **Section 12**.

Accordingly, this report summarises the financial position of the Company, sets out our observations with respect to the cause of the insolvency of the Company, outlines any offences that may have been committed by the officers of the Company and the extent of recoveries a Liquidator could pursue (if the Company were to pass into liquidation) and provides our recommendation of what further action we consider is in the best interest of creditors.

This report has been prepared following an inspection and analysis of documents prepared by the Company. The report has been prepared for the benefits of the creditors of the Company and should not be disclosed to any other party, without our prior consent in writing.

We have not carried out an audit of the Company documents, nor have we had adequate opportunity to verify any of the information given to us by the Company, except where expressly stated.

1.2 Role of the Administrator

Under the Act, Administrators are empowered to assume control of the insolvent Company's business, property and affairs. The intention of voluntary administration is to facilitate an opportunity to maximise the chances of the insolvent Company continuing in existence, or if this is not possible, to achieve a better return for the creditors and members of those entities than would have resulted from an immediate winding up of the Company.

Upon the appointment of an Administrator, the powers of the directors and officers of the Company are suspended and the Administrators may perform any function, and exercise any power that the Company or any of their officers could perform or exercise were the Company not under administration.

During the administration period there is a moratorium imposed by the Act which restricts pre-administration creditors from enforcing their rights in respect of their debts or claims against the Company.

1.3 Administrators' Independence

The independence of Administrators is a cornerstone of the voluntary administration process. Administrators must be, and be seen to be, independent.

We had undertaken a proper assessment of the risks to our independence prior to accepting the appointment as Voluntary Administrators and, in accordance with section 436DA of the Act, a Declaration of Independence, Relevant Relationships and Indemnities was provided in our first circular to creditors dated 31 March 2010 and discussed with the creditors present at the first meeting of creditors held on 13 April 2010. A copy of the declaration is attached as **Annexure A**.

There has been no material change in the details recorded in the aforementioned Declaration. However, we note that there has been a decrease in the amount of the indemnity received from one of the Directors of the Company. In our declaration dated 31 March 2010 it was noted that \$20,000 was received from one of the Directors as payment for our professional fees. Upon confirmation that there was \$3,900 in the Company's bank account the Director reduced the amount of his indemnity accordingly. A copy of our updated declaration is attached as **Annexure B**.

We confirm that we have not had any prior involvement with the business or its Directors other than meeting with the Directors on 30 March 2010 to discuss the financial position of the Company and our possible appointment as Administrators.

In accordance with industry practice and legal precedent, we do not consider the above to adversely affect our independence or prevents us from accepting our appointment as Voluntary Administrators nor continuing our involvement as may be determined at the forth coming creditors meeting.

2 Executive Summary

2.1 Background and Reasons for Failure

The Company was incorporated on 23 July 2003 and its primary function was to provide solutions for veterinary needs through the use biotechnological methods.

The Company's two major products were:

- Stembank: for the extraction of stem cells from umbilical cords of foals; and
- Regenicell: for the extraction of stem cells from the bone marrow of horses.

The Company had a large database of veterinarians from which the majority of its sales were sourced. Following a number of unsuccessful attempts to raise further capital, the Directors ceased the Company's operations on 26 March 2010 as it was evident to them that the Company would not be able to pay its debts as and when they fell due.

Based on our investigations to date, it is our assessment the cause of the failure of the Company can be attributed to:

- Under capitalisation;
- Inability to raise further capital on the open market;
- Continued trading loss;
- The absence of any significant freehold assets on which to secure third party finance;
- The Company was providing a product which was unique and not well established in the market; and
- The Directors' deciding to no longer fund operations in March 2010.

2.2 First Meeting of Creditors

A first meeting of the creditors of the Company was held on 13 April 2010. Due to a lack of quorum, the Chairman adjourned the meeting until 20 April 2010, pursuant to regulation 5.6.16(4) of the Act. The reconvened meeting lapsed due to lack of quorum.

The Administrators made an application to the Supreme Court of South Australia seeking to have the convening period for the second meeting of creditors extended by 30 days. The extension was granted on 5 May 2010.

Accordingly, the second meeting of creditors will be held on 11 June 2010 at which time creditors will consider and vote on the future of the Company. We recommend that creditors consider this report and if possible participate in the process by either attending the meeting in person or by proxy.

We have yet to receive a copy of the seal order from the Court but will endeavour to table a copy of the sealed order at the second meeting of creditors.

2.3 Investigations/Potential Recoveries

Under the Act, an Administrator is obliged to investigate a company's business, property, affairs and financial circumstances. These investigations are to be performed as soon as practicable after the administration begins in order to enable the Administrators to form an opinion about the future of the Company.

Our preliminary investigations, subject to outstanding information, conclude:

- The Company was only insolvent for a brief period prior to our appointment;
- The Company did not participate in any insolvent trading;
- We have not identified any potential preference payments that warrant further investigation by a liquidator.
- No commercial insolvent trading claim exist against the Directors;

We note that any preference and/or insolvent trading recoveries are actions undertaken by a liquidator, should one be appointed.

2.4 Assets Realisations

As at the date of writing this report the Administrators have been in control of all of the assets of the Company. Furthermore the major assets of the Company have yet to be realised by the Administrators for the reasons detailed below:

- Assets are very specific; and
- Challenges in selling unique intellectual property.

2.5 DOCA Proposal

A DOCA has been proposed to the creditors of the Company. A DOCA binds all unsecured creditors of the Company, so far as it concerns claims arising on or before the day specified in the deed, that being 30 March 2010.

The key terms of the proposal and the estimated return to creditors arising from the deed are outlined in **sections 10 and 11** of this report.

2.6 Estimated Return to Creditors

Under the proposed DOCA, we estimate that the secured creditors and preferred unsecured creditors of the Company will be discharged in full and the unsecured creditors will receive a return in the range of 14 to 33 cents in the dollar.

Should the creditors resolve for the Company to be wound up, our preliminary assessment is that there is unlikely to be any return to the Company's ordinary unsecured creditors (ie. typically trade creditors).

2.7 Administrators' Opinion

Based on the analysis and commentary contained in **section 12** of this report, it is our recommendation that it is the best interest of creditors to accept the deed proposal.

2.8 Remuneration

At the second meeting of creditors to be held on 11 June 2010 the Administrators will be seeking approval of **\$24,133 plus GST** for fees incurred from the date of appointment up to and including 31 May 2010.

It is anticipated that we will incur a further **\$6,000 plus GST** for the remainder of the voluntary administration period, namely the period 1 June 2010 to 11 June 2010.

In addition, should creditors vote in favour of accepting the proposed DOCA, we will seek approval of our future fees in the deed administration in the amount of **\$15,000 plus GST**.

Alternatively, should creditors resolve that the Company be wound up, we will be seeking approval of our future fees in the liquidation in the amount of **\$30,000 plus GST**.

A remuneration report detailing the actions undertaken by the Administrator and those likely to be undertaken in the course of any future appointment is attached as **Annexure C**.

3 Background and Statutory Information

3.1 History

The Company was incorporated on 23 July 2003 and operated to provide solutions to veterinary needs through the use of biotechnological methods.

The Company, which is listed on the Newcastle Stock Exchange ("NSX"), has successfully provided a stem cell service to repair damaged ligaments and tendons in thoroughbred race horses. The Company's two major products were:

- Stembank: for the extraction of stem cells from umbilical cords of foals; and
- Regenicell: for the extraction of stem cells from the bone marrow of horses.

The stem cell service is marketed through trained vets throughout Australia and has been successful in over 100 horses with the majority returning to racing.

While the Company had achieved success through the use of its methods, it was still in its infancy and therefore needed significant further working capital to continue improving its procedures. The Company was unable to secure the working capital and consequently the Directors ceased trading on 26 March 2010 as they believed that incurring further debt may render the Company insolvent.

In addition, the Company's constitution required that it maintain three (3) directors, consequently the recent resignation of Michael Derin meant that the Company was in breach of its constitution. The remaining Directors sought to remedy the breach but could not. This event contributed to the Directors' decision to have administrators appointed to the Company.

3.2 Statutory Information

Relevant statutory information concerning the Company is as follows:

Statutory Information	
Date of Incorporation	23 July 2003
Registered Office	109 Little Rundle Street Kent Town SA 5067
Trading Names	Vet Biotechnology Limited
Principal Place of Business	109 Little Rundle Street Kent Town SA 5067
A.B.N.	54 105 577 017
Previous winding up application	N/A
Auditors	HLB Mann Judd Stephens (SA)

Source: ASIC Company Search

3.3 Company's Officers and Shareholders

The current and recent past officers of the Company are:

	Appointed	Resigned
Current Directors		
Douglas Peter LeMessurier	23 July 2003	N/A
John Patrick Mervyn Cook	5 February 2010	N/A
Current Secretary		
Timothy John McCormack	5 February 2010	N/A
Previous Directors		
Michael Derin	15 December 2006	22 March 2010
Ian David Brown	14 February 2008	5 February 2010
Alan Preston Beasley	15 December 2006	14 February 2008
Paul Andrew Mariani	12 November 2003	15 December 2006
Lusia Halina Guthrie	12 November 2003	15 December 2006
Paul Lawrence Kerr	16 August 2004	15 December 2006
Previous Secretary		
Michael Derin	15 December 2006	22 March 2010
Paul James Mansfield	15 April 2004	15 December 2006
Douglas Peter LeMessurier	23 July 2003	15 April 2004

Source: ASIC Company Search

The Company was a limited company and had a significant amount of shareholders. The ASIC company search indicates that 37,740,332 shares have been issued by the Company. However, The Administrators have been provided with a Shareholder register by the Company's former accountants. The register indicates that 40,765,854 shares had been issued by the Company and that all shares have been fully paid.

3.4 Secured Interests

We have conducted an ASIC Company Search and it was apparent that there were no registered secured interests in the Company.

The books and records of the Company do not disclose any other unregistered secured third party interests.

4 Books and Records

The Act requires that a Company maintain financial records that correctly record and explain its transactions, financial position and performance and would enable true and fair financial statements to be prepared and audited.

The failure of a Company to maintain books and records in accordance with Section 286 of the Act provides a rebuttable presumption of insolvency. This presumption can be relied upon by a liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to the Act from related parties, including directors.

Our review of the books and records suggests the Company did maintain appropriate financial statements.

5 Historical Financial Information

The Company had audited financial statements prepared by external accountants for the years ending 30 June 2007, 30 June 2008 and 30 June 2009. We have also received audited externally prepared interim financial accounts for the half year ended 31 December 2009.

5.1 Summary of Financial Performance

The Company reported the following headline financial performance in the year leading up to the Administration:

Year ended	30 June 2007 (\$)	30 June 2008 (\$)	30 June 2009 (\$)	31 December 2009 (\$)
Revenue	128,780	233,476	283,639	39,636
Less COGS	(141,417)	(153,436)	(114,927)	(18,168)
Gross Profit from Trading	(12,637)	80,040	168,712	21,468
Gross Profit %	-10%	34%	59%	54%
Less Expenses				
Employee Expenses	130,223	171,184	74,143	-
Depreciation Expense	17,848	16,042	40,420	-
Finance Expenses	76,689	53,755	13,637	-
Other Expenses	281,010	380,897	305,198	86,363
NPBT	(518,407)	(541,838)	(264,686)	(64,895)

Source: Financial Accounts and Interim Financial Accounts

We comment in respect to the reported financial performance as follows:

- The Company experienced a negative gross profit in 2007 and an overall net loss of \$518,407.
- The Company's revenue increased significantly in the financial year 2008 when compared with the prior year. Revenue remained strong in the 2009 financial year. The increase in revenue resulted in positive gross profit. However, the increase was not sufficient to cover

the Company's operating expenses and consequently the Company suffered overall losses in both years.

- In 2009 the Company had its best financial performance and even managed to significantly decrease the overall loss for the year, when compared to the previous years. Furthermore of the \$305,198 of 'other expenses' incurred in the year ended 30 June 2009, \$197,395 related to the writing down of intangible assets, namely the licensing agreement with the key supplier/manufacturer of the Company's treatments.
- The negative losses seen in 2007 can be related to the initial outlay costs incurred whilst the Company was in its infancy stage. The Company only began operation in 2004 and it is known that the financial performance will usually suffer at the beginning stages, particularly in an emerging/new area of technology which is relatively untested.
- The Company's half year revenue for the 2010 financial year was considerably lower than the three prior years. The reduction directly corresponds with the loss of the Company's main supply contract. In August 2009, the Company was advised by their main supplier that they would cease manufacturing the Company's Regenicell and Stembank treatments. While the Company has the appropriate permit to administrator the treatments it requires an appropriately licensed laboratory to produce the treatments. The Company was unable to secure a new manufacturer prior to our appointment.

5.2 Summary of Financial Position

The Statement of Financial Position for the corresponding periods leading up to the Administration showed:

As at	30 June 2007	30 June 2008	30 June 2009	31 December 2009
	(\$)	(\$)	(\$)	(\$)
Current Assets	351,837	82,415	34,386	8,487
Non-Current Assets	242,646	236,741	1,477	1,072
Total Assets	594,483	319,156	35,863	9,559
Current Liabilities	166,725	169,431	90,680	58,160
Non-Current Liabilities	444,134	449,169	391,000	401,511
Total Liabilities	610,859	618,600	481,680	459,671
Net Assets	(16,376)	(299,444)	(445,817)	(450,112)

Source: Financial Accounts and Interim Financial Accounts

We comment in respect to the reported financial position as follows:

- Working capital analysis gives an indication of the level of liquid assets which are available to meet short term liabilities. A ratio greater than 1 indicates that the current liabilities of the Company can be met from the current assets. Conversely, a ratio less than 1 indicates that the Company's current liabilities cannot be met from its current assets.

- The Company's balance sheet displayed a serious working capital deficiency as shown below:

As at	30 June 2007	30 June 2008	30 June 2009	31 December 2009
	(\$)	(\$)	(\$)	(\$)
Working Capital Deficiency	2.11	0.49	0.38	0.15

- The table above indicates that the Company's working capital ratios are below one and that they had net negative assets since 2007. This is as expected as Company's in their infancy tend to have low capital ratios due to the large cost incurred in starting up the business
- The Company working capital significantly deteriorated in the six (6) months ending 31 December 2009.
- In the 2009 financial year there was a significant decrease in assets. In particular the cash at bank and accounts receivable were reduced significantly as well as the intangible assets.
- In August 2009, the Company was advised by their main supplier that they would cease manufacturing the Company's Regenicell and Stembank treatments. While the Company has the appropriate permit to administer the treatments it requires an appropriately licensed laboratory to produce the treatments. As a result of the lost licensing agreement, The Company made an after balance day adjustment to the 30 June 2009 financials in which the Company wrote down (impaired) its intangible assets by \$197,395.
- All non-current liabilities reflected in the interim accounts were owed to Douglas Peter LeMessurier and his related entities. The Director and his related entities signed a letter of confirmation that there would be no interest would be payable on the loans nor would they seek repayment prior to 31 December 2011.

6 Report as to Affairs

6.1 Directors' RATA

Under section 438B(2) of the Act, the Directors of the Company must provide the Administrators with a statement about the Company's business, property, affairs and financial circumstances in the form of a RATA within five (5) business days of the appointment.

The RATA is required to set out the Directors' view of the position of the Company's assets and liabilities at the commencement of the administration.

The Directors of the Company have provided us with a RATA that is summarised below. The RATA will be available for creditors to inspect at the second meeting of creditors.

	Note	Directors' ERV	Administrators' ERV *
		RATA	
		(\$)	(\$)
Assets			
Cash	6.2.1	2,993	3,900
Debtors	6.2.2	2,000	-
Property Plant & Equipment	6.2.3	1,002	2,000
Other Assets	6.2.4	500	-
Total Assets		6,495	5,900
Priority Creditor Claims			
Employee Claims	6.2.5	-	-
Secured Creditor Claims			
Secured Creditor Claims	6.2.6	-	-
Surplus/(Shortfall) for unsecured creditors**		6,495	5,900
Unrelated unsecured creditor	6.2.7	(39,083)	(41,080)
Related unsecured creditors	6.2.8		(401,511)
Net Surplus/(Shortfall)**		(32,588)	(436,691)

* We note that these figures are exclusive of our professional fees.

6.2 Administrators' Comments

We comment on the realisable value of particular assets and liabilities disclosed above as follows:

6.2.1 The Company had limited funds in its bank account at the date of our appointment.

6.2.2 The Directors' RATA discloses debtors with a book value of \$7,571.23 and an estimated realisable value of \$2,000. We have reviewed the Company records and have been unable to locate sufficient detail and/or supporting invoices to enable us to

send correspondence to the debtors of the Company. We are continuing our enquiries as to the identity of the debtors to enable us to seek payment of the debts outstanding. We have attributed no value to the debtors for the purpose of this report.

- 6.2.3 The Company had minimal physical assets at the date of our appointment. The Company did hold 75 foam medical transportation boxes which it used for the transportation of blood and stem cell samples.

The boxes have a cost value of approximately \$10,000, however they are very specific to the Company's operation and there is a very limited market for these assets.

- 6.2.4 The Directors' RATA does not provide any detail of the 'other assets' for which they have attributed a value of \$500.

The Administrators' undertook a sales campaign for the intellectual property of the Company. However, we were unable to specifically identify the procedures and other intangible assets that were wholly owned by the Company and available for sale/assignment by the Administrators.

We were able to confirm that the Company:

- was the registered owner of a registered trademark, Stembank, and
- held a permit with the APVMA for the use and supply of Autologous Equine Stem Cell Therapy which is transferrable if certain requirements are met by the purchaser.

To date we have not received and commercially viable offers for these assets.

- 6.2.5 At the date of our appointment the Company did not employ any staff.

It is our understanding that the Company employed employees on a sub contractor basis hence no employee entitlements are owed.

- 6.2.6 We have conducted an ASIC Company Search and it was apparent that there were no registered secured interests in the Company.

The books and records of the Company do not disclose any other unregistered secured third party interests.

- 6.2.7 We have received proof of debts totalling \$31,080 from unrelated unsecured creditors at the time of writing this report. Included in the 'unrelated unsecured creditor' amount is a debt totalling \$21,662 to a company of which the former director, Michael Derin, is also the managing director. For the purpose of this report, we have categorised this amount as unrelated purely because this company is not party to the deed proposal and intends to participate in the dividend.

The Administrators amended figure represents the value of the Company's unrelated unsecured trade creditors based on the books and records and proof of debts, received to date plus a provision for additional creditor claims we would expect, from our experience, would become known to us after the date of administration.

6.2.8 The interim financial report dated 31 December 2009 discloses the following related party debts:

Creditor	(\$)
Kytron Pty Ltd	48,511
LeMessurier, Douglas Peter (Mr)	350,000
Palpet Pty Ltd	3,000
	<u>401,511</u>

All of the above parties have lodged a claim in the Administration for the amounts reflected above.

Kytron Pty Ltd and Palpet Pty Ltd are entities controlled by Douglas Peter LeMessurier.

We are satisfied of the validity of all of the above debts.

In October 2008 Mr LeMessurier entered into an agreement with one of the Company's creditors whereby that third party debt was personally satisfied by Mr LeMessurier and in return the debt owing to the third party creditor was assigned to Mr Lemessurier.

The loans from Kytron Pty Ltd and Palpet Pty Ltd were provided to meet the short term cash flow needs of the Company.

7 Reasons for Insolvency

The Directors consider the Company failed for the following reasons:

- Inability to raise further capital.

Based on our review of the books and records of the Company currently in our possession and discussions with key personnel, it is our assessment the cause of the failure of the Company can be attributed to:

- Under capitalisation;
- Inability to raise further capital on the open market;
- Continued trading loss;
- The absence of any significant freehold assets on which to secure third party finance;
- The Company was providing a product which was unique and not well established in the market; and
- The Directors' deciding to no longer fund operations in March 2010.

A finding of insolvency and establishing the date at which a company became insolvent is a critical threshold to recoveries from actions which are only available to a Liquidator.

8 Actions Taken by Administrators

We have attended to the following in relation to the affairs of Vet Biotechnology Ltd (Administrators Appointed):

8.1 Statutory

In terms of statutory matters, since appointment, the Administrators have:

- attended the premises;
- notified the statutory authorities of our appointment;
- requested the delivery of the books and records of the Company;
- collected and inspected the available books and records of the Company;
- contacted the Company's pre-appointment bank regarding closure of the account;
- opened an Administrators' bank account;
- called the first meeting of creditors and lodged minutes of the meeting with ASIC; and
- liaising with third party and directors regarding potential sale of Company shell and deed proposal.
- commenced our investigations with respect to possible voidable and other recoverable transactions as noted later in this report.

8.2 Debtors

The Directors' RATA discloses debtors with a book value of \$7,571.23 and an estimated realisable value of \$2,000. We have reviewed the Company records and have been unable to locate sufficient detail and/or supporting invoices to enable us to send correspondence to the debtors of the Company. We are continuing our enquiries as to the identity of the debtors to enable us to seek payment of the debts outstanding. We have attributed no value to the debtors for the purpose of this report.

8.3 Assets

The Administrators sought to sell the assets of the Company in whole or in part and advertised the same in *The Financial Review* on 27 April 2010.

The following assets are available for sale:

8.3.1 Plant and Equipment

The Company has 75 special foam medical transportation boxes which it used for the transportation of blood and stem cell samples.

The boxes have a cost value of approximately \$10,000, however they are very specific to the Company's operation and there is a very limited market for these assets.

8.3.2 Company Shell

The Company is listed on the NSX and provides a prospective purchaser the opportunity of funding a proposal through a Deed of Company Arrangement which would result in the NSX listing of the Company remaining current and for the benefit of that party and the current shareholders of the Company.

Any such proposal would be subject to the approval of creditors at the second creditors meeting. In order for the Administrators to recommend any proposal made to creditors to retain the Company shell, the proposal must result in a better return to creditors than otherwise would be achieved in liquidation.

The Company was a limited company and had a significant amount of shareholders. The ASIC company search indicates that 37,740,332 shares have been issued by the Company. However, The Administrators have been provided with a Shareholder register by the Company's former accountants, the register indicates that 40,765,854 shares had been issued by the Company and that all shares have been fully paid.

8.3.3 Intangible Assets

The Administrators' were unable to specifically identify the procedures and other intangible assets that were wholly owned by the Company and available for sale/assignment by the Administrators.

The Administrators were able to confirm that the Company:

- was the registered owner of a registered trademark, Stembank, and
- held a permit with the APVMA for the use and supply of Autologous Equine Stem Cell Therapy which is transferrable if certain requirements are met by the purchaser.

To date we have not received and commercially viable offers for these assets, however we continue to liaise with parties who express an interest in the above assets.

8.4 Employees

At the date of our appointment the Company did not employ any staff under a contract of service.

The majority of the day to day operations of the Company were overseen by a sub contractor and the two remaining Directors.

8.5 Unsecured Creditors

We have notified all known creditors of our appointment and requested that they lodge a proof of debt claim form for the amount outstanding to themselves. As at the date of this report we have received unsecured creditor claims to the value of \$432,591.

Over 95% of the unsecured claims received to date belong to the Directors of the Company and/or entities related to the current or former Directors of the Company.

8.6 Trading

At our appointment the Company was not trading.

The Administrators did not have sufficient working capital to recommence trading the business and it is unlikely that they would have been able to secure the appropriate insurance cover to allow them to trade given the specialist nature of the industry in which the Company operated.

9 Offences, Insolvent Trading and Voidable Transactions

9.1 Background

Under the Act, an Administrator is obliged to investigate a company's business, property, affairs and financial circumstances. These investigations are to be performed as soon as practicable after the administration begins in order to enable the Administrators to form an opinion about the future of the Company.

9.2 Offences

Pursuant to s438D of the Act, an administrator is required to complete and lodge a report with ASIC where it appears to an administrator that a past or present officer, generally the director, of a company may have been guilty of an offence. We are currently in the view that the Company has not breached any offences as stated in the Act.

For further information on director related offences please refer to the Creditor Information Sheet released by the IPA which can be accessed from <http://www.ipaa.com.au/home.asp>

9.3 Insolvent Trading

Pursuant to section 588M of the Act, a **liquidator** may recover from the director(s), as a debt due to the Company, an amount equal to the amount of the loss or damage caused by the director(s) insolvent trading.

Where an Administrator has been appointed, the assessment of the issue of insolvent trading can be important to creditors where they are being asked to choose between a DOCA and liquidation.

9.3.1 Date of Insolvency

Section 95A of the Act provides that a company is solvent if and only if it can pay its debts as and when they fall due. When considering whether a company would meet this requirement at any particular time, a court will have regard to the company's financial position as a whole, including other sources of funding readily available to the company, further equity from shareholders and the company's ability to raise cash by mortgaging or selling its assets.

As a result of our review of the financial affairs of the Company currently available to us, it is our preliminary assessment that the Company was insolvent for a short period of time prior to our appointment. However, based on our analysis we have formed the opinion that the Company did not participate in any insolvent trading as the Directors did all that could be reasonably expected of them once it became apparent that the Company was or was about to become insolvent.

Our opinion is primarily based on the following key facts:

- Recognising that the Company was in need of further funding in February/March 2010, the Directors sought to raise further capital via the open market and also privately.
- In March 2010 it became apparent to the Directors that they could not raise the necessary capital. Consequently, the two remaining Directors formed the opinion that the Company would not be able to incur further debt as the Company would not be able to pay those debts as and when they fell due.
- Approximately \$5,000 of debt was incurred in March 2010.
- The Directors immediately ceased the operations of the Company and sought to place the Company into voluntary administration as soon as practicable.

If a liquidator is appointed, further analysis would be undertaken to provide a definite date of insolvency based upon all facts

9.3.2 Grounds to suspect insolvency

The matters considered during the course of our investigations included, but were not limited to:

- the Company's ability to generate cash from operations;
- the deterioration in the liquidity ratio over time (refer to **section 5** of this report);
- the deterioration in the ageing of trade creditors over time;
- the age and nature of the creditors outstanding at the date of appointment;
- attempts to raise further capital;
- letters of agreement from the largest creditors agreeing not to charge interest on the loans to the Company nor seek repayment prior to 31 December 2011;
- the existence of instalment payment arrangements entered into with individual creditors;
- payment of round sum amounts to creditors;
- letters of demand issued against the Company by creditors;
- emails and correspondence between the Company (its Directors) and various parties; and
- the requests made for third party financial support.

Whilst evidence of each of the factors in isolation is not conclusive proof of insolvency, when appearing together with the other factors, they are likely to evidence the Company's insolvency.

9.3.3 Access to Alternative Sources of Finance

When analysing the solvency of an entity, consideration must also be given to the entity's ability to raise additional cash resources.

The Company sought, unsuccessfully, to obtain additional funds from other sources, including issuing further shares to raise the required capital.

The fact that the Company did not obtain additional funds from other sources provides prima facie evidence that the Company was unable to do so. Furthermore, the absence of any significant freehold assets, suggest that it is highly unlikely that the Company would have been able to procure any alternative source of finance.

9.3.4 Quantum of claim

It is in our opinion that the Company became insolvent sometime in March 2010. However, as stated in section 9.3.1 we are of the opinion that the Company did not participate in any insolvent trading and therefore there is no amount recoverable against the Directors personally.

It should also be noted that the Directors have the right of set off any amount owed to them personally by the Company against any amount payable by them in respect of an insolvent trading claim.

Creditors should be aware that there are other aspects which need to be taken into account in relation to commencing an action against the directors pursuant to Section 588M of the Act. These factors include the time and cost of mounting a legal action and the value of the directors personal assets. Creditors should note that any action in Court involves lengthy delays and is costly as a result of professional fees and the significant evidentiary requirements that may involve a Liquidator needing to reconstruct the books and records of the Company.

9.3.5 Defences

There are various defences available to a director under section 588H of the Corporations Act 2001. In summary these are:

- The director had reasonable grounds to suspect that the Company was solvent;
- The director had reasonable ground to believe and did believe that a competent reliable person was responsible for providing adequate information on the Company's solvency and that person fulfilled that responsibility and the director believed that at the time debt was incurred, and considering other debts existing at that time, the Company was solvent and remained solvent;
- The director was ill (and therefore did not take part in management) at the time the debt was incurred; and

- The director took reasonable steps to prevent the debt being incurred.

We believe that the Director would have a defence to an insolvent trading action on the basis that they took all reasonable steps to prevent debt being incurred once it became apparent that the Company was or was about to become insolvent.

9.4 Voidable Transactions

In the event the Company is wound up, certain transactions that occurred prior to the appointment of administrators may be recovered by the liquidator in proceedings commenced under Part 5.7B of the Act. Such transactions are known as voidable transactions.

Pursuant to the Act the administrator is required to specify whether there are any transactions that appear to be voidable transactions in respect to money, property or other benefits that may be recoverable by the liquidator.

9.4.1 Unfair Preferences

Pursuant to Section 588FE (2) of the Act, a liquidator is able to recover payments made by a company to a creditor where:

- the company is insolvent at the time of payment or becomes insolvent because of payments to a creditor;
- the payment results in the creditor receiving more than it would in a winding up;
- the transaction occurred within six months prior to the liquidation (or prior to any administration occurring immediately before liquidation);

provided that:

- the creditor did not become a party to the transaction in good faith;
- the creditor or a reasonable person in the creditor's position had or would have had reasonable grounds to suspect the company was insolvent; and
- the creditor did not provide consideration under the transaction or change position in reliance on the transaction.

We have reviewed the payments made by the Company in the six month period ending on the date of our appointment. However, as the Company was only insolvent for a short period of time prior to our appointment, there are no payments that may be voidable as unfair preferences in a liquidation.

9.4.2 Uncommercial Transactions

Pursuant to Section 588FE (3) of the Act, a liquidator is able to recover money or property associated with transactions entered into by a company where:

- a reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefit and detriment of the transaction;
- the company is insolvent or becomes insolvent because of the transaction; and
- the transaction occurred within 2 years of the liquidation (or earlier appointment of an administrator), or 4 years if the transaction was with a related party, or 10 years if the transaction was made to defeat creditors.

Our investigations did not reveal payment that may be voidable as uncommercial transactions in a liquidation.

9.4.3 Unfair Loans

Pursuant to Section 588FE (6) of the Act, a liquidator is able to treat as voidable an unfair loan. A loan is considered unfair if:

- the interest on the loan was or is extortionate; or
- the charges associated with the loan were or are extortionate.

Our investigations did not reveal any loans that may be considered voidable as unfair loans in liquidation.

9.4.4 Unreasonable Director Related Transactions

Pursuant to Section 588FE (6A) of the Act, a liquidator is able to treat as voidable an unreasonable director related transaction.

Such a transaction is one where:

- a payment made by the company;
- a disposal by the company of its property;
- the issue of securities by the company;
- an obligation to do any of the above,

is made to a director or close associate of a director or a person on their behalf.

Unreasonable means that a reasonable person in the company's circumstances would not have entered into the transaction having regard to:

- the benefits (if any) to the company of entering into the transaction;
- the detriment to the company of entering into the transaction;
- the respective benefits to other parties to the transaction of entering into it; and
- any other relevant matter.

Our investigations did not reveal payment that may be voidable as unreasonable Director related transactions in a liquidation.

10 Deed of Company Arrangement

A Deed has been proposed by a arms length third party and the Director of the Company to the creditors of the Company. A Deed binds all creditors of the Company in respect of claims arising on or before the day specified in the Deed (vis. 30 March 2010).

The key elements of the proposed Deed are:

- (i) All claims of unsecured creditors that existed at the time of the appointment of the Joint and Several Administrators to the Company are to be extinguished upon the full completion of the terms of the Deed. The claims of these creditors are to be frozen until the Deed has been completed.
- (ii) They will pay into Trust \$40,000 and meet the legal costs of the DOCA;
- (iii) Douglas Peter LeMessurier and his related entities Kytron Pty Ltd and Palpet Pty Ltd will not seek to prove in competition with creditors for the payment of a dividend from the Deed for loans made to the Company totaling \$401,511 or any other amount whatsoever owing to them. (*"the excluded creditors"*);
- (iv) The excluded creditors simply support the DOCA and will receive shares in settlement of their debt, to be allotted at a forthcoming shareholders' meeting;
- (v) Timothy James Clifton and Peter Ivan Macks will be the Deed Administrators;
- (vi) A shareholders' meeting to support this resolution must be held by the Company and resolved within say 45 days.
- (vii) The proposal is contingent upon receiving shareholder support for the intended actions of the Company, particularly in respect of the proposed change in share structure;
- (viii) The proposal is contingent receiving consent from the NSX on the proposed action;
- (ix) Should the terms of this proposal be satisfied, the DOCA is in effect and the moneys will be released to the unrelated unsecured creditors;
- (x) If the terms of this proposal are not satisfied, the DOCA has 'failed' and the Company will lapse into liquidation.

The estimated outcome of the Deed is as follows:

- The Administrators' fees and expenses for the period during administration and under the Deed Administration will be paid in accordance with the Act;
- Unsecured creditors will receive a dividend in the range of 14 and 33 cents in the dollar as opposed to no return if the Company is wound up; and
- Some value will be retained for the current shareholders of the Company.

11 Estimated Return to Creditors

The following table provides our estimate of the return to creditors should the creditors resolve to wind up the Company:

	Note	Deed Proposal		Liquidation	
		Best case scenario	Worst case scenario	Best case scenario	Worst case scenario
ASSETS					
Cash at bank - Pre-appointment	11.1	3,900	3,900	3,900	3,900
Other Assets	11.2	-	-	-	-
Plant & Equipment	11.3	2,000	-	2,000	-
Liquidator recoveries	11.4	N/A	N/A	-	-
Director/Third Party Contribution		40,000	40,000	N/A	N/A
Estimated value of realisable assets available		45,900	43,900	5,900	3,900
LIABILITIES					
<i>Priority Creditors</i>					
Voluntary Administrators' fees	11.5	30,000	32,000	30,000	32,000
Indemnity received from Director	11.5	(16,000)	(16,000)	(16,000)	(16,000)
Voluntary Administrators' disbursements		3,500	3,500		
Deed Administrators' fees	11.6	15,000	15,000		
Legal fees (associated with preparation of DOCA)	11.7	-	-		
Deed Administrators' disbursements		2,000	3,000		
Liquidators' fees	11.8			30,000	50,000
Liquidators' disbursements				3,000	5,000
Total priority creditors and professional fees and disbursements		34,500	37,500	47,000	71,000
Surplus/(Deficit) available to unsecured unpreferred creditors *		\$11,400	\$6,400	(\$41,100)	(\$67,100)
<i>Unsecured unpreferred creditors</i>					
Estimated unsecured unpreferred creditors	11.9	35,000	45,000	35,000	45,000
Related party unsecured creditors	11.10	-	-	371,000	401,000
Total unsecured unpreferred creditors		35,000	45,000	406,000	446,000
Total surplus/(deficit)		(\$23,600)	(\$38,600)	(\$447,100)	(\$513,100)
Estimated dividend rate per \$1	11.11	\$ 0.33	\$ 0.14	Nil	Nil

We comment on the values disclosed above as follows:

- 11.1 Cash represents the value of cash on hand at the date of appointment.
- 11.2 The Administrators' undertook a sales campaign for the intellectual property of the Company. However, we were unable to specifically identify the procedures and other intangible assets that were wholly owned by the Company and available for sale/assignment by the Administrators.

We were able to confirm that the Company:

- was the registered owner of a registered trademark, Stembank, and
- held a permit with the APVMA for the use and supply of Autologous Equine Stem Cell Therapy which is transferrable if certain requirements are met by the purchaser.

To date we have not received any commercially viable offers for these assets. These items can not be sold at public auction therefore as a matter of caution we have attributed no value to these assets.

- 11.3 The Company had 75 foam medical transportation boxes on hand at the date of our appointment. The boxes facilitate the transportation blood and stem cell samples.

The boxes have a cost value of approximately \$10,000, however they are very specific to the Company's operation and there is a very limited market for these assets. We have instructed Evans & Clarke National to collect the assets however due to the specialised nature of the items there may not be a buyer for the assets.

- 11.4 As discussed in section 9.3 of this report, our preliminary investigations suggest that the Company did not trade whilst insolvent and accordingly there are no voidable transactions or insolvent trading recoveries available to a liquidator.

If a liquidator was able to establish that insolvent trading then the maximum value of the claim would be the value of any debt incurred after that date and which remained outstanding at the date of our appointment.

In the event that insolvent trading could be established it still would not yield a commercial benefit to creditors as the Director would have the right to set off the value of such a claim against any amounts owing to them from the Company. This is reflected in the reduction in the 'related party creditor' value in the best case scenario for liquidation.

- 11.5 At the date of this report our fees for the period 30 March 2010 to 31 May 2010 totalled \$24,133 (excluding GST) we estimate that a further \$6,000 will be incurred in the period 1 June 2010 to 10 June 2010.

We have been indemnified in relation to this Administration. We have received \$16,000 from one of the Directors of the Company as payment towards our professional fees associated with the Administration.

- 11.6 Should creditors vote in favour of the DOCA, we shall seek approval of the Deed Administrators' future fees in the amount of \$15,000 plus GST.

- 11.7 Under the terms of the deed proposal, the legal fees associated with the preparation of the DOCA will be met by the third party to the DOCA.

- 11.8 In the event that creditors vote in favour of liquidation, we shall seek approval of the liquidators' future fees in the amount of \$30,000 plus GST.

- 11.9 The Administrators amended figure represents the value of the Company's unrelated unsecured trade creditors based on the books and records and proof of debts,

received to date plus a provision for additional creditor claims we would expect, from our experience, would become known to us after the date of administration.

- 11.10 Douglas Peter LeMessurier and his related entities had loaned the Company \$401,511.

If the creditors resolve for the Company to execute a DOCA, Douglas Peter LeMessurier will not seek to prove in the dividend, therefore increasing the return to creditors.

- 11.11 We note that our estimated dividend to unsecured creditors is not a guarantee but an estimate based on current information known to the Administrators. The dividend rate to unsecured creditors may vary due to additional claims being received by the Administrators.

12 Statement of Administrators' Opinion

Pursuant to Section 439A of the Act we must set out our opinion about each of the following matters:

- Whether it would be in the creditors' interest for the company to execute a DOCA;
- Whether it would be in the creditors' interest for the administration to end; or
- Whether it would be in the creditors' interest for the company to be wound up.

In our opinion, it is in the best interests of the creditors **that the Company execute a DOCA.**

Our opinion based on consideration of the following:

(a) Execute a DOCA

In our opinion it would be in the interest of the Company's creditors for the Company to execute a deed of company arrangement for the following reasons:-

- (i) No other assets would be recovered by a Liquidator if appointed.
- (ii) The Company shell cannot be sold once the Company is placed into liquidation.
- (ii) We are unaware of any offences that if they were investigated further and prosecuted would lead to further assets being recovered for creditors.
- (iii) Fewer creditors will compete for the limited funds available to creditors and therefore the dividend will be larger than in liquidation.
- (iv) A dividend to creditors will be paid quicker from the DOCA than it would from a liquidation.

The overriding benefit is that the assets can be distributed more quickly and at less administrative cost to creditors.

(b) End the Administration

In our opinion it would not be in the interest of the company's creditors for the administration to be terminated as the company is insolvent and requires an orderly procedure to distribute the assets to those creditors entitled to benefit from their distribution.

(c) Wind up the Company

In our opinion it would not be in the interest of the company's creditors for the company to be wound up for the following reasons:-

- (i) No further assets would be able to be commercially recovered for the benefit of creditors.
- (ii) The cost of administering the winding up of the company will be greater than the cost of the Deed Administration.
- (iii) In a liquidation the directors would not waive any portion of their claim in the estate of the company, thus more creditors (\$ value) would be competing for a dividend paid from reduced available funds.

For the above reasons it is our opinion that it is in the interest of creditors to resolve that the Company execute a deed of company arrangement in the terms of the director's proposal.

In arriving at the above recommendation we have used our best endeavours to investigate the affairs of the company diligently and to recognise the commercial interests of all the creditors of the Company.

13 Voting at Meeting

Any creditor can vote at the meeting who has lodged a proof of debt which has been admitted for voting purposes by the Administrators. A resolution is passed when a majority of the people voting, vote in favour of the resolution. If a poll is demanded, the vote will require the majority in number and the majority in value of debt voting in favour of the resolution. If the poll is tied the administrators are able to determine the result using a casting vote.

Creditors who attended the first meeting of creditors on 11 June 2010 and who submitted a proof of debt to the Administrators are not required to again complete the attached proof of debt form. The first proof of debt form submitted by you is still valid. We do however, require fresh proxy form to be lodged. If you require any assistance in completing either of the forms, please contact Ms Emma Olsen of this office.

14 Administrators' Remuneration

14.1 Administrators' Remuneration

It is our intention to seek approval of our professional fees at the second creditors' meeting.

The Administrator's remuneration sought for the period 30 March 2010 to 31 May 2010 is **\$24,133.00 plus GST** for fees incurred.

It is anticipated that we will incur a further **\$6,000.00 plus GST** for the remainder of the voluntary administration period, that this for the period 1 June 2010 to 10 June 2010.

A summary of the time spent by the Administrators and their staff in the conduct of the Administration for the above period is outlined in the Remuneration Report attached as **Annexure C**. We will also table our full narrated time costs and charges report at the forthcoming meeting of creditors.

14.2 Deed Administrators' Future Remuneration

Should creditors vote in favour of the DOCA we shall propose a resolution to creditors to determine the Deed Administrators' future fees be approved in the amount of **\$15,000.00 plus GST** plus disbursements.

A schedule outlining the future tasks to be performed by the Deed Administrators forms part of the Remuneration Report attached as **Annexure C**.

14.3 Liquidators' Future Remuneration

Should creditors elect to wind up the Company and we are appointed Liquidators, we will seek approval of our future remuneration in the sum of **\$30,000.00 plus GST**. A schedule outlining the future tasks to be performed by us as Liquidators forms part of the Remuneration Report attached as **Annexure C**.

In the event that further fee approval is required we will convene a meeting of creditors or Committee of Inspection to approve additional fees.

15 Summary

We urge you to thoroughly review this report and “Statement of Administrators’ Opinion”. We will answer any queries you may have regarding the information contained in these documents at the second meeting of creditors scheduled for 11 June 2010.

We believe that where possible, all creditors of the Company should attend the meeting of creditors to enable them to ask questions of the Administrators, or the Directors of the Company, and to raise any matters that may enable them to make a correct decision that may materially affect their rights as creditors of the Company.

Should you require any further information in respect of these matters, please do not hesitate to contact Ms Anna Agostino of this office.

Dated this 3rd day of June 2010



TJ CLIFTON & PI MACKS
JOINT & SEVERAL ADMINISTRATORS

ANNEXURE A

VET BIOTECHNOLOGY LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 105 577 017

Declaration of Independence, Relevant Relationships and Indemnities

Independence

We, Timothy James Clifton and Peter Ivan Macks, have undertaken a proper assessment of the risks to our independence prior to accepting the appointment as Administrators of the above Company. This assessment identified no real or potential risks to our independence. We are not aware of any reasons that would prevent us from accepting this appointment.

Relevant Relationships

Neither of us, nor our firm, have, or have had within the preceding 24 months, any relationships with the Company, an associate of the Company, a former insolvency practitioner appointed to the Company, or any person or entity that has a charge on the whole or substantially whole of the Company's property.

There are no other prior professional or personal relationships that should be disclosed.

Prior Engagements with the Insolvent

Neither of us, nor our firm have undertaken any prior engagements for the Company.

There are no other prior professional relationships or engagements that should be disclosed.

Indemnities

We have been indemnified in relation to this Administration. We have received \$20,000 from one of the Directors of the Company as payment of our professional fees associated with the Administration.

DATED this 31st day of March 2010

A handwritten signature in black ink, appearing to read 'TJ Clifton', written in a cursive style.

TJ CLIFTON AND PI MACKS
JOINT AND SEVERAL ADMINISTRATORS

NOTE: *If circumstances change, or new information is identified, we are required under the IPA Code of Professional Practice to update this Declaration and provide a copy to creditors with our next communication as well as table a copy of any replacement declaration at the next meeting of the Company's creditors.*

ANNEXURE B

**VET BIOTECHNOLOGY LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 105 577 017**

Updated Declaration of Independence, Relevant Relationships and Indemnities

Independence

We, Timothy James Clifton and Peter Ivan Macks, have undertaken a proper assessment of the risks to our independence prior to accepting the appointment as Administrators of the above Company. This assessment identified no real or potential risks to our independence. We are not aware of any reasons that would prevent us from accepting this appointment.

Relevant Relationships

Neither of us, nor our firm, have, or have had within the preceding 24 months, any relationships with the Company, an associate of the Company, a former insolvency practitioner appointed to the Company, or any person or entity that has a charge on the whole or substantially whole of the Company's property.

There are no other prior professional or personal relationships that should be disclosed.

Prior Engagements with the Insolvent

Neither of us, nor our firm have undertaken any prior engagements for the Company.

There are no other prior professional relationships or engagements that should be disclosed.

Indemnities

We have been indemnified in relation to this Administration. We have received \$16,000 from one of the Directors of the Company as payment of our professional fees associated with the Administration.

We note that this amount is lower than the amount disclosed in our previous declaration dated 31 March 2010. Following our appointment, it was confirmed that there was \$3,900 in the Company's bank account and the Director providing the indemnity reduced his indemnity accordingly.

DATED this 3rd day of June 2010



TJ CLIFTON AND PI MACKS
JOINT AND SEVERAL ADMINISTRATORS

NOTE: *If circumstances change, or new information is identified, we are required under the IPA Code of Professional Practice to update this Declaration and provide a copy to creditors with our next communication as well as table a copy of any replacement declaration at the next meeting of the Company's creditors.*

ANNEXURE C

**VET BIOTECHNOLOGY LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 105 577 017**

REMUNERATION REPORT

Introduction

In accordance with the guidelines set down by the Insolvency Practitioners Association in its Code of Professional Practice, we hereby provide a Remuneration Report in support of the approval we will be seeking at the meeting of creditors scheduled for Friday, 11 June 2010.

Remuneration Approval – Administrators’ Fees

At the meeting of creditors, we will be seeking approval in the amount of **\$24,133.00 (excluding GST)** for our remuneration for the period 30 March 2010 to 31 May 2010.

Attached to this report is a schedule summarising the work undertaken during this time by each staff member, categorised into a number of key areas. We have also provided a listing of the key tasks which make up each of those categories. Full narratives of the time charged will also be tabled at the meeting of creditors, together with copies of this report.

Remuneration Approval – Administrators’ Future Fees

At the meeting of creditors, we will also be seeking approval for our future fees in the amount of **\$6,000.00** (excluding GST) for the period from 1 June 2010 to 10 June 2010 being the period up to the meeting of creditors.

The work to be conducted during this time is detailed below:

Area of work	Estimated cost (\$)	Tasks required
Statutory & Administrative	4,000	Finalisation of 439A report to creditors; Convene and hold the second meeting of creditors; Listing books and records.
Creditors	500	Deal with creditor correspondence; Receipting and filing of Proof of debt claims; Assisting creditors with proxies.
Assets	1,500	Consideration of the offer received in respect of the Company’s intellectual property; Liaising with potential purchasers.
Total (excluding GST)	\$ 6,000	

We have been indemnified by one of the Directors in the amount of \$16,000 in respect of our professional fees incurred in the voluntary administration period. This indemnity was previously disclosed to creditors in our Declaration of Independence, Relevant Relationships and Indemnities.

Remuneration Approval – Deed Administrators' Future Fees

Should creditors vote in favour of the DOCA we shall propose a resolution to creditors to determine the Deed Administrators' future fees in the amount of **\$15,000 (excluding GST)**.

These fees will cover the cost of the following:

Area of work	Estimated cost (\$)	Tasks required
Statutory & Administrative	8,000	Attending to statutory requirements and lodgements relating to the DOCA; Attending to all matters required under the terms of the DOCA; Prepare and send notice to creditors; Prepare and lodge Business Activity Statements for administration period.
Assets	3,000	Finalisation of contract assets including intellectual property; Liaise with auctioneers in the event assets cannot be sold privately.
Dividend	4,000	Calling for proofs of debt and declaring a dividend to creditors; Adjudicating on proofs of debt. Distributing the DOCA funds.
Total (excluding GST)	\$ 15,000	

Remuneration Approval – Liquidators' Future Fees

Should creditors elect to wind up the Company and we are the appointed liquidators, we shall propose a resolution to creditors to determine the Liquidators' future fees be fixed in the amount of **\$30,000 (excluding GST)**.

These fees will cover the cost of the following:

Area of work	Estimated cost (\$)	Tasks required
Statutory & Administrative	13,000	Statutory and Administrative matters including the lodgement of accounts with ASIC; Prepare and lodge Business Activity Statements; Completion of liquidation checklist; Review records and complete checklist for 533 report; Preparation and lodgement of section 533 report with ASIC; Preparation and lodgement of supplementary report if required.
Creditors	5,000	Deal with creditor correspondence; Receipting and filing of Proof of debt claims; Telephone attendance with creditors; Reporting to creditors.
Preferences	3,000	Reviewing Company's books and records Preparing a preference investigation memo
Insolvent Trading and Other investigations	6,000	Reviewing Company's books and records; Prepare investigation file; Liaising with solicitor regarding findings and outcomes; Finalisation memo and costings.
Assets	3,000	Finalisation of contract assets including intellectual property; Liaise with auctioneers in the event assets cannot be sold privately.
Total (excluding GST)	\$ 30,000	

Previous Remuneration Claims

We note that we have not previously sought creditor approval for our remuneration in this administration.

Queries

If you have any queries in relation to the winding up or the remuneration sought, please contact our office or attend the meeting of creditors.

Information Sheet

The Australian Securities and Investments Commission has prepared information sheets for those affected by a company's insolvency. One of these sheets is entitled "Approving Fees: A guide for creditors" and can be downloaded from the ASIC website at the address shown below.

Alternatively, copies of the guide can be provided by PPB and will be tabled at the meeting of creditors.

<http://www.asic.gov.au/asic/asic.nsf/byheadline/Information+for+creditors?opendocument>

Dated this 3rd day of June 2010

A handwritten signature in black ink, appearing to read 'TJ Clifton', written in a cursive style.

TJ CLIFTON & PI MACKS
JOINT & SEVERAL ADMINISTRATORS

Enc

VET BIOTECHNOLOGY LIMITED
(ADMINISTRATORS APPOINTED)

CALCULATION OF REMUNERATION
FOR THE PERIOD 30 MARCH 2010 TO 31 MAY 2010

Task Area	Time and Value		General description of work which includes
Administrative	Hours	30.20	Filing of documents
	Value	\$5,176.50	Updating checklists
			Bank account reconciliations
			Requesting bank statements
			Discussions regarding status of administration
			Collecting and listing books and records of the Company
			Dealing with records in storage
Asset Realisations	Hours	22.35	Liaise with Bank regarding investments
	Value	6,405.00	Dealing with intellectual property
			Drafting confidentiality agreement and information memorandum
Consulting	Hours	7.65	Discussions regarding the accounting package and data
	Value	\$1,403.00	Acquire forensic images of file server and company PC's
			Reviewing and copying relevant data
Creditors	Hours	3.75	Receive and follow up numerous creditor enquiries via telephone
	Value	\$1,384.00	Review and prepare correspondence to creditors via facsimile, email and post
			Receipting and filing POD's
Debtors	Hours	0.40	Review records for supporting documentation
	Value	\$104.00	
Directors/Bankrupts	Hours	2.70	Dealing with Directors' queries
	Value	\$702.00	Review and prepare correspondence to Directors
Insolvent Trading	Hours	3.00	Conducting investigations
	Value	\$435.00	Reviewing company's books and records
Meetings	Hours	3.05	Preparation of meeting notices, proxies and advertisements for Meeting of Creditors
	Value	\$633.00	Forward notice of meeting to all known creditors
			Preparation of meeting file, including agenda, certificate of postage, attendance register, list of creditors, reports to creditors, advertisement of meeting and draft minutes of meeting
			Prepare and lodge minutes of meetings with ASIC
Other Investigations	Hours	0.40	Preparing investigation checklist.
	Value	\$104.00	Dealing with shareholder queries
Statutory	Hours	33.40	Preparation and lodgement of form 524 with ASIC
	Value	\$7,786.50	Correspondence with ASIC regarding statutory forms
			Preparation and lodgement of Business Activity Statements
			Preparation of remuneration report and schedules
			Preparation of 439A report
			Investigations for 439A report
Total	Hours	106.90	
	Value	\$24,133.00	

CALCULATION OF REMUNERATION FOR THE PERIOD 30 MARCH 2010 TO 31 MAY 2010

S:\client\VETBI1\VETBI_Remuneration Report 2_06_10

VET BIOTECHNOLOGY LIMITED
(ADMINISTRATORS APPOINTED)

CALCULATION OF REMUNERATION
FOR THE PERIOD 30 MARCH 2010 TO 31 MAY 2010

Employee	Position	Task Area									
		Directors/Bankrupts		Insolvent Trading		Meetings		Other Investigations		Statutory	
		Hours	\$	Hours	\$	Hours	\$	Hours	\$	Hours	\$
Clifton, Tim	Partner									3.90	\$1,755.00
Hall, Mark	Partner									0.10	\$45.00
Macks, Peter	Partner									0.80	\$360.00
Miller, Simon	Director										
Anna Agostino	Supervisor	2.70	\$702.00			1.45	\$377.00	0.40	\$104.00	13.00	\$3,380.00
Muhideen, Sheik	Senior Business Analyst										
Allman, Julie	Senior Administration										
Boyle, Ashleigh	Senior Administration									0.20	\$32.00
Ferber, Janet	Senior Administration										
Olsen, Emma	Senior Administration					1.60	\$256.00			0.60	\$96.00
Scali, Melissa	Senior Administration									0.10	\$16.00
Djakovic, Andrej	Business Analyst			2.50	\$362.50					14.50	\$2,102.50
Zakrzewski, Michal	Business Analyst			0.50	\$72.50						
Robinson, Beverley	Clerk										
		2.70	\$702.00	3.00	\$435.00	3.05	\$633.00	0.40	\$104.00	33.40	\$7,786.50