COPY

Grant Thornton

Grant Thornton Corporate Services (WA) Pty Ltd

The Directors
Waymouth Resources Limited
Level 2, 99 Frome Street
ADELAIDE SA 5000

4 December 2003

Dear Sirs

INDEPENDENT EXPERTS REPORT

1. Introduction

The directors of Waymouth Resources Limited ("WAY" or "the Company") have instructed Grant Thornton Corporate Services (WA) Pty Ltd ("GTCS") to prepare an independent expert's report in relation to the transaction summarised below. This report has been prepared in accordance with ASIC Policy Statement 74 (Acquisitions Agreed to by Shareholders) and Section 611 of the Corporations Act 2001 ("the Act") and will form part of the information that must be provided to WAY shareholders under ASIC Policy Statement 74.

The report is to be prepared in relation to the proposed transaction which can be summarised as follows:

- WAY and Living Cell Technologies Pty Ltd (LCT) shall enter into a Share Purchase Agreement ("SPA") whereby WAY will acquire the remaining 86.1% of the issued capital of LCT that is does not already own;
- In consideration, WAY will issue the shareholders of LCT 17 WAY shares for every 10 LCT shares held (approximating the issue of 35.1 million WAY shares) and 17 WAY options for every 10 LCT options held;
- The LCT directors are to be appointed to the board of WAY on completion of the proposed transaction and the current WAY directors will resign at completion of the proposed transaction; and
- At completion of the proposed transaction, WAY will change its name to Living Cell Technologies Limited.

This report is to accompany a Notice of Meeting and Explanatory Memorandum to be sent to WAY shareholders. Further details regarding the proposed transaction are included within the Notice of Meeting and Explanatory Memorandum.

2. Purpose of Report

The purpose of the report is to advise whether the proposed transaction is fair and reasonable to the non-associated shareholders of WAY. The report has been prepared pursuant to the requirements of Section 611 of the Act.

The report is to be included in a Notice of Meeting to WAY shareholders and has been prepared for the exclusive purpose of assisting WAY's independent directors and non-associated shareholders with their assessment of the proposed transaction.

Level 6
256 St George's Terrace
Perth Western Australia 6000
Postal Address: GPO Box P1213
Perth WA 6844 Australia
T 61 8 9481 1448
F 61 8 9481 0152
E corpserv@gtwa.com.au
W www.grantthornton.com.au

Grant Thornton Corporate Services (WA) Pty Ltd
ABN 71 009 134 427

A Member of Grant Thornton Association Inc.
The Australian Member of Grant Thornton International

Grant Thornton

3. Executive Summary

In our opinion, the proposed transaction will be fair to the non-associated shareholders of WAY if

- The value of WAY shares offered (consideration) is less than or equal to the value of the remaining 86.1% interest in LCT to be acquired; and
- The intellectual property, patents and trademarks held by LCT has a minimum value equivalent to the amount it was acquired for in October 2003, being $6.4 million.

In the event that LCT's intellectual property, patents and trademarks are worth substantially less (in the order of 10% or greater) than $6.4 million then the transaction may not be construed as being fair to the WAY shareholders.

Any value attributable to these intangible assets of LCT will be underpinned by their future capabilities and revenue generating ability. In considering the fairness of the proposed transaction, both WAY and LCT have been valued on the basis of their net assets and for LCT this has included an imputed value for its intellectual property, patents and trademarks equivalent to the arms length purchase price paid for their acquisition from a third party, Diatranz, in October 2003.

No formal independent expert valuation of LCT's intellectual property, patents and trademarks has been commissioned by Grant Thornton Corporate Services (WA) Pty Ltd or the directors of WAY and LCT Ltd.

We would point out to the readers of our report that:

- Neither the directors of WAY or LCT are able to provide us with future cash flows for LCT on a reliable basis to allow a discounted cash flow to be prepared with any reasonable degree of certainty;
- The directors of LCT have made available the Independent Experts Report prepared by Acuity Technology Management in June 2003 which provides a recent review of the technical status of the biotechnology project;
- The subject intellectual property changed ownership on an arms length basis as confirmed by the directors of WAY and LCT in a transaction completed in October 2003 for a purchase price in the order of $6.4 million;
- The level of expenditure incurred with respect to the intellectual property prior to the transaction (immediately referred to above) was in the order of AU$9.7 million; and
- Given the early stages of development of the biotechnology project and the future intentions and commercialisation strategy of LCT as outlined in the Notice of Meeting and Explanatory Memorandum, we consider that it would not be unreasonable for any other third party seeking to pursue the same activity and future development of the project to have had to spend at least an equivalent amount of the expenditure to bring the project to its current position.

We have had regard to the various advantages and disadvantages of the proposed transaction, in arriving at our opinion on whether the proposed transaction is reasonable to the non-associated WAY shareholders.

Our opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions, particularly share prices, investor expectations and the industry in which WAY and LCT operate can change significantly over relatively short periods of time and can impact any valuation assessment.

In arriving at our opinion, we have had regard to the following:

Fairness

The proposed transaction is considered fair to the non-associated shareholders of WAY, if the assessed value of the 35.1 million fully paid ordinary shares of WAY issued to shareholders of LCT, is equal to or less than the assessed value of the interest in LCT, being 86.1% of the issued capital of LCT, to be acquired by WAY.

Grant Thornton

A comparison of the consideration offered to WAY and the value of an equity interest in LCT is summarised below:

	Detailed Report Ref	Preferred assessment $000
Value of shares in WAY offered as consideration:		
[Net asset basis]	7.1.5	
- 35.1m WAY shares	Appendix 3	5,974
Value of interest in LCT to be acquired by WAY:		
[Net asset basis]	7.2.5	
- 86.1% of LCT	Appendix 4	6,202

Based on the table above, in our opinion the proposed transaction is fair at the preferred value having regard to the interests of the non-associated shareholders of WAY.

The preferred value assumes that the intellectual property, patents and trademarks held by LCT will command a value in the order of $6.4 million, equivalent to the amount LCT acquired the same for on an arms length basis in October 2003. Normally, it would be appropriate to a value an early stage development company such as LCT on the basis of the present value of its expected future cash flows. LCT has incurred operating losses since its inception, has limited capital resources and does not expect to generate revenues for approximately two to four years. The LCT directors are unable to predict, with any certainty, the future cash flows of LCT due its early stage of development and as a result we have been unable to apply this methodology to our valuation process.

In assessing the fairness of the proposed transaction, it can be considered fair if the value of the intellectual property is equivalent to or greater than $6.4 million as this value indirectly flows proportionately to WAY shareholders as a consequence of their 13.9% interest in LCT. If the value of LCT's intellectual property is worth substantially less (in the order of 10% or greater) then the proposed transaction would not appear to be fair to the non associated WAY shareholders.

Grant Thornton

The table below shows the impact of the proposed transaction on the value of one WAY share pre and post transaction.

	Report Reference	Value of one WAY share
PRE-TRANSACTION Assessed value of one WAY share – asset basis	7.1.3 Appendix 3	$0.17
POST-TRANSACTION		
Net asset value of LCT		$7,286,916
Net asset value of WAY		$2,308,293
Adjustment for LCT investment in WAY balance sheet		($1,133,045)
Value post-transaction		$8,462,164
Number of WAY shares on issue post-transaction		47,930,902
Assessed value of one WAY share post-transaction		$0.18
Increase in assessed value per share as a result of transaction		$0.01

The comparison of pre and post transaction values per WAY share indicates an increase of 1 cent per share.

The proposed transaction, if approved by non-associated shareholders of WAY, will result in an expanded capital base of the Company, as detailed below:

	Number of Ordinary Shares
Existing shares of WAY - pre-transaction	12,787,500
WAY shares to be issued to LCT shareholders - subject to WAY shareholder approval	35,143,402
Shares of WAY - post transaction	47,930,902

Grant Thornton

The shareholding of LCT in WAY, if the proposed transaction is approved, will result in existing LCT shareholders obtaining a 73.3% interest in the expanded capital base of WAY as follows:

	WAY shares held pre-transaction	WAY shares held post-transaction	Percentage ownership post-transaction
LCT shareholders	-	35,143,402	73.3%
WAY shareholders	12,787,500	12,787,500	26.7%
	12,787,500	47,930,902	100%

The above table assumes the WAY and LCT options on issue are not exercised prior to the proposed transaction completing. Additionally, it assumes that the LCT convertible loan stock is not converted prior to completion of the proposed transaction.

Further in assessing the fairness of the proposed transaction, we have ascribed no value to the WAY or LCT options (referred to in Sections 3.2 and 4.3 of our detailed report). If under the Black & Scholes option pricing model, which requires a number of subjective assumptions, values were to be ascribed to WAY and LCT options, using the assumptions set out in Appendix 9 of our report, our conclusion regarding fairness would not change.

Reasonableness

In assessing whether the proposed transaction is reasonable, we have considered the potential advantages and disadvantages to the non-associated shareholders of WAY of the proposed transaction and considered whether the advantages outweigh the disadvantages.

The primary advantages if the proposed transaction does proceed:

- Potential for the Company to develop and commercialise products for the treatment of diabetes and haemophilia. This could possibly lead to future revenues for the company and its shareholders in the longer term.
- Acquire 100% ownership of LCT rather than a minority interest of 13.9%.
- A new board, comprising members with the appropriate knowledge and understanding of the biotechnology industry.
- Shareholders will potentially maintain an interest in a company listed on the Newcastle Limited Stock Exchange with a biotechnology project.
- As LCT is an operating Company and WAY has not yet effectively traded, the proposed transaction may increase the liquidity of the issued shares not held in Escrow.
- There is no deterioration in the value per share on a net asset backing basis for a WAY shareholder if the proposed transaction is completed.

The primary disadvantages if the proposed transaction does proceed:

- Dilution in existing WAY shareholder's interest in the Company from 100% to 26.7%.
- Greater exposure to underlying operating and market risk associated with investments in the biotechnology sector.

The primary advantages if the proposed transaction did not proceed:

- No dilution of existing WAY shareholders interest in the Company.
- Possibility of future returns from resource exploration activities that might be undertaken by the Company under its current structure.

Grant Thornton

The primary disadvantages if the proposed transaction did not proceed:

- Greater exposure to the potential underlying operating and market risk associated with investments in companies focused on early stage resources exploration activity.
- The prospect of a continuation of a lack of trading and liquidity in the Company's shares if applications for and activity in resource exploration projects are delayed or unsuccessful.

Significant Risks

We draw WAY shareholders attention to the significant risks involved in the proposed transaction which include:

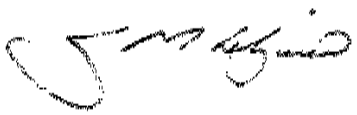
- Political risks eg: unforeseen Government legislation affecting the use of xenotransplantation in different countries;
- Delays in development and commercialisation due to slow regulatory approval. This could lead to a requirement for funding at a higher level than anticipated;
- Unpredicted technical factors including setbacks during clinical trials;
- Competitors developing successful products faster that LCT;
- Inability to raise further funding for future research and product commercialisation;
- LCT experiencing product liability claims for adverse reactions during clinical trials. LCT may not be able to source appropriate insurance cover to meet all of these potential liabilities;
- Rejection of certain patents pending approval due to similar research by competitors;
- Loss of key staff; and
- The outbreak of a disease within LCT's pig herd.

Further, draw reader's attention to the Risk Analysis included in Section 4.9 of the Notice of Meeting and Explanatory Memorandum which should be read in conjunction with our report.

Having regard to the above advantages and disadvantages, we consider the proposed transaction to be reasonable to the non-associated shareholders of WAY.

This opinion should be read in conjunction with the attached report, which outlines our detailed findings and the scope of the report.

Yours faithfully
Grant Thornton Corporate Services (WA) Pty Ltd



Greg LeGuier
Director

TABLE OF CONTENTS

APPENDICES

ABBREVIATIONS

Act	The Corporations Act 2001
WAY or the Company	Waymouth Resources Limited
ASIC	Australian Securities and Investments Commission
DCF	Discounted Cash flow
Diatranz	Diatranz Limited (NZ)
GM	General Meeting
GTCS	Grant Thornton Corporate Services (WA) Pty Ltd
GT	Grant Thornton
HoA	Heads of Agreement dated 15 October 2003
LCT	Living Cell Technologies Pty Ltd
NAB	Net Asset Backing
NPV	Net Present Value
NSX	The Stock Exchange of Newcastle Limited
Section 611	Section 611 of the Corporations Act 2001
SPA	Draft share Purchase Agreement

1 OUTLINE OF THE PROPOSAL

1.1 Proposed Transaction

The terms of the proposed transaction are described in the Heads of Agreement (HoA) dated 15 October 2003 between WAY and LCT and were initially announced to the NSX on the same day.

The proposed transaction can be summarised as follows:

- WAY and LCT shall enter into a Share Purchase Agreement ("SPA") whereby WAY will acquire the remaining 86.1% of the issued capital of LCT that is does not already own;
- In consideration, WAY will issue the shareholders of LCT 17 WAY shares for every 10 LCT shares held (approximating the issue of circa 35.1 million WAY shares) and 17 WAY options for every 10 LCT options held;
- The LCT directors are to be appointed to the board of WAY on completion of the proposed transaction and the current WAY directors resign at completion; and
- At completion of the proposed transaction, WAY will change its name to Living Cell Technologies Limited.

Should the proposed transaction proceed, then the new capital structure of WAY will be as follows:

	Pre-transaction	Proposed transaction	Post-transaction
WAY Ordinary Shares	12,787,500	35,143,402	47,930,902
WAY Options	1,000,000	12,336,150	13,336,150

1.2 Conditions to the Transaction

The proposed transaction is subject to the following conditions precedent:

- Approval by WAY shareholders at an AGM to be convened on or about 5 January 2004;
- Completion of due diligence to the satisfaction of WAY and LCT directors;
- WAY shareholder approval of the transaction and the proposed change in the focus and scale of WAY's activities;
- Approval of the transaction by LCT's largest shareholder, Diatranz, who own 41.7% of the issued share capital of LCT; and
- The parties entering into a SPA.

Shareholders should note that at the date of this report the above conditions precedent that have been satisfied are the satisfactory completion of due diligence, the preparation of the SPA, and we are advised that 75% of the Diatranz shareholders have indicated their intention to give approval to the transaction.

It is proposed that the WAY shares to be issued to LCT shareholders pursuant to the proposed transaction may not be sold for twelve months from the date on which the shares are issued, except where WAY and NSX agree otherwise. Accordingly, it is proposed that these shares will be held in an ESCROW account for twelve months.

Diatranz will be permitted to sell WAY shares as necessary to pay its creditors and will also be permitted to distribute the remaining shares in specie after settlement of these debts to its shareholders. The shares distributed to Diatranz shareholders will be held in ESCROW for twelve months from the date of issue to Diatranz. Following the distribution of WAY shares to Diatranz shareholders, it is proposed that Diatranz will be liquidated.

2 SCOPE OF THE REPORT

2.1 Purpose of the Report

Under Section 606 of the Act and subject to certain exceptions, an entity is prohibited from acquiring a relevant interest in the issued voting shares of a listed company if, because of the acquisition, the voting power of the entity and its associates in the company increases from below 20% to above 20%. An exception to Section 606 is for the acquisition to be approved by shareholders of the company under Section 611 of the Act.

Following the proposed transaction to which this report relates, the individual voting power of LCT shareholders in WAY will increase from nil to 73.3%. If current and proposed WAY options on issue are called then the voting power of LCT shareholders in WAY will increase to 79.3%. Hence, approval for the proposed transaction is being sought under Section 611 of the Act.

Under the Australian Securities and Investments Commission ("the ASIC") policy statements, resolutions proposed for Section 611 purposes are generally required to be accompanied by an independent expert's report which is to provide an opinion as to whether or not the proposed transaction is fair and reasonable to the non-associated shareholders of the company subject to the transaction. Accordingly, the purpose of our report is to provide such an opinion in relation to the issue of shares to LCT shareholders by WAY under the proposed transaction. Consideration is also required as to whether a premium for control under the terms of the proposed transaction is being paid.

In ASIC Policy Statement 74, the ASIC has set out, inter alia, the minimum information it considers should be provided to shareholders in order to assist them in deciding whether or not to approve a transaction (under Section 611 of the Act). ASIC Policy Statement 74 is applicable to independent expert's reports provided in connection with the acquisition of a relevant interest in the voting shares of a listed public company.

2.2 Basis of Evaluation – Fair & Reasonable

The key issue to consider, in terms of ASIC Policy Statement 74, in assessing whether the proposed transaction is fair and reasonable to the non-associated shareholders, is whether, having regard to all the circumstances of the proposal, those shareholders will be no worse off if the transaction does proceed than if it does not proceed.

The Act provides no definition as to the meaning of fair and reasonable. ASIC Policy Statement 74 does provide guidelines, which state that fairness relates to price whereas reasonableness will include the consideration of factors other than price.

ASIC Policy Statement 74 states that what is fair and reasonable for non-associated shareholders should be judged in all the circumstances of the proposal, with a comparison made of the likely advantages and disadvantages for the non-associated shareholders if the proposal does or does not proceed. Comparing the value of the assets to be disposed of under the proposed transaction with the value of the consideration received would be only one element of this assessment.

Generally, a transaction will be fair and reasonable where the advantages of the transaction proceeding outweigh the disadvantages.

In determining whether the proposed transaction is fair and reasonable we have undertaken the following:

- estimated the value of the consideration offered by WAY, being approximately 35.1 million fully paid ordinary WAY shares;
- estimated the value of the interest in LCT, being an 86.1% equity interest in LCT, to be acquired by WAY;
- compared the value of the consideration offered by WAY with the value of the interest in LCT (that is "fairness");
- considered other potential advantages and disadvantages to the non-associated shareholders of the proposed transaction (that is "reasonableness"); and
- estimated the amount of any premium for control that might apply to this transaction.

ASIC Policy Statement 74 requires that the expert give an opinion as to whether the proposed transaction will result in any premium for control. In giving their opinion, the expert should:

- quantify any premium; and
- set out reasons for forming that opinion and why under the circumstances it is appropriate to regard any benefit as constituting a premium for control.

In determining whether a control premium will exist as a result of the proposed transaction, we have considered the requirements of ASIC Policy Statement 74 as detailed above, and have concluded that as a consequence of the proposed change in the Board of WAY, control will be effectively passed through to the LCT shareholders as it is proposed pursuant to the terms of the proposed transaction to replace the current WAY directors with the LCT directors referred to in Section 8.2.3 of our report.

On the preferred value basis, WAY has offered no premium to LCT as the assessed value of the consideration is less than the assessed value of the interest in LCT to be acquired. Further, LCT offers a small premium, in the order of 5%, to the WAY shareholders in terms of the excess of the assessed value of LCT being acquired in exchange for the allotment of WAY shares.

WAY, with the exception of its 13.9% interest in LCT, is effectively a cash box listed on the NSX with limited trading in its shares to date. LCT's primary asset, with the exception of some property plant and equipment and net liquid assets, is the underlying intellectual property, patents and trademarks associated with the biotechnology project. Pursuant to the terms of this proposed transaction, WAY is simply acquiring the remaining 86.1% interest in LCT.

Given that the proposed transaction contemplates consolidation of 100% of LCT into WAY and, with the exception of its own minority interest in LCT, WAY's only other significant asset is cash, we believe that little or no control premium is applicable to the proposed transaction.

3 PROFILE OF WAY

3.1 Company History & Activities

WAY is a public company listed on the Stock Exchange of Newcastle Limited (NSX) and was incorporated on 17 March 2003 and listed on the NSX on 2 October 2003.

The Company proposed to commence activities as a junior resources explorer.

To date, no exploration activities have been undertaken. The Company has applied for an Exploration License Application 53/03 Holowilena over an area of 752 square kilometres in the Southern Flinders ranges, South Australia. The Company's activities have been limited to date and include its formation, listing on the NSX, and the application for an Exploration License.

The directors have advised us that if the proposed transaction is completed, the Company will cease to have a focus on geological exploration and intends to drop all Exploration License Applications. This change in the nature of the Company's activities is to be approved by the WAY shareholders at an AGM on or around 5 January 2004.

3.2 Capital Structure

As at 14 November 2003, WAY had 12,787,500 ordinary shares on issue.

The top 5 shareholders at 14 November 2003 were:

	Number of shares	Percentage
McKell Place Nominees Pty Ltd	400,000	3.1%
Simon T O'Loughlin[1]	300,000	2.3%
I E Properties Pty Ltd	225,000	1.8%
Whitesand Investments Pty Ltd	225,000	1.8%
Diskdew Pty Ltd	200,000	1.6%
	1,350,000	10.6%

Source: WAY Shareholder Register at 14 November 2003

Notes to Capital Structure

(1) Mr O'Loughlin is a director of WAY.
(2) The balance of the Company's shares (89.4%) are held by two hundred and seventy eight shareholders and limited trading in the Company's shares has been noted on NSX since the listing date with 20,000 shares traded at $0.22 on 14 November 2003.
(3) The proposed transaction provides that WAY will issue 35,143,402 shares to LCT shareholders.

Options on issue

WAY also has 1,000,000 unlisted options on issue at an exercise price of $0.22 per option. These options expire on 30 June 2008. At the date of this report, none of these options had been exercised.

3.3 Directors

At the date of this report, the names of the directors of WAY are:

- Simon T O'Loughlin;
- Peter E Cox; and
- Donald C Stephens.

Through a personal holding and a related entity (Billy Chow Chow Pty Ltd), Mr Cox owns 156,250 WAY shares, or 1.2% of the issued share capital of WAY. Mr Stephens owns 125,000 WAY shares. The directors were issued 500,000 WAY shares in April 2003 at a nominal cost of $5 as follows:

Director	Number of Shares Issued	Subscription Price (cents per share)
Simon T O'Loughlin	250,000	0.001
Peter E Cox	125,000	0.001
Donald C Stephens	125,000	0.001

Source: WAY Shareholders Register at 14 November 2003

3.4 Financial Performance of WAY

The unaudited financial results of WAY for the period from incorporation to 30 June 2003 and from 30 June 2003 to 24 October 2003 are summarised in the table below:

Financial Performance of WAY	Note	Period to 24 October 2003 $	Period to 30 June 2003 $
Interest received	1	4,173	68
Total Revenue		4,173	68
Overheads	2	(9,247)	(3,645)
Loss from ordinary activities before income tax		(5,074)	(3,577)

Source: Unaudited Financial Statements for the periods ended 30 June 2003 and 24 October 2003

Notes to Financial Performance

(1) Revenue

As the company has not traded since incorporation its only revenue has come from interest received on funds on hand.

(2) Overheads

Since incorporation, the main expenses incurred by the Company have been in respect of Exploration License Applications ($3,243); Stock Exchange fees ($4,157) and Accountancy/Secretarial fees ($5,000).

3.5 Financial Position of WAY

The unaudited Statement of Financial Position of WAY as at 30 June 2003 and 24 October 2003, is summarised below.

Financial Position of WAY	Note	As at 24 October 2003 $	As at 30 June 2003 $
CURRENT ASSETS			
Cash assets (A)	1	1,197,695	17,668
Receivables (B)		2,750	-
Investments	2	1,133,045	-
Other		11,654	1,124
TOTAL CURRENT ASSETS		2,345,144	18,792
TOTAL ASSETS		2,345,144	18,792
CURRENT LIABILITIES			
Payables		16,351	-
Accrued Expenses		20,500	-
TOTAL CURRENT LIABILITIES (C)		36,851	-
TOTAL LIABILITIES		36,851	-
NET ASSETS		2,308,293	18,792
Number of ordinary shares on issue (D)		12,787,500	687,500
NAB per share (cents) as at period end		18.1	2.7
Net cash backing per share (cents) [(A+B-C)/D]		9.1	2.6

Source: Unaudited Financial Statements for the periods ended 30 June 2003 and 24 October 2003.

Notes to Financial Position

(1) Cash Assets
The cash assets of the Company increased due to an issue of 12.1 million ordinary shares in the Company at a price of $0.20 on 25 September 2003.

(2) Investments
The Company acquired 3,332,353 ordinary shares in LCT at a cost of $0.34 per share (total cost of $1,133,045). This represents 13.9% of the current issued share capital of LCT and was part of a $2 million fundraising exercise by LCT. This acquisition was announced to the NSX on 15 October 2003.

(3) Fund raising costs
The Company has written-off $133,061 of fundraising costs against issued share capital during the period to 24 October 2003.

4 PROFILE OF LCT

4.1 Company History & Activities

LCT is a privately owned company that develops and markets treatments for diabetes and haemophilia. The company was incorporated on 23rd October 2002 and until 23 June 2003 was called Diatranz Australia Pty Ltd. LCT's head office is based in Adelaide and it also has operations in New Zealand.

LCT's technology is based on the use of a transplantation process using living cells placed within an immune barrier to treat diseases such as diabetes and haemophilia.

Living cell techniques are similar to blood transfusion and bone marrow transplants in that they involve taking a cell from one body and transplanting it to another. Through extensive research using living cell techniques, LCT now has two products that it hopes to take to market:

Product	Target Disease
FacBcell	Haemophilia
DiaBcell	Diabetes

Both products are in the early stages of clinical trials and if they are successfully approved it is LCT's intention to commercialise the products through dedicated therapy centres. LCT hopes to receive a combination of licensing and royalty revenues from both products in the longer term.

The technology and research for these products was developed by Diatranz Ltd (Diatranz), a New Zealand based company. The product development side of the business will now be run from Australia whilst the cell sourcing will continue to be facilitated in New Zealand. The New Zealand side of the business has access to a pathogen free pig herd which is key to LCT achieving success in the long term.

On 17 October 2003, LCT acquired, on an arms length basis, the business and assets of Diatranz. A summary of the acquisition of the Diatranz business and assets is noted as follows:

Diatranz Acquisition	$
Assets acquired by LCT:	
- Property plant and equipment at book value	691,802
- Cash at bank	6,050
- Intellectual property, patents and trademarks	6,411,559
Total assets acquired by LCT	7,109,411
Consideration:	
Allotment of 10 million shares in LCT at $0.34 per share*	3,400,000
Allotment of 302,971 shares in LCT at $0.35 in settlement of unsecured loans in Diatranz Ltd*	106,040
Allotment of 3,694,923 shares in LCT at $0.35 in satisfaction of secured loans in Diatranz Ltd*	1,293,223
Allotment of convertible notes in LCT in settlement of secured loans in Diatranz Ltd*	1,080,682
Repayment of loan to Diatranz Ltd as part-consideration of acquisition*	1,229,466
Total consideration received by Diatranz	7,109,411

* - Refer to Section 4.3 of this report.

The above values for plant and equipment have been arrived at by reference to the depreciated written down value of the Diatranz assets. No independent valuation of the plant and equipment was carried out at the time of acquisition and the LCT directors believe that the values attributed to the assets represent fair economic value to LCT.

The directors of LCT have advised that the valuation and acquisition of Diatranz was on an arms length basis and based on negotiations around the amount of equity funds Diatranz had raised until October 2003 which was in excess of NZ$7.5 million (net of fundraising costs). The unaudited balance sheet of Diatranz as at 30 September 2003, which is shown at Appendix 6, shows that Diatranz had received finance at that time of approximately NZ$11.2 million as follows:

	$ million NZD
Equity finance	10.3
Debt finance	3.7
Fund raising costs	(2.8)
Funding net of costs	11.2

Source: Unaudited Management Accounts of Diatranz Limited for the period ended 30 September 2003

4.2 Directors

At the date of this report, the names of the Directors of LCT are:

- Emeritus Professor Bob Elliot;
- Mr David Collinson; and
- Mr Roger Coats.

4.3 Capital Structure

As at the date of this report, LCT had 24,004,942 ordinary shares on issue. The top five shareholders in LCT are:

Shareholders	Number of Shares	Percentage of total shares on issue
Diatranz Limited	10,000,000	41.7%
K One W One Limited	4,068,491	16.9%
Waymouth Resources Limited	3,332,353	13.9%
Graham & David Collinson	3,077,063	12.8%
M Cooper Nominees Pty Ltd	735,294	3.1%
Total top five shareholdings/interests	21,213,201	88.4%
The remaining 11.6% of issued LCT shares are held by 23 shareholders		

Source: LCT Shareholders Register as at 14 November 2003

The proposed transaction provides that WAY will acquire the remaining 20,672,589 shares in LCT that it does not already own.

A summary of the LCT shares on issue and methods of subscription for these shares are shown as follows:

Method of Subscription	Amount raised	Number of shares issued	Subscription price per share
Cash	$3,279,396	9,645,282	$0.34
Diatranz acquisition*	$3,400,000	10,000,000	$0.34
Satisfaction of unsecured loan – Diatranz acquisition*	$106,040	302,971	$0.35
Satisfaction of secured loan – Diatranz acquisition*	$1,293,223	3,694,923	$0.35
Payment of professional fees	$123,001	361,766	$0.34
	$8,201,659	24,004,942	

* - refer to Section 4.1 of our report

Source: LCT Shareholders Register as at 14 November 2003.

LCT also has a number of options on issue against unissued share capital as follows:

Class of Option	Number on Issue	Exercise Price	Comments
A	2,125,000	$0.35	Can be called at any time until 30 June 2010 and have been issued for a price of $0.01.
B	5,131,559	$0.35	Partially exercisable on an increasing scale of 25% increments corresponding to the level of funds raised by the company. Expiry date of these options is 30 June 2010.
	7,256,559		

Source: LCT Shareholders Register as at 14 November 2003 and LCT Information Memorandum dated 18 August 2003

As part of the Diatranz acquisition, LCT also issued cumulative unsecured redeemable convertible notes to the Avery Foundation in settlement of debts owing to it by Diatranz Ltd. These can be summarised as follows:

Class	Value	Conversion Price	Interest Rate	Term
A	$184,417	$0.35	5%	Earlier of 5 years or LCT raising $3m from investors from 21 March 2003.
B	$680,129	$0.35	5%	Earlier of 5 years or for each incremented amount of $1m the company raises from $3m to $9m the Avery Foundation will redeem $113,354.83.
C	$216,136	$0.35	5%	5 years
	$1,080,682			

Source: LCT Information Memorandum of 18 August 2003.

The terms of the A and B class convertibles provide that should LCT list on a prescribed Stock Exchange, the amounts will be repayable within seven days. The directors of LCT do not consider that the proposed transaction is a listing of LCT and accordingly does not trigger the repayment of these amounts, but rather WAY is acquiring LCT and LCT's shares will be wholly owned by WAY.

The terms of all convertible notes provide that the holder of the notes may request that the interest is paid through the issue of further share capital in LCT.

On the basis of a conversion price of $0.35 per share, the convertible loan instruments equate to 3,087,663 shares in LCT if full conversion takes place.

4.4 Financial Performance of LCT

The unaudited financial results of LCT for the period since incorporation to 30 June 2003 and for the period ended 24 October 2003, are summarised in the table below:

Financial Performance of LCT	Period to 24 October 2003 $	Period to 30 June 2003 $
Revenue from sales	84	-
Other income	22,548	50,020
Total income	22,632	50,020
Overheads		
- Distribution expenses	(245)	-
- Marketing expenses	-	(14,000)
- Occupancy expenses	(66)	-
- Administrative expenses	(79,407)	(767)
- Other expenses from ordinary activities	(477,480)	(415,431)
Total overheads	(557,198)	(430,198)
Net loss from ordinary activities	(534,556)	(380,178)

Source: Unaudited Financial Statements for the periods ended 30 June 2003 and 24 October 2003.

Note to Financial Performance

(1) Included in the loss from ordinary activities for the period to 24 October 2003 are restructuring costs of $120,000 relating to the Diatranz acquisition.

4.5 Financial Position of LCT

The unaudited Statement of Financial Position of LCT as at 30 June 2003 and 24 October 2003 is summarised in the table below:

Financial Position of LCT	Note	24 October 2003 $000	30 June 2003 $000
CURRENT ASSETS			
Cash assets (A)	1	1,405	1
Receivables (B)		77	967
TOTAL CURRENT ASSETS		1,482	968
NON CURRENT ASSETS			
Property, plant and equipment	2	709	-
Intellectual property, patents and trademarks	3	6,412	-
TOTAL NON CURRENT ASSETS		7,121	-
TOTAL ASSETS		8,603	968
CURRENT LIABILITIES			
Payables		216	348
Provisions		19	-
TOTAL CURRENT LIABILITIES (C)		235	348
NON CURRENT LIABILITIES			
Interest bearing liabilities (D)	4	1,081	-
TOTAL NON CURRENT LIABILITIES		1,081	-
TOTAL LIABILITIES		1,316	348
NET ASSETS		7,287	620
Number of ordinary shares on issue at 24 October 2003		24,004,973	2,943,038
NAB per share (cents) at 24 October 2003		30.4	0.02
Net cash backing per share (cents) [(A+B-C-D)/E]		0.7	0.02

Source: Unaudited Financial Statements for the periods ended 30 June 2003 and 24 October 2003.

Notes to Financial Position

(1) **Cash assets**
The improvement in the cash assets is principally as a result of LCT raising further equity funds from investors and the offset of the Diatranz acquisition (refer to Sections 4.1 & 4.3 of our report).

(2) **Plant & equipment**
This increase relates mainly to the tangible assets acquired from Diatranz (refer to Section 4.1 of our report).

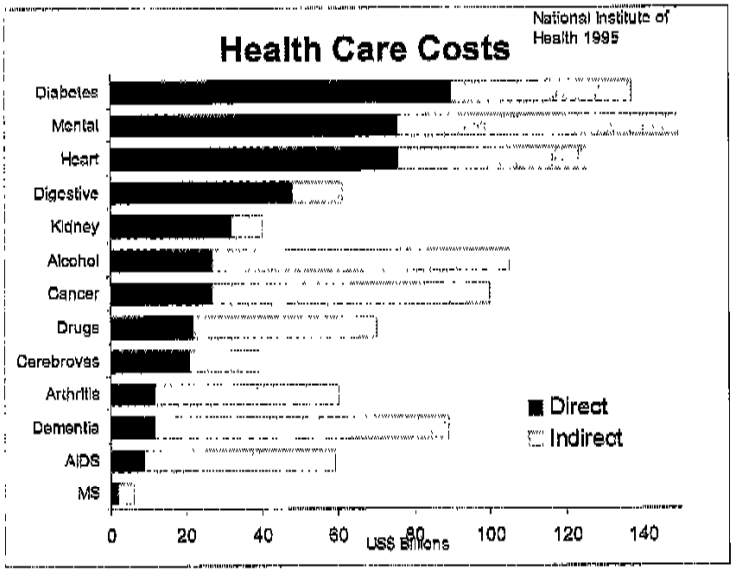
(3) **Intellectual property, patents and trademarks**
This amount relates to the intangible assets acquired as part of the Diatranz acquisition (refer to Section 4.1 of our report).

(4) **Interest bearing liabilities**
This relates to the issue of convertible notes issued as part of the Diatranz transaction (refer to Section 4.1 of our report).

5 PROFILE OF THE HAEMOPHILIA AND DIABETES SECTORS

5.1 Introduction

LCT's core focus is on the development of cell-based therapeutic treatments for autoimmune and neurodegenerative diseases. Traditional treatments for many of these disorders are largely focused on management of the complications of the disease but rarely address the replacement factors. By offering self-regulating and functioning self regulating-cells at a cost affordable basis, a patient's own dead or dysfunctional cells can be replaced offering new hope for long term reduction of health complications and improved quality of life. Living Cell Technologies' therapies cover some of the diseases that cause the greatest disruption to people's lives, affect a large proportion of the population and absorb a very large percentage of every country's expenditure as is shown below.



Conventional medical treatments for cell loss resulting from autoimmune, degenerative, inherited or traumatic conditions, do not address the cell loss that actually causes these diseases. The incidence of some of these diseases continues to grow at epidemic proportions. Type 1 diabetics inject insulin multiple times per day, but despite this many diabetics cannot control their blood glucose effectively and go on to suffer the disease complications of kidney failure, impaired vision, heart disease, stroke and limb loss resulting in a reduced lifespan.

5.2 Haemophilia and liver disorders

Included in the commonly used term "Inborn Errors of Metabolism" (IEM), liver disorders individually are rare but collectively represent a significant number of disorders. Presentation can occur at any time, even in adults. Diagnosis does not require extensive knowledge of biochemical pathways or individual metabolic diseases.

Categories of IEMs are as follows:

- Disorders of protein metabolism (e.g., Haemophilia, amino acidopathies, PKU, organic acidopathies, and urea cycle defects) Disorders of carbohydrate metabolism (e.g., carbohydrate intolerance disorders, glycogen storage disorders, disorders of gluconeogenesis and glycogenolysis);
- Lysosomal storage disorders;
- Fatty acid oxidation defects;
- Mitochondrial disorders; and
- Peroxisomal disorders.

An understanding of the broad clinical manifestations of IEMs provides the basis for knowing when to consider the diagnosis. Successful emergency treatment depends on prompt institution of therapy aimed at metabolic stabilization.

The incidence of IEM's, collectively, is estimated to be 1 in 2,500 live births. The frequencies for each individual IEM vary but most are very rare. The frequency for individual diseases varies based on racial and ethnic composition of the population. IEMs can affect any organ system and usually do affect multiple organ systems. Manifestations vary from those of acute life-threatening disease to subacute progressive degenerative disorder. Progression may be unrelenting with rapid life-threatening deterioration over hours, episodic with intermittent decompensation and asymptomatic intervals, or insidious with slow degeneration over decades.

The incidence within different racial and ethnic groups varies with predominance of certain IEMs within particular groups (e.g., cystic fibrosis 1 per 1600 people of European descent, sickle cell anaemia 1 per 600 people of African descent, and Tay-Sachs 1 per 3500 Ashkenazi Jews). The mode of inheritance determines the male-to-female ratio of affected individuals. Many IEMs have multiple forms that differ in their mode of inheritance. The male-to-female ratio is 1:1 for autosomal dominant and autosomal recessive. It is also 1:1 for X-linked dominant if transmission is from mother to child. For presentation of clinical symptoms varies for individual IEM and variant forms within the IEM. The timing of presentation depends on significant accumulation of toxic metabolites or on the deficiency of substrate. The onset and severity may be exacerbated by environmental factors, such as diet and intercurrent illness.

5.2.1 Cost to the community of haemophilia and like metabolic disorders

The symptoms of liver disorders can be very expensive to treat, from specific dietary supplements for PKU at US$30,000 per year to bone marrow transplants for MPS at US$40,000 per year or even enzyme replacement therapy for Gaucher's disease at $250,000 per year. Recombinant clotting factor to treat haemophilia costs approximately $100,000 per year for each patient.

The real cost to Haemophiliacs is the danger of contracting other diseases which have already claimed the lives of thousands of patients since the early 1990s.

5.3 Diabetes

Diabetes Mellitus was first described by the Egyptians in 2500 BC. Despite the long history of the disease, it has received little media attention, perhaps because of a perception that it is largely a western or developed country disorder that is easily treated by insulin injections. With the extended life expectancy of the world's population however, along with increasing obesity and exposure to environmental triggers, the incidence of diabetes is now growing at epidemic proportions around the globe:

- Diabetes is the fifth leading cause of death in the developed world according to the International Diabetes Federation (2000), and is likely to become the main cause within the next two decades;
- There are now over 176 million diabetics worldwide (World Health Organisation 2003); and
- The US spent over $132 billion on diabetes in 2002, direct costs doubled over the past five years. (Source: US Diabetes Association Feb 2003).

Diabetes is caused by the body being unable to utilize absorbed nutrients, as a result of lack of insulin - either absolute or relative to the body size and composition. There are two main types:

- Type 1: Juvenile - formally known as insulin-dependent diabetes.
- Type 2: Adult onset - formally known as non-insulin-dependent diabetes.

Type 1 diabetes usually develops in an individual before the age of 25, with the insulin-producing cells being destroyed by the body's own immune system. Type 2 usually develops in adults, often in association with obesity and physical inactivity. It is dramatically increased in populations recently exposed to "Westernisation", for example aboriginal Australians.

Over 1.2 million people in the US suffer from Type 1 diabetes, and around 30,000 new cases are diagnosed each year. Approximately 17 million of the US population have Type 2 diabetes. While most diabetes can be managed by insulin injections (Type 1) or diet and oral hypoglycaemic drugs (most Type 2), long-term glucose intolerance that results from damaged or non-functioning pancreatic islets or poor insulin utilization can lead to a range of physiological complications including:

- Impaired vision and ultimately blindness;
- Kidney failure;
- Impaired renal function requiring dialysis treatment.;
- Cardio-vascular complications including coronary artery disease; and

- Lower limb amputations.

Type 1 diabetes is currently treated by injections of insulin, which though life-saving, are necessary for the duration of the diabetic's life. Typically insulin injections are required two to five times daily. Dosage and timing are based on the individual's blood glucose and glucosylated haemoglobin levels. Some regimes require even more frequent injections in an attempt to mimic the body's normal insulin release patterns. Despite insulin treatment, the progression to severe complications is inevitable.

The Australian Diabetes, Obesity and Lifestyle Study (AusDiab), was the first national study to determine the prevalence of diabetes, obesity and other cardiovascular disease risk factors including hypertension and abnormal serum lipid profiles. This study has shown that by world standards for a Western nation, the prevalence of diabetes and its co-morbidities is very high. Almost 7.4% of Australians, 25 years and over have either diabetes or a condition of impaired glucose metabolism. The high rates of diabetes and impaired glucose metabolism, coupled with those of obesity, dyslipidaemia and hypertension, constitute a significant threat in terms of the socio-economic burden of cardiovascular disease and diabetic complications for Australia.

5.3.1 Cost to the community of diabetes

With the rise in prevalence of diabetes, the disease's economic and social burden will become progressively greater. . In 2003 the Diabetes Association announced that US annual expenditure on diabetes was estimated at over US$132 billion almost 20% of the health budget. Diabetes incurs the highest direct annual cost of all diseases in the US.

The costs of managing a diabetic patient reach a peak during the initial diagnostic and treatment period and again during the late stage when long-term complications of the disease set in. The US Diabetes Association published findings in diabetes care in February 2003 stating that an average of US$13,243 was spent in 2002 on each diabetic compared to and average of US$2,560 on non diabetics.

The Diabetes Association publication attributed the following statistics to diabetes:

- 43.9% of hospital inpatient days;
- 18% of home health visits;
- 15% of nursing home services;
- 14% of hospice care; and
- 19% of cardiovascular deaths.

As a consequence there is likely to be a critical shortage of hospital beds unless new technologies are used to treat diabetes. The current and future health needs of an increasing diabetes population will strain the healthcare system's infrastructure that is currently in place to provide or facilitate treatments. This will mean that high-quality diabetes care will become increasingly difficult to deliver. Only by increasing the efficiency of diabetes treatment and preventing the long-term complications of the disease will the amount of suffering by patients and their families and the total costs of managing diabetes be significantly reduced. This goal requires the identification and implementation of cost-effective treatment measures that will improve diabetes care in the long term, and reduce the high direct and indirect costs of managing the diabetic population.

New biotechnological innovations that can slow the progression of diabetes therefore have tremendous potential to not only mitigate the direct clinical and indirect costs of diabetes (American Diabetes Association 1998), but also gain the support of government health officials and health insurers.

6.4 Prospects for LCT

In view of the above market data, there would appear to be a significant worldwide market available for LCT to target its products toward. Whilst this market is very competitive and has a number of companies of differing sizes competing to find cures for IEM's and diabetes, the potential rewards for those successful companies may be very substantial.

6 VALUATION METHODOLOGIES

6.1 Overview

For the purpose of assessing fairness to the non associated shareholders of WAY, a value needs to be attributed to the consideration offered by WAY (being ordinary shares in WAY) and the value of the interest in LCT (to be acquired), which is the subject of the proposed transaction. The value of a company's shares is usually determined by reference to both asset values and the consistency and quality of earnings. In this regard we have considered the following valuation methodologies:

Market Based Approach

This approach examines the market value of shares in WAY, as quoted on the NSX.

This method relies on the efficient market hypothesis, which states in general terms, the market price at any point in time should fully reflect available information given willing buyers and willing sellers. This method is widely accepted and extensive evidence is available to support the hypothesis.

Income Based Approach

The income based approach determines the value of the shares based on the expected returns from the company and the required rate of return thereon. This is undertaken using either of the following methods:

- Capitalisation of future maintainable earnings; and/or
- Discounted cash flows ("DCF").

The capitalisation of earnings method is derived by capitalising future maintainable earnings using an appropriate multiple. In order to apply this method it is necessary to estimate future maintainable earnings and the capitalisation rate most appropriate to those earnings. The choice of capitalisation rate should reflect an assessment of the risk and return factors.

The DCF method has regard to the expected future economic benefits, discounted to the present value. This is considered appropriate where a forecast of future cash flows can be made with a reasonable degree of certainty. This approach is particularly relevant to the valuation of a business in its early growth stage but is equally applicable to any business where cash flows can be estimated with a reasonable degree of certainty. It is also applicable for valuing projects with finite lives.

Asset Based Approach

This method considers the realisable value of WAY's and LCT's assets by sale as a going concern or, alternatively, realisation of individual assets by orderly disposal or liquidation.

The orderly realisation method has regard to the amount that would be distributed to shareholders on the assumption that the company would be liquidated with the funds realised from the sale of its assets, after payment of all liabilities including realisation costs and taxes, being distributed to shareholders.

The liquidation method is based on the same principles except that in the orderly realisation method, the assets are realised in an orderly manner, whereas, the liquidation method assumes that the assets are sold within a shorter time frame.

Comparable Transaction Approach

This approach identifies the amount which an arm's length alternative offeror would be prepared to offer for the same proportion of shares in the company.

6.2 Selection of Methodology

In valuing WAY shares prior to the proposed transaction, we have given due regard to all the methodologies referred to in Section 6.1 and have adopted the asset based approach. We consider this approach to be the most appropriate due to the fact that WAY's shares were listed on the NSX on 2 October 2003 and at the date of writing this report, a limited number of share have been traded on the market. Similarly WAY has no financial trading history upon which an income based valuation could be performed. Section 7.1.3 of our report details our analysis in this regard.

To value the WAY shares after the proposed transaction, we have combined the values of WAY pre-transaction with the assessed value of LCT, and recognised the impact of the increased number of shares on issue. Refer to Appendix 2 of our report.

In valuing LCT prior to the proposed transaction, we have given due regard to all the methodologies referred to in Section 6.1 and have adopted an asset based approach. We consider this approach to be the most appropriate due to the fact that LCT has no history of profits and is an unlisted Company with no trading in its shares. Section 7.2.3 of our report provides more detail of our analysis of this position.

7 ASSESSMENT OF FAIRNESS & REASONABLENESS

7.1 Valuation of WAY

7.1.1 Market Based Approach

In assessing the value of the WAY shares, before completion of the proposed transaction, we have had regard to the share price and volume trading history since 17 March 2003, being the date that WAY was established. This is summarised below:

Date	Transaction Description	Number of Shares Issued	Issue price per share (cents)	Cumulative Issued Share Capital ($)
11 April 2003	Issue of shares to directors*	500,000	0.001	5
8 May 2003	Private equity subscription	187,500	16.0	30,005
25 September 2003	Private equity subscription pre NSX listing	12,100,000	20.0	**2,450,005

Source: WAY Shareholders Register as at 14 November 2003

* Refer to Section 3.3 of our report.
** Fund raising costs of $133,061 have been offset against this amount. Refer to Section 3.5 of our report.

Information available from NSX at the time of writing this report indicates that there has been limited trading of the Company's shares since it listed on the NSX on 2 October 2003. On 14 November 2003 20,000 shares were traded at $0.22 per share. Given the low volume of shares traded relative to the issued share capital base, we do not consider that this represents a true reflection of the market price of a WAY share.

Given the lack of trading in the Company's shares, we do not consider that the market based approach provides sufficient evidence to form an appropriate basis of a valuation for the Company's shares.

However, the Company, during September 2003, did raise in the order of $2.4 million via the issue of ordinary shares to in excess of 280 ordinary shareholders (refer to Section 3.2 of our report). This provides evidence of market support up to 20 cents per share. Also given the announcement to the NSX on the 15th October 2003 of the proposed transaction, it could be concluded with limited trades on the NSX, that the majority of shareholders are waiting to assess the merits and advantages of the same.

7.1.2 Income Based Approach

Capitalisation of Earnings

WAY's historical operating results are discussed at Section 3.4 of our report. Budgeted results for any future years have not been provided by the directors of WAY.

Given the Company's lack of trading history/financial performance, we believe there is no reasonable basis for determining a value for WAY using the capitalisation of future maintainable earnings method.

Discounted Cash flow

The directors have not provided us with future budgeted results of WAY and accordingly we are unable to perform a discounted cash flow valuation of WAY's shares.

7.1.3 Asset Based Approach

Net Asset Backing

The net asset position of WAY is detailed at Section 3.5 and Appendix 3 of our report.

The net asset backing of WAY is underpinned by the assessed value of the Company's investment in LCT of approximately $1.13 million (refer to Section 3.5 of our report). The value of LCT is discussed further at Section 7.2 of our report.

In the absence of any other determinable value, we have assumed that the intellectual property, patents and trademarks are worth in the order of $6.4 million, being the amount LCT paid to Diatranz for its intangible assets in October 2003, on an arms length basis (refer to Section 4.1).

The value attributable to the intellectual property, patents and trademarks may be higher or lower than this amount. The directors of LCT have been unable to provide us with cash flow forecasts and appropriate assumptions for LCT far enough into the future to establish an appropriate value for LCT on a DCF basis (refer to Section 7.2.2).

If the intellectual property, patents and trademarks were deemed to have no value then LCT's net assets would be $875,357 and WAY's 13.9% interest in this amount would translate to an investment having a value in the order of $121,674. When this is substituted into the WAY balance sheet, WAY would have an imputed NAB per share of $0.10.

If the LCT intellectual property, patents and trademarks are included in LCT's balance sheet at any value above $6.4 million then LCT's net assets will increase and WAY's 13.9% interest in the same will translate into a NAB for WAY per share in excess of $0.17 (refer to Appendix 3).

Summary of Asset Based Approach

On the basis of the above assumptions, we consider that the indicative value per WAY share is as follows:

Value of One WAY Share	Preferred
Asset based approach (NAB per share) – Appendix 3	17 cents

Options

We have considered the value of a WAY option (refer Section 3.2 of our report) using the Black & Scholes option pricing model and assumptions set out in Appendix 9. This calculation based on certain assumptions, infers a value across a range of volatility (15%-70%) of 2.4 cents to 9.7 cents. As stated in the Executive Summary this method of valuing options, when applied to unlisted options requires the user to make a number of subjective assumptions.

The value of an option to purchase a share is usually determined by reference to the value of the share, the exercise price, the risk and time value of money in relation to the period until the option expires.

It should be noted that the financial information used in the valuation of options is based on circumstances and assumptions prevalent at the time of our valuation. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, the actual value attributed to a WAY option may differ from the valuation determined using a predetermined set of assumptions/circumstances as set out in our report.

On the basis of the above preferred valuation of a WAY ordinary share, the WAY unlisted options currently on issue would appear to be "out of the money" (i.e. the cost of exercising the option is higher than the estimated value of the share). Taking into account that these options are unlisted, there is no significant history of trading in WAY shares, the options are deemed to be out of the money as they have an exercise price of $0.21, we have assumed there is no value attaching to the WAY options at the current time.

7.1.4 Other Considerations

Liquidation/Orderly Disposal of Assets Value

In our opinion, it is unlikely that any liquidation or break up value on an orderly disposal of assets would result in a value attributable to WAY shares greater than calculated at Section 7.1.3 of this report.

WAY Name Change

If the proposed transaction is approved by WAY shareholders, WAY will change its name to Living Cell Technologies Limited. This name is not a brand name or registered trademark.

We have therefore ascribed a nil value to this component of the proposed transaction.

Comparable Transactions

We are not aware of alternative offers or indications of such in respect of WAY shares other than the initial subscriptions in WAY ahead of its listing on the NSX and the proposed transaction. Therefore, we do not consider the comparable transaction approach to be relevant.

Taxation

The company was incorporated on 17 March 2003 and has had minimal activity to date. Accordingly we believe the availability of any tax losses from the period of inception to date will not be significant in respect of the proposed transaction under consideration.

7.1.5 Conclusion as to Value of WAY Shares

We have examined the value of one WAY share using the asset based valuation method which is summarised below:

Value of One WAY Share	Section Reference	Preferred
Asset based approach (NAB per share)	7.1.3 Appendix 3	17 cents

In our opinion, the indicative value of one WAY share, after considering the various valuation methodologies is in the order of 17 cents per share. This translates into a value for the shares to be issued to LCT shareholders of $5.9 million. This is determined as follows:

	Section Reference	Preferred
Number of WAY shares to be issued to LCT	3.2	35.1m
Assessed value of one WAY share	7.1.3	17 cents
Value of consideration offered by WAY	Appendix 3	$5.9 million

We have considered the assessed value of a WAY share pre and post the proposed transaction at Appendix 2.

We stress that the above indicative valuation will be impacted by any opinion on and ability or otherwise to realise the likely value attributable to the intellectual property, patents and trademarks owned by LCT and the future prospects arising from any further development of the biotechnology project.

We are unable to provide an indicative valuation for LCT on the basis of its future cash flows for the reasons set out in Section 7.2.2.

7.2 Valuation of LCT

7.2.1 Market Based Approach

LCT is an unlisted company who's shares have not been traded and therefore a market based approach to valuing LCT is not considered relevant. The equity raising history of LCT is summarised at Section 4.3 of our report.

7.2.2 Income Based Approach

Capitalisation of Earnings

LCT's historical operating results are detailed at Section 4.4 of our report.

Given that LCT does not have a history of making profits, there is no basis for determining a value of LCT shares using the capitalisation of future maintainable earnings method.

Discounted Cash Flow

The Directors have not provided GTCS with cash flow budgets and appropriate assumptions for LCT for any future periods.

Ordinarily, the DCF method of valuation would be considered the most appropriate for a business like LCT, which is in its early growth stage and if forecast free cash flows can be determined with reasonable degree of certainty then a DCF valuation would encompass valuing a company's free cash flow forecast for a period of time into the future (refer to Section 6.1 of our report).

LCT's most significant assets, being the intellectual property, patents and trademarks have yet to reach a stage where an assessment of the timing of future revenue can be made. The directors do not believe that they can forecast the future cash flows of LCT with any degree of certainty given the biotechnology project's early stage of development. Consequently the future revenues and therefore free cash flows that might be generated from these assets cannot be determined with any reasonable degree of certainty at this stage.

Based on the above, we do not consider the DCF basis of valuation appropriate to LCT.

7.2.3 Asset Based Approach

Net Asset Backing

The net asset position of LCT is summarised at Section 4.5 and Appendix 4 of our report.

Given the limitations of using the other valuation methodologies noted above, we consider that the asset based approach is appropriate in valuing a share in LCT.

The net asset backing of LCT is impacted by the assessment of an appropriate value for the intangible assets acquired from Diatranz. The directors have advised that the value determined in recently acquiring the business and assets of Diatranz was based upon arms length negotiations, the level of historical spend on the project and intellectual property to date and the level of equity funding received by Diatranz, estimated in excess of NZ$7.5 million after deducting fund raising costs (refer to Section 4.1). The acquisition price of approximately AUS$7.1 million infers a value for the intellectual property, patents and trademarks in the order of AUS$6.4 million (refer to Section 4.1).

Grant Thornton Corporate Services (WA) Pty Ltd does not have any expertise in scientific research and accordingly we do not offer any comment on the likely success or otherwise of LCT's intellectual property. However, an independent expert's report on the LCT/Diatranz intellectual property was carried out by Acuity Technology Management Pty Ltd ("Acuity") in June 2003. A copy of this report is included at Appendix 5.

The key points arising from the Acuity report are:

- To be successful in the long-term, the LCT business model needs to operate in a regulatory regime that supports living cell research;
- Other organisations are developing products targeted at haemophilia and diabetes using similar techniques as LCT;
- LCT/Diatranz has a number of patents pending relating to its research;
- The use of piglets in developing islet cells by LCT is considered to be LCT's key differentiating factor;
- An audit by the Food and Drug Administration would be required before LCT's technology could be used in the USA;
- LCT/Diatranz has made efforts to ensure that its commercialisation strategy is improved by aligning itself with organisations who have experience in taking products to market;
- There are no guarantees of regulatory approval for the company's products; and
- The New Zealand Government regulated that xenotranspiantation was prohibited.

On the basis of the above mentioned report, it would appear and the directors believe that LCT has the opportunity to deliver products to the market to combat haemophilia and diabetes. However, the market for these products is competitive and the support of government bodies and industry regulators is critical.

Accordingly, for the purpose of evaluating the potential worth of an LCT share on the basis of its net assets, we have considered the value of LCT's intellectual property, patents and trademarks as that value indicated by the recent arms length purchase price paid by LCT in acquiring these same assets from Diatranz, being approximately $6.4 million.

On the basis of the above we have determined a net asset backing per share in LCT of $0.30 per share (refer Appendix 4).

Summary of Asset Based Approach

On the basis of the above assumptions, we would consider that the preferred value of an LCT share is as follows:

Value of One LCT Share	Section Reference	Preferred
Asset based approach (NAB per share)	7.2.3 Appendix 4	30 cents

We highlight that the valuation of an LCT share is underpinned by the assumption that the company's intangible assets are worth what has been recently paid in the acquisition of those same assets from Diatranz on an arms length basis.

Options and convertible loans

We have considered the value of a LCT option (refer Section 4.3 of our report) using the Black & Scholes option pricing model and assumptions set out in Appendix 9. This calculation based on certain assumptions consistent with the approach taken in assessing the value of a WAY option, infers a value across a range of volatility (15%-70%) of 8.1 cents to 20.6 cents. As stated in the Executive Summary, this method of valuing options, when applied to unlisted options requires the user to make a number of subjective assumptions.

The value of an option to purchase a share is usually determined by reference to the value of the share, the exercise price, the risk and time value of money in relation to the period until the option expires.

It should be noted that the financial information used in the valuation of options is based on circumstances and assumptions prevalent of the time of our valuation. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, the actual value attributed to a WAY option may differs from the valuation determined using a predetermined set of assumptions/circumstances as set out in our report.

At the above determined preferred value of an LCT share, the options and convertible notes on issue would be "out of the money" (ie the cost of the option/convertible instrument is greater than the value of an LCT share). Further we have taken into consideration that these options are unlisted and there is no trading history in LCT shares. Accordingly, we have assumed that consistent with our approach and comments in relation to valuing the WAY options, the value of LCT options to be nil at the current time and have assumed the convertible notes would remain unconverted to LCT shares at the present point in time.

Liquidation/Orderly Disposal of Assets Value

In our opinion, it is unlikely that any liquidation or break-up value on an orderly disposal of assets would result in a value attributable to LCT shares greater than that calculated under the net asset backing approach.

7.2.4 Other Considerations

Comparable Transactions

We are not aware of any alternative offers or indications of such in relation to LCT, other than the proposed transaction and therefore do not consider the comparable transaction approach to be relevant.

Taxation

We are advised by the directors of LCT that LCT has tax losses available for carrying forward against future profits of LCT in the order of $262,000. We do not consider that these losses will significantly impact on the value assessed per LCT share set out above or the conclusions drawn in our report.

7.2.5 Conclusion as to the value of LCT shares

As stated at 7.2.3, we believe an asset based valuation to be the most appropriate to LCT. On the basis of the stated assumptions that we have made we have assessed the value of one LCT share, the results of which are summarised below:

Value of One LCT Share	Section Reference	Preferred
Asset based approach (NAB per share)	7.2.3 Appendix 4	30 cents

In our opinion, the value of one LCT share after considering the various applicable valuation methodologies is in the order of 30 cents per share. This translates into a value for the LCT shares being acquired by WAY to be $6.2 million. This is determined as follows:

Value of LCT Interest	Section Reference	Preferred
Number of LCT shares being acquired by WAY	4.3	20.7 million
Assessed value of one LCT share	7.2.3, Appendix 4	30 cents
Value of interest in LCT		$6.2 million

8 Conclusions

8.1 Conclusion as to Fairness of the Proposed Transaction

Set out below is a comparison between the value of the consideration offered by WAY and the value of an equity interest in WAY which is the subject of the transaction.

	Detailed Report Ref	Preferred Assessment $000
Value of shares in WAY offered as consideration: [Net asset basis] - 35.1m WAY shares	7.1.5	5,974
Value of interest in LCT to be acquired by WAY: [Net asset basis] - 86.1% of LCT	7.2.5	6,202

The proposed transaction will be fair to the non-associated shareholders of WAY if

- The value of WAY shares offered (consideration) is less than or equal to the value of the remaining 86.1% interest in LCT to be acquired; and
- The value of the intellectual property, patents and trademarks held by LCT commands a value equivalent to the amount it was acquired for on an arms length basis in October 2003, being $6.4 million.

At the preferred assessment above, the value offered to the WAY shareholders is greater than the value of the consideration being issued in WAY shares. Accordingly, on this basis, we consider that the transaction is fair to the WAY shareholders. In the event that the intellectual property, patents and trademarks are worth substantially less than $6.4 million then the transaction may not be construed as being fair to the WAY shareholders. In this regard, we estimate that if the value of the intellectual property, patents and trademarks fell by more than 10% then the transaction would be unfair to the WAY shareholders as the value of the consideration would be higher than the value of the interest being acquired in LCT.

Any value attributable to these intangible assets of LCT will be underpinned by their future capabilities and revenue generating ability and the directors of LCT are not in the position to provide us with future cash flow forecasts and appropriate assumptions for LCT. Accordingly, both WAY and LCT have been valued on the basis of their net assets.

In assessing the fairness of the proposed transaction, it can be considered fair if the value of the intellectual property is equivalent to or greater than $6.4 million as this value indirectly flows proportionately to WAY shareholders as a consequence of their 13.9% interest in LCT. If the value of LCT's intellectual property is worth substantially less (in the order of 10% or greater) then the proposed transaction would not appear to be fair to the non associated WAY shareholders.

In valuing each WAY share, we have ascribed no value to the fact that WAY is listed on the NSX and could be viewed as a listed company shell. This is on the basis that LCT could list on the NSX without incurring substantial costs.

Further, for assessing the fairness of the proposed transaction, we have ascribed no value to the WAY or LCT options. If under the Black & Scholes option pricing model values were to be ascribed to WAY and LCT options, using the assumptions in Appendix 9 of our report, our conclusion regarding fairness would not change on the basis that the calculated amount of 17 WAY options given as consideration is less than the calculated amount of 10 LCT options acquired.

8.2 Other Considerations

Before voting on the proposed transaction, the shareholders of WAY should consider other significant factors which give rise to certain advantages and disadvantages, detailed at Section 8.3.

Capital Structure of WAY

If the proposed transaction is approved, the new capital structure of WAY will be as follows:

	Number of Ordinary Shares
Existing shares of WAY pre-transaction	12,787,500
Shares issued to LCT shareholders subject to WAY shareholder approval	35,143,402
Shares of WAY post transaction	47,930,902

If the proposed transaction is approved, it will result in existing LCT shareholders obtaining a 73.3% interest in the expanded capital base of WAY, as follows:

	WAY shares held pre-transaction	WAY shares held post-transaction	Percentage Ownership
LCT shareholders	-	35,143,402	73.3%
WAY shareholders	12,787,500	12,787,500	26.7%
	12,787,500	47,930,902	100%

The above table assumes the WAY and LCT options on issue are not exercised prior to the proposed transaction completing. Additionally, it has been assumed that the LCT convertible notes have not been converted into ordinary shares. Appendix 7 shows the top five LCT shareholders in WAY if the proposed transaction is accepted by the WAY shareholders.

8.2.1 Significant Risks

We draw WAY shareholders attention to the significant risks involved in the proposed transaction which include:

- Political risks eg: unforeseen Government legislation affecting the use of xenotransplantation in different countries;
- Delays in development and commercialisation due to slow regulatory approval. This could lead to a requirement for funding at a higher level than anticipated;
- Unpredicted technical factors including setbacks during clinical trials;
- Competitors developing successful products faster that LCT;
- Inability to raise further funding for future research and product commercialisation;
- LCT experiencing product liability claims for adverse reactions during clinical trials. LCT may not be able to source appropriate insurance cover to meet all of these potential liabilities;
- Rejection of certain patents pending approval due to similar research by competitors;
- Loss of key staff; and
- The outbreak of a disease within LCT's pig herd.

Further, we draw reader's attention to the Risk Analysis included in Section 4.9 of the Notice of Meeting and Explanatory Memorandum which should be read in conjunction with our report.

8.2.2 Change in Directors

Under the terms of the HoA dated 15 October 2003, the Board of Directors of the Company will comprise:

- Emeritus Professor Bob Elliot;
- Mr David Collinson; and
- Mr Roger Coats.

8.3 Advantages and Disadvantages to the Non-Associated Shareholders – Reasonableness

In assessing whether the proposed transaction is reasonable we have considered the potential advantages and disadvantages to the non-associated shareholders of WAY of the proposed transaction and considered whether the advantages outweighed the disadvantages.

The primary advantages if the proposed transaction does proceed:

- Potential for the Company to develop and commercialise products for the treatment of diabetes and haemophilia. This could possibly lead to future revenues for the company and its shareholders in the longer term.
- Acquire 100% ownership of LCT rather than a minority interest of 13.9%.
- A new board, comprising members with the appropriate knowledge and understanding of the biotechnology industry.
- Shareholders will potentially maintain an interest in a company listed on the Newcastle Limited Stock Exchange with a biotechnology project.
- As LCT is an operating Company, and WAY has not yet effectively traded, the proposed transaction may increase the liquidity of the issued shares not held in Escrow.
- There is no deterioration in the value per share on a net asset backing basis for a WAY shareholder if the proposed transaction is completed.

The primary disadvantages if the proposed transaction does proceed:

- Dilution in existing WAY shareholder's interest in the Company from 100% to 26.7%.
- Greater exposure to underlying operating and market risk associated with investments in the biotechnology sector.

The primary advantages if the proposed transaction did not proceed:

- No dilution of existing WAY shareholders interest in the Company.
- Possibility of future returns from resource exploration activities that might be undertaken by the Company under its current structure.

The primary disadvantages if the proposed transaction did not proceed:

- Greater exposure to the potential underlying operating and market risk associated with investments in companies focused on early stage resources exploration activity.
- The prospect of a continuation of a lack of trading and liquidity in the Company's shares if applications for and activity in resource exploration projects are delayed or unsuccessful.

Conclusion

Having regard to the above advantages and disadvantages, we consider the proposed transaction to be reasonable to the non-associated shareholders of WAY.

8.4 Premium for Control

ASIC Policy Statement 74 requires that the expert give an opinion as to whether the proposed transaction will result in any premium for control. In giving their opinion, the expert should:

- quantify any premium; and
- set out reasons for forming that opinion and why under the circumstances it is appropriate to regard any benefit as constituting a premium for control.

In determining whether a control premium will exist as a result of the proposed transaction, we have considered the requirements of ASIC Policy Statement 74 as detailed above, and have concluded that as a consequence of the proposed change in the Board of WAY, control will be effectively passed through to the LCT shareholders as it is proposed pursuant to the terms of the proposed transaction to replace the current WAY directors with the LCT directors referred to in Section 8.2.3 of our report.

On the preferred value basis, WAY has offered no premium to LCT as the assessed value of the consideration is less than the assessed value of the interest in LCT to be acquired. Further, LCT offers a small premium, in the order of 5%, to the WAY shareholders in terms of the excess of the assessed value of LCT being acquired in exchange for the allotment of WAY shares.

WAY, with the exception of its 13.9% interest in LCT, is effectively a cash box listed on the NSX with limited trading in its shares to date. LCT's primary asset, with the exception of some property plant and equipment and net liquid assets, is the underlying intellectual property, patents and trademarks associated with the biotechnology project. Pursuant to the terms of this proposed transaction, WAY is simply acquiring the remaining 86.1% interest in LCT.

Given that the proposed transaction contemplates consolidation of 100% of LCT into WAY and, with the exception of its own minority interest in LCT, WAY's only other significant asset is cash, we believe that little or no control premium is applicable to the proposed transaction.

9 AUTHOR AND INDEPENDENCE

We advise Grant Thornton Corporate Services (WA) Pty Ltd ("GTCS") is the holder of an Investment Advisers Licence under the Corporations Act 2001. A number of the partners of the chartered accounting firm of Grant Thornton ("GT") are the Directors of GTCS. GTCS has extensive experience in providing advice pertaining to mergers, transactions and strategic and financial planning for both listed and unlisted companies or businesses.

The employee of GTCS principally involved in the preparation of this report was Gregory M LeGuier, B. Comm, CA, Director. In addition, Simon Gray, CA, a Partner in Grant Thornton South Australia was involved in the preparation of this report.

Messrs LeGuier and Gray have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent experts reports.

We are aware of the independence requirements as set out in various ASIC Releases and Practice Notes and advise that we are independent of WAY.

There are no pecuniary or other interests, which could be regarded as being capable of affecting the ability of the authors to give an unbiased opinion in respect of the matters raised in this report.

10 DECLARATION

This report has been prepared specifically for the non-associated shareholders of WAY. Neither GTCS, GT, or Grant Thornton South Australia nor any member or employee thereof undertakes responsibility to any person, other than a non-associated shareholder of WAY, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report GTCS has relied upon and considered information believed after due enquiry to be reliable and accurate. GTCS has no reason to believe that any information supplied to it was false or that any material information has been withheld from us. GTCS evaluated the information provided to it by WAY ad LCT as well as other parties, through enquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report.

GTCS does not imply and it should not be construed that it has audited or in anyway verified any of the information provided to it, or that its enquiries could have verified any matter which a more extensive examination might disclose.

WAY and LCT have provided an indemnity to GTCS for any claims arising out of any mis-statement or omission in any material or information provided by WAY or LCT to GTCS in the preparation of this report.

GTCS provided a draft copy of this report to the Directors and management of WAY and LCT for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of GTCS alone. Changes made to this report as a result of this review by the Directors and management of WAY and LCT have not changed the methodology or conclusions reached by GTCS.

GTCS will receive a professional fee based on time spent in the preparation of this report, estimated at approximately $25,000. This fee is payable regardless of the outcome of the resolution.

The preparation of this report has been undertaken pursuant to Section 611 of the Act. We have also had regard to relevant ASIC Policy Statements and Practice Notes. It is not intended that the report should be used for any other purpose other than to accompany the Notice of General Meeting to be sent to WAY shareholders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of GTCS's opinion as to whether or not the proposed transaction is fair and reasonable.

GTCS consents to the issue of this report in the form and context in which it is included in the Notice of General Meeting to be sent to WAY shareholders.

APPENDIX 1 : SOURCES OF INFORMATION

In preparing this report we have had access to the following principal sources of information:

- Unaudited financial statements of WAY for the periods ended 30 June 2003 and 24 October 2003;
- Unaudited financial statements of LCT for the periods ended 30 June 2003 and 24 October 2003;
- Unaudited balance sheet of Diatranz Limited as at 30 September 2003;
- Shareholders register of WAY;
- Shareholders register of LCT;
- NSX announcement made by WAY on 16 October 2003;
- NSX website for details of traded WAY shares (www.newsx.com.au);
- Heads of Agreement dated 15 October 2003 between WAY and LCT;
- Draft Share Sale Agreement dated November 2003 between WAY and LCT;
- Draft Notice of General Meeting to be dispatched to WAY shareholders regarding the proposed transaction;
- LCT Information Memorandum dated 18 August 2003 in connection with private equity placement of shares in LCT;
- LCT business plan dated 20 August 2003;
- WAY prospectus and supplementary information dated 16 May 2003 for the issue of shares in WAY;
- Pediatrics, Inborn Errors of Metabolism, August 2001, Debra L Weiner PhD;
- Prevalence of Lysosomal Storage Disorders, Mikle et al, 1999;
- Cost-benefit model of diabetes prevention and care, Australia, Walker et al 2002;
- Various articles, American Diabetes Association website (www.diabetes.org);
- Delivery of Treatment for Haemophilia, World Health Organisation, 2002;
- Haemophilia Foundation Australia Article "Two Boys at the Beach", 2000;
- Various articles, World Federation of Haemophilia website (www.wfh.org);
- Various articles, World Health Organisation website (www.who.int);
- The case for diabetes research in Australia, Diabetes Research Consultative Committee, 2001;
- Alglucerase. A Pharmacoeconomic appraisal of its use in the treatment of Gaucher's disease; Whittington;
- The impact of diabetes in South Australia, Parsons et al, 2000;
- Various letters and correspondence to Diatranz shareholders from Diatranz Board; and
- Discussions with the LCT and WAY Directors and Management.

In preparing this report, we have reviewed the information described above as well as other published and unpublished information. We have had discussions with the directors of LCT and WAY concerning the business, assets, liabilities and trading results of LCT and WAY.

The statements and opinions contained in our report are given in good faith and upon reasonable grounds in the belief that such statements are not false, misleading or incomplete. We have considered explanations given to us in our discussions with the directors and senior management of WAY and LCT. Whilst we have no reason to doubt the accuracy of any information provided to us or that any material information has been withheld from us or is incomplete, we have not independently verified the information.

APPENDIX 2: ASSESSED VALUE OF A WAY SHARE PRE AND POST THE PROPOSED TRANSACTION

	Report Reference	Value of one WAY share
PRE-TRANSACTION		
Assessed value of one WAY share – asset basis	7.1.3 Appendix 3	$0.17
POST-TRANSACTION		
Net asset value of LCT		$7,286,916
Net asset value of WAY		$2,308,293
Adjustment for LCT investment in WAY balance sheet		($1,133,045)
Value post-transaction		$8,462,164
Number of WAY shares on issue post-transaction		47,930,902
Assessed value of one WAY share post-transaction		$0.18
Increase in assessed value per share as a result of transaction		$0.01

APPENDIX 3: NET ASSET POSITION OF WAY

The unaudited Statement of Financial Position of WAY as at 24 October 2003, is summarised in the table below. The pro-forma Statement of Financial Position is based on the valuation range determined by the carrying value of WAY's 13.9% investment in LCT as detailed at Section 7.1.3 of this report.

FinancialPosition of WAY	Pro-forma Preferred $000	Unaudited 24 October 2003 $000
CURRENT ASSETS		
Cash assets	1,198	1,198
Investments*	1,012	1,133
Receivables	3	3
Other	12	12
TOTAL CURRENT ASSETS	2,224	2,345
NON CURRENT ASSETS		
Property, plant and equipment	-	-
TOTAL NON CURRENT ASSETS	-	-
TOTAL ASSETS	2,224	2,345
CURRENT LIABILITIES		
Payables	(16)	(16)
Provisions	(21)	(21)
TOTAL CURRENT LIABILITIES	(37)	(37)
NON CURRENT LIABILITIES		
Interest bearing liabilities – convertible loans	-	-
TOTAL NON CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	(37)	(37)
NET ASSETS	2,187	2,308
Number of ordinary shares on issue at 24 October 2003	12,787,500	12,787,500
NAB per share	$0.17	$0.18

*CALCULATION OF INVESTMENT IN LCT	$000
Investment in LCT – high basis	
Unaudited net assets of LCT at 24 October 2003	7,287
13.9% thereof	1,012

APPENDIX 4: NET ASSET POSITION OF LCT

The unaudited statement of financial position of LCT as at 24 October 2003, is summarised in the table below. The pro-forma statement of financial position is as detailed at Section 7.2.3 of this report.

Financial position of LCT	Pro-forma Preferred $000	Unaudited 24 October 2003 $000
CURRENT ASSETS		
Cash assets	1,405	1,405
Receivables	77	77
TOTAL CURRENT ASSETS	1,482	1,482
NON CURRENT ASSETS		
Property, plant and equipment	709	709
Intellectual property, patents and trademarks	6,412	6,412
TOTAL NON CURRENT ASSETS	7,121	7,121
TOTAL ASSETS	8,603	8,603
CURRENT LIABILITIES		
Payables	(216)	(216)
Provisions	(20)	(20)
TOTAL CURRENT LIABILITIES	(235)	(235)
NON CURRENT LIABILITIES		
Interest-bearing liabilities – convertible loans	(1,081)	(1,081)
TOTAL NON CURRENT LIABILITIES	(1,081)	(1,081)
TOTAL LIABILITIES	(1,316)	(1,316)
NET ASSETS	7,287	7,287
Number of ordinary shares on issue at 24 October 2003	24,004,942	24,004,942
NAB per share	$0.30	$0.30

APPENDIX 5: INDEPENDENT EXPERTS REPORT PREPARED BY ACUITY TECHNOLOGY MANAGEMENT

13 June 2003

The Directors
Living Cell Technologies Pty Ltd
160 Greenhill Road
Parkside SA 5061

Acuity
TECHNOLOGY MANAGEMENT

Acuity
Technology
Management Pty Ltd

ACN 005 777 417

83 Manning Road
Malvern East
Victoria 3145
Australia

Tel: (03) 9572 0831
Fax: (03) 9572 0832
Mobile: 04 1111 4457
E.mail: acuity@bigpond.com

Dear Sirs

This report is an update of an earlier document originally prepared for inclusion in an Information Memorandum for the issuance of shares by Diatranz Limited of New Zealand. The earlier report was based on a review of Diatranz Limited (NZ company) conducted by Acuity Technology Management Pty Ltd ("Acuity") during January 2002. As part of the review, we examined:

- The company's research and development programs;
- The international collaborations and agreements providing access to intellectual property;
- Results of studies and human trials to date;
- Production facilities;
- The qualifications of staff; and
- Record keeping and documentation.

At the time of the initial report, Diatranz Limited provided plans, schedules and budgets for the further development of the technologies and copies of patent applications and a patent attorney's review of the applications including the general field of islet xenotransplantation and encapsulation. We were also given a number of consultants' reports, research and testing progress reports, scientific publications, senior staff curriculum vitae and agreements with collaborators.

We independently searched the scientific, commercial and patent literature to obtain information on current and potential markets for the products under development and competition.

Diatranz Limited has now entered into an arrangement with Australian company, Living Cell Technologies Pty Ltd ("LCT", collectively referred to as "Diatranz"), whereby LCT will acquire all the assets of the New Zealand company and operate the business from Australia. LCT will conduct clinical trails in Australia, and ultimately overseas, and undertake product development and clinically relevant areas of research whilst the established New Zealand facilities continue as an operational division of LCT responsible for sourcing islet cells, their preparation and other aspects of research and development.
The current report, prepared for LCT, derives from discussions with directors of the company and review of recent grant applications prepared by the company.

Diatranz's move to Australia from New Zealand was bought about by a need to access:

- Internationally recognised clinical trialling facilities;
- A well defined regulatory regime supportive of applications for research in xenotransplantation;

- Capital, commercial skills and expertise; and
- Organisations to assist with the expansion of Diatranz to a corporate vehicle that is better able to attract international marketing partners for its products.

Diatranz is involved in the development of cellular therapies for a number of human diseases and has had a long-term involvement in researching novel treatments for diabetes. Over the past decade, the company has developed procedures for the preparation of pig pancreatic islet cells for implantation, termed xenotransplantation, into diabetic patients and methods for encapsulation to protect cells from the recipient's immune system. The company is also developing procedures for treating other diseases, including neurodegenerative disorders. Our initial review concentrated on islet cell xenotransplantation for diabetes.

The remainder of this report summarises our review under the following headings:

1. DIABETES & XENOTRANSPLANTATION

1.1 DIABETES INCIDENCE

Diabetes mellitus commonly covers a number of disorders characterised by high levels of blood glucose resulting from defects in insulin secretion, insulin action, or both. Although diabetics can take a number of measures to minimise the consequences of the disease, it is generally associated with serious complications and premature death. It results in significant morbidity and seriously impacts on the lifestyle of sufferers.

Recent estimates by the World Health Organisation are that diabetes affects 176 million people with at least 80 million of these in Asia. The Asian numbers are expected to grow to 193 million by 2030. The US prevalence is 17.7 million of which an estimated 5.9 million remain undiagnosed. There are 1.1 million diabetics in Australia and New Zealand. The total (direct and indirect) spending on diabetes in the US is US$132 billion or one of every 10 health care dollars spent. The direct medical cost is US$98 billion having doubled over the past five years. The average annual medical spending for a diabetic in the USA is US$13,243.

In Australia, the annual cost to the nation exceeds A$1.2 billion, while in Japan direct costs reached US$16.9 billion in 1998.

According to the US Centres for Disease Control the incidence of adult onset diabetes in the USA increased 33% overall between 1990 and 1998, and was up 76% among people in their thirties. Similar trends have been reported for other parts of the world, including Asia. The total number of diabetics worldwide is expected to double to 300 million by 2025, while Asia's numbers will double over the next three to five years.

Type I diabetes arises from the failure of the pancreas to produce insulin, the hormone required to control glucose uptake by cells in the body. It is an autoimmune disease whereby the body destroys the insulin producing cells in the pancreas. It generally develops during childhood and is also referred to as juvenile diabetes or insulin dependent diabetes mellitus ("IDDM"). The chances of developing Type I diabetes is 3.7 to 20 per 100,000. Almost one million Americans have this type of diabetes.

Adult onset or Type II diabetes is more prevalent. 'Type II usually arises because of insulin resistance, in which the body fails to use insulin properly, combined with relative (rather than absolute) insulin deficiency. In other cases, it primarily involves an insulin secretory defect, combined with some insulin resistance.

1.2 CURRENT TREATMENT OPTIONS & MARKETS

Lack of insulin production makes Type 1 diabetes particularly difficult to manage. Treatment requires a strict regimen that typically covers diet and physical activity. Multiple daily insulin injections based on blood glucose testing are required.

Treatment of Type II sufferers largely revolves around diet, exercise, home blood glucose testing and, in some cases, oral medication and/or insulin. Approximately 40% of patients require insulin injections. There are also a number of non-insulin drugs prescribed for Type II diabetes including newer agents released in the past few years known as glitazones (Avandia™ and Actos™, both launched in 1999).

Total sales for all diabetes-related drug therapies for the twelve months through September 2000 were US$8.1 billion. The leading category of drugs was oral antidiabetics, US$5.1 billion of worldwide retail sales, with insulin accounting for the remainder of sales. IMS Health predicts that the retail market for diabetes medications will exceed US$20 billion annually by 2006 as superior forms of insulin enter the market and the glitazones establish themselves. Currently, the leading oral diabetes medication is Glucophage, which generated worldwide sales in 2000 of US$1.7 billion. Sales of Avandia exceeded US$1 billion in 2001.

1.3 NEW DEVELOPMENTS IN INSULIN DELIVERY

New companies and existing marketers of insulin are targeting improved patient acceptance by eliminating the need for injections. Inhalation devices, oral delivery and transdermal patches are now in clinical trials by several companies around the world and these can be expected to be on the market within the next few years. Companies developing improved insulin delivery include Inhale Therapeutic Systems (USA), in Phase III trials for the treatment of Type I and Type II diabetes; Generex Biotechnology (Canada), in Phase II trials with a system for administering insulin as a fine spray into the oral cavity; Aradigm (USA) with a hand-held liquid aerosol inhaler that calibrates airflow and dosage, licensed to Novo Nordisk (Denmark) and intended for prandial (meal-time) delivery of insulin; and AeroGen and Pharmaceutical Discovery (both USA) developing dry powder microparticles for use with aerosol inhalation devices;. Others developers of insulin delivery technologies include Alkermes (USA), Dura Pharmaceuticals (USA); MicroDose Technologies (USA), Protein Delivery (USA), Provalis (UK), DOR BioPharma (USA), Eli Lilly (USA), Helix BioPharma (Canada), IDEA (Germany) and Elan Pharmaceuticals (Ireland).

1.4 ISLET CELL TRANSPLANTATION

As an alternative to insulin and drug treatments, there is considerable activity to evaluate the transplantation of pancreatic tissue from both human and animal sources. Whole human pancreas transplantation (allotransplantation) has been practiced for several decades but is a technically complex operation, requiring the use of immunosuppressive drugs to prevent organ rejection. It is most often reserved for people with a life-threatening illness and therefore performed in conjunction with a kidney transplant. There are also programs to develop procedures to implant human islet cells recovered from cadaveric donors.

Although pancreas transplantations are being performed at an increasing rate, it is clear that there are not enough adult pancreases for everyone who might benefit from one. If transplantation were ever to become completely safe and effective, then the estimated one million Americans with Type 1 diabetes (and 40 million people worldwide) would theoretically be candidates for surgery. Yet only 1,000 to 1,500 adult pancreases are available for transplantation in the United States each year.

Since only the islet cells of the pancreas, the cells that manufacture and secrete insulin, are necessary to achieve glucose control (euglycemia) in diabetics, one approach has been to implant just these cells. A major benefit of islet cell transplantation is that major surgery is not required. Theoretically, islet cells could be injected into a vein, through which they move on to the liver, or they can be placed under the skin, in the abdominal cavity, or in other locations.

Islets harvested from both human and animal sources are seen as foreign by the recipient and are destroyed by the immune system. There are about one million islets in a human pancreas, representing only about 2% of the organ. Beta cells, the ones that produce insulin, make up 75% to 80% of the islets. The rest of the pancreatic cells produce enzymes which are discharged into the intestines to help digest food.

Recognising that islet cell replacement is only rational if the patient is spared antirejection or immunosuppresive agents (these drugs carry their own side-effects and insulin treatment is a safer alternative) and because many such drugs impair the functioning of the implanted islets, research has sought methods for harbouring the cells in a protective environment. A further problem is that the beta cells are extremely fragile and their harvesting and processing require specialised techniques.

As for whole pancreas transplantation, the feasibility of human adult islet cell implantation is hindered by a shortage problem. If only the islets are used, three to four adult pancreases are needed per procedure, narrowing the number of potential recipients in the US to only a few hundred.

One approach that is being researched is to develop "immortal" human cell lines that can be grown indefinitely in the laboratory and mass propagated. This may be achieved using cancerous cell lines. The complication, however, is that there may be an increased risk of cancer development in the recipient. Genetic techniques are being explored to remove the malignancy potential. This approach is not considered a viable contender to xenotransplantation in the short to medium term.

A longer term approach is based on stem cells, early-stage cells that have not differentiated into a specific cell type, such as a kidney cell, blood cell, etc.
CyThera and Curis (both US-based), the later in collaboration with ES Cell International (Singapore/Australia), are developing stem cell technology that, it is hoped, will enable them to significantly expand and proliferate the stem cells in their undifferentiated state and then direct them into insulin producing islets for allogeneic transplantation.

Islet cell implants from pig pancreases is another solution to the shortage problem and the route being followed by Diatranz. Pig and human insulin molecules are very similar and porcine insulin was the mainstay of treatment prior to the advent of genetically engineered human insulin in the 1980s.

Scientists at the University of Alberta in Edmonton, Canada, have developed a procedure called the Edmonton Protocol to experimentally treat patients with Type I diabetes. Under the protocol, human islet cells are injected into the large vein in the liver and the patients treated with a combination of antirejection drugs. Initial subjects were completely freed from insulin injections and an extended trial is planned with support from the US National Institutes of Health and the Juvenile Diabetes Research Foundation International.

One of the most promising approaches to preventing islet cell rejection is a technology called immunoisolation. This involves encapsulating the islets with a selectively permeable membrane. This membrane allows nutrients and oxygen pass into the capsule to the islets and insulin move out into the blood stream, but keeps out the antibodies and T cells of the immune system, which would otherwise destroy the islets. Obviously, the material used for encapsulation must also be non-toxic to both cells and the recipient.

Companies active in the area of islet xenotransplantation include: The Islet Sheet Company, Circe Biomedical, Islet Technology, Novocell, TheraCyte, Microislet (all in the US) and a number of academic groups around the world. This is the area in which Diatranz competes.

If unlimited supplies of islets were available, and the treatment totally safe, transplantation could be extended to help people with Type II diabetes. Market analysts, Frost & Sullivan (UK), estimate that the revenue potential from islet transplantation for existing type I diabetics alone is US$20 billion. The firm forecasts that the market will accept a cost of US$20,000 per successful islet cell transplant.

2. DIATRANZ TECHNOLOGY

2.1 Proposed Products & Research

Diatranz was to develop technology to replace the non-functional insulin producing islet cells in diabetic humans by xenotransplanting porcine islet cells. The key components of the Diatranz technology are: (i) a proprietary procedure to isolate pig islet cells at high yield, and (ii) encapsulation procedures to protect them from rejection by the human recipients.

The sourcing and breeding of suitable pigs, and procedures for recovering the islet cells are well developed at Diatranz. The company has also demonstrated that it can effectively transport the cells to Europe and North America with minimal loss of viability. We are confident in suggesting that the company could be one of the most advanced in the world in preparing islet cells.

The company is developing multiple delivery systems based on alginate encapsulation of cells and a novel human tissue based tube in which cells may be enclosed. The key aspect of the alginate system is the high purity, and hence lack of toxicity, of the gel following a procedure developed by collaborators in Italy and exclusively licensed to Diatranz. The procedure for producing the human collagen tubes was developed in Mexico and is also exclusively licensed to Diatranz.

The company was one of the first in the world to transplant islet cells into humans, with four volunteers in New Zealand given unprotected cells in 1994. Two additional studies in human volunteers with alginate coated cells and with the collagen tube have been undertaken recently. An approval for expanded studies is under consideration by the Italian Ministry of Health.

Extensive studies in mice have demonstrated the viability and safety of the treatment. Public concerns about the transmission of viruses and retrovirus (porcine endogenous retrovirus or PERV) are being investigated by the company which has a skilled and competent team of virologists.

2.2 INTELLECTUAL PROPERTY

Diatranz has a number of granted patents and international patent applications most of which have been lodged in the past four years. Hence, if granted, the terms of protection can be expected to last well into the commercialisation period. The key patents cover a combination of matters including alginate encapsulation, the use of various reagents such as lidocaine and nicotinamide in cell preparation, the management of the human recipient with casein-free diet and cholesterol lowering drugs, etc. It is not appropriate for us to review these matters at length. The company has obtained expert advice from US based intellectual property lawyers. Suffice it to say that Diatranz has sought to protect its IP but much of what is claimed is subject to prior art considerations, some of which is public domain, for example alginate encapsulation, nicotinamide and casein free diet. The combination of materials and procedures is novel and may result in granted patents. In any event, a lack of patentability will not impact on the company's freedom to operate.

Diatranz's studies in mice have shown that a combination of casein-free diet and nicotinamide almost completely suppresses the immune response by which the insulin-producing cells are rejected and that the effect is greater than when either is used alone.

There are more recent patents that cover the use of near term piglets (immediately prior to full gestation or just following birth) which, it is claimed, improves the viability and survival of extracted islet cells. We consider these patents, along with the company's in-house, trade-secret protected, methods for isolating and preparing islet cells, to be the key differentiating features of the Diatranz technology. An additional, unanticipated but subsequently demonstrated, outcome of this choice of piglet age is that the potential transmission of bacteria and viruses may be mitigated.

There is knowhow and expertise in the refinement of the alginate used in coating the islets, licensed from the University of Perugia, that minimises toxicity to islets and human recipients and improves efficacy of the cells. The reproducibility of encapsulated cells manufactured with the Italian procedure is very high, which is important from regulatory and quality assurance points-of-view.

The company has also sought patent protection for some original work that may enable the long-term maintenance and propagation of human and porcine islet cells in vitro. The ability to grow cells and expand numbers has not been demonstrated previously, other than through the development of tumorous cell lines (see above).

A collaboration with the National University of Mexico via Val de Bio, a company which has the license to international patent applications, provides Diatranz with a second encapsulation mechanism. The full surgical procedure involves the addition of a second cell type to the capsule, although this is not essential, which may require a license from a third party that has patents covering the use of these cells in combination with islet cells.

2.3 PRODUCTION AND QUALITY ASSURANCE

Diatranz has a manufacturing facility in Auckland that meets the guidelines for Good Manufacturing Practices ("GMP") as required for the production of therapeutic goods. A licence from the New Zealand Ministry of Health has been issued to this effect. The facility receives piglets and excises pancreases under sterile conditions. Alginate gel coatings are applied in the facility under GMP.

The company currently has capacity to breed and process in excess of 5,000 pigs a year to manufacture enough pancreatic islet cells for almost 800 patients a year, although this has not been achieved. This is more than adequate for clinical trials, but capacity of both pig production and islet preparation will need to be expanded once commercial operations commence.

We have reviewed the company's production documentation and believe it to be of a high standard. We believe that it satisfies guidelines for clinical trials. Nonetheless, an audit by the US Food and Drug Administration ("FDA") would be required before products could be marketed into that country.

Thus, the company is ready to proceed with clinical trials using both encapsulation approaches (while continuing to investigate other systems) and is awaiting approvals in one country while preparing submissions for others. In this respect it is more advanced than other companies around the world.

2.4 COLLABORATIONS

In addition to the collaborations with the University of Perugia, which provides access to alginate gel refinement technology as well as support for clinical trials, and the National University of Mexico, also involving an encapsulation system and assistance with clinical trials, Diatranz is working with the US Centres for Disease Control on methods for identifying and managing the transmission of infection from pigs to humans.

The company has also established a number of collaborations in the USA and Australia aimed at further development and testing of its artificial pancreas and applying its knowhow and expertise in animal cell isolation to other diseases such as liver disease, Alzheimer's disease and cystic fibrosis.

The results of the company's Mexican trials have been reviewed by leading transplant surgeon, Dr Roy Calne, who has offered assistance in evaluating the system in primates.

3. Diatranz Management

3.1 Senior Staff

We have met with senior company management and reviewed curriculum vitae, particularly of scientific, medical and production staff. We are able to confirm that Diatranz has a core of competent individuals involved in all aspects of R&D and production of trial material, and that it has built its strengths in areas that are relevant to furthering the development and testing of products. In particular, we view regulatory issues and virology as essential to success, along with experience with clinical trials, and we are impressed by the people involved in these activities.

In addition, we are of the opinion that strong financial management and commercial skills are essential to maintaining momentum and in negotiating licensing deals. Diatranz has sought to strengthen its commercial skills and introduce discipline to administration over the past year. LCT has indicated that the employment of staff, including a CEO with industry knowledge and experience to direct the company particularly towards commercialisation of its products is an area of high priority.

There has been a dependency on certain individuals which we consider to be a consequence of the small size of the firm and an inability to transfer expertise within divisions. The important staff are shareholders of the company and as the company grows, particularly through the Australian operation, these dependencies will diminish. In the meantime, we believe that it is important for Diatranz to retain staff through incentive programs, and have been advised that a staff option incentive program is currently being finalised.

3.2 COMMERCIALISATION STRATEGY

Our earlier report noted that Diatranz lacked expertise in the trialing of medical devices, regulatory affairs, and international marketing. It would not, in our opinion, have been expeditious nor cost-effective in the light of significant competition for Diatranz to go-it-alone and develop all relevant resources to target the world market.

Diatranz has compensated for its lack of size to enable it to better compete in an international market by:

- Engaging Ashford International Research Centre Pty Ltd ("AIRC") to conduct its trailing of medical devices and deal with all regulatory affairs in relation to those trails.

AIRC is an internationally recognised clinical testing centre currently conducting a significant number of phase I and II clinical trails, many of them part of broader worldwide trail under the auspices of the FDA. AIRC's professional reputation is well known in clinical testing circles in the USA and Europe.

- Engaging CPR Pty Ltd, specialist media and regulatory authority lobbyists, to provide the company with Government facilitation & liaison services, media & public relations services and critical incident debrief and strategy to ensure the company develops the correct relationships with Government, media and the public.

- Positioning the company into the business of being a "product pipeline" developing a portfolio to the stage where each product's basic safety, efficacy and preliminary functioning are established so that each can be joint ventured with an international partner.

- Initiating discussions with strategic partners to increase the size and scope of the pig herds once clinical testing is more advanced. Considerable resources are being focussed on the company's ability to expand its virology, quality assurance, medical and veterinary capabilities, and to licence and/or joint venture with pig herd developers and medical service providers to expand pig herd numbers (once clinical testing is sufficiently advanced) and infrastructure (clean rooms, GMP facilities, etc).

The company's commercialisation strategy is to progress the development of its products through clinical trials and then to offer the living cell therapies to patients through specialised cell therapy centres. An initial Living Cell Treatment Centre is proposed to be established in Adelaide to cater for the application of diabetes treatments to a limited population 1½ million. The cost of Diabetes in Australia is almost $1 billion per year. The Living Cell Treatment Centre will assist only 2% of the potential diabetes market and will be used to test the business model. Other products affecting other diseases can be treated in the Living Cell Treatment Centre in a similar fashion as regulatory approvals are obtained and they come to market. The Living Cell Treatment Centre is intended to be replicated and scaled to cater for larger populations in other Australian states and overseas.

4. RISKS

The development of pharmaceuticals and medical devices involves significant hurdles before final market acceptance. Preclinical testing, clinical trialing, manufacturing and marketing are subject to various regulatory authorities' approvals. The processes are both costly and protracted and there is no guarantee that regulatory approval will be obtained. In addition, many nations now mandate cost effectiveness analyses prior to placement on medical reimbursement lists which require demonstration that the product achieves the same outcome as existing treatment options at lesser cost, or achieves a superior outcome that justifies an increased cost.

There are competing drug development and gene discovery programs targeting diabetes, including better delivery of insulin. There are literally dozens of companies conducting drug discovery programs, and the overall research expenditure could exceed hundreds of millions of dollars. There is little doubt that future drugs will offer better glucose control and be more acceptable to patients than today's products.

Many of Diatranz' competitors have substantially greater technical and financial resources, production and marketing capabilities, and experience in bringing drugs to market and obtaining regulatory approvals. The company's strategy is, however, to license development to larger firms once delivery issues have been resolved and access those substantially greater technical and financial resources rather than attempt to compete against them.

The New Zealand Government has recently tightened its regulations on xenotransplantation which restricted Diatranz Limited's ability to conduct trials in that country. We understand that these regulations were introduced without public consultation or the publication of guidelines for applications to conduct research in the area.

The New Zealand ban does not currently preclude the export of products for use in xenotransplantation. Thus Diatranz can still source and process its porcine islet cells in New Zealand, and export these to Australia and elsewhere for clinical trials. Early problems with the international transport of cells have been successfully overcome.

The US Government has issued guidelines for clinical trials involving the transplantation of animal tissue into humans, but initially placed on hold clinical trials using porcine derived materials pending the development by sponsors of sensitive and specific assays for PERV both at the preclinical development/production stage and post transplantation screening. Guidelines issued by the FDA in 2001 address these issues and, subject to satisfying the FDA that preclinical testing achieves an acceptable standard, patients are fully informed and consent freely given, and that suitable methods for monitoring are in place, trials may proceed.

In Britain, the UK Xenotransplantation Interim Regulatory Authority (UKXIRA) is receiving and will screen applications, with government ministers giving the final approval. Guidelines are available to assist sponsors with applications.

The cautious approach adopted by regulators worldwide may slow progress in the testing and marketing of products and could adversely affect Diatranz's long term survival. However, we believe that regulations are moving in the right direction and companies such as Diatranz will receive the approvals they require to advance their products' development.

There remains considerable concern about the potential for PERV transmission to humans. Many studies have been conducted that show lack of infection of human cells in culture and the follow-up of humans that have received porcine tissue has so far failed to identify evidence of infection. These patients included people who have received skin grafts and diabetics who have been given pancreatic islets. Even in patients who had their immune systems suppressed with drugs as part of their treatment and were therefore presumed to be at increased risk of infection there has been no evidence of infection.

It is usual for healthcare companies to carry product liability insurance (or self insure) in the event of an adverse effect or death resulting from use of their products. Payouts can be extremely high. There is no assurance that Diatranz can obtain such insurance, particularly covering clinical evaluations, and even if it did the amount may not adequately cover potential liabilities.

5. DEVELOPMENTS SUBSEQUENT TO FEBRUARY 2002

LCT was incorporated on 23 October 2002 to license the intellectual property from Diatranz Limited (NZ company), subsequently acquire the assets of Diatranz Limited and progress the development of islet cell transplantation products in a country that has an established regulatory framework for clinical trials involving xenotransplantation. While the acquisition of the NZ assets is being finalised, LCT has lodged applications for Australian State and Federal Grants and initiated programs to conduct clinical trials under the Therapeutic Goods Administration and National Health & Medical Research Council Guidelines. Production of cells for these trials will be sources from the GMP facility of Diatranz Limited in Auckland.

The TGA governs medical trials of products and procedures in Australia. Regulatory approval to commence clinical trials in Australia is not considered to be an obstacle now that guidelines are in place and the New Zealand facility meets internationally recognised GMP requirements.

As the company approaches marketing it may be possible to transfer herd management and islet cell production to Australia, but at this stage there is no major imperative to do so.

Diatranz has progressed a number of its other xenotransplantation programs, including liver cell implantation for haemophilia and inborn errors of metabolism and choroid plexus cells for Alzheimer's disease. We understand that scientific approval from the New Zealand Child Health Research Foundation has been received for the former program. We believe the broader activities of the company are important to maintain the international leadership position of the company.

We note that there has been no loss of key staff since our earlier review. We were particularly impressed by the calibre of people employed by the company and we are pleased that they are continuing. We also note the formation of a Scientific Advisory Committee in Australia which includes Professor Robert Seamark one of the pioneers of animal, and in particular, porcine transgenics. The involvement of Seamark, along with Drs Jenny Couper and John Graham with their experience in diabetes research and management, will ensure the highest medical and ethical standards are maintained.

6. SUMMARY

There are a number of companies and academic researchers around the world developing xenotransplantation products for treating diabetes, as well as looking at other treatment approaches. The overall objectives of these strategies are to find more "user-friendly" approaches to the routine injection of insulin and to obtain better glucose control in the patient. There are many reasons that the transplantation of islets, without concomitant administration of immunosuppressive drugs, may be the preferred treatment. Once cells have been transplanted, patients can expect many years of normal existence without daily worries about taking their pills, puffs or shots and without concern about over- or under-dosing. Pancreatic cells will respond to glucose changes and produce insulin as required - drugs cannot achieve euglycemia.

There are obvious concerns related to xenotransplantation, particularly the potential transference of PERVs, and the viability and longevity of the transplanted cells in a situation where the recipient's body mounts an immune response to the foreign tissue. Immune issues can be overcome through encapsulation and extensive studies will be required to understand the long term survival of cells. Ongoing research is required into infection and it may be some time before the matter is comprehensively resolved.

Diatranz is one of the few companies in the world that is capable of producing islet cells under GMP conditions on a routine basis and it is one of a hand full that have initiated clinical trials. It underpins its research with unique intellectual property and strong collaborations. Diatranz differentiates itself from its competitors in the way it manages the issues of rejection and virus transmission. A combination of cell encapsulation and pretreatment of cells and patients aims to overcome rejection and enhance islet functioning. A first level barrier against the transmission of bacteria and viruses, as well as prions, arises from the sourcing of donor animals in New Zealand with a recognised disease-free status. In addition to this, animals are bred and raised under pathogen free conditions. The matter of PERVs is still under investigation by Diatranz, and its collaborators and competitors, but it would appear that the procedures used for obtaining cells minimises the potential for transmission to humans (if in fact it does occur).

In summary, Diatranz has made remarkable progress without the financial and scientific resources of its competitors. It is making a unique contribution to the management of diabetes. There are technical issues that must be addressed with islet xenotransplantation which the company understands well. It has technical staff dedicated to their resolution and has formed collaboration to ensure progress remains competitive.

7. OTHER MATTERS

In evaluating the program to develop therapeutic products, we had regard to the relevant guidelines and regulations relating to the conduct of human clinical trials and the production of therapeutic goods. We do not consider our inspection of Diatranz facilities to be as rigorous as an audit undertaken by a therapeutic products regulatory authority. We aimed only to assure investors that the company is familiar with the requirements and that adequate effort is being applied to achieving the necessary standard.

Neither Acuity Technology Management nor its principals have any pecuniary interest in Diatranz Limited or LCT that could be regarded as affecting the ability to provide an unbiased opinion of the matters contained in this report. Acuity will receive a professional fee for the preparation of this report.

We have given our written consent to the issue of this report in the current Information Memorandum of LCT included in the form and context in which it appears. We have been involved only in the preparation of this Report and not in the preparation of any other part of this Information Memorandum, and specifically disclaim liability to any person in respect of any statements included elsewhere in this Information Memorandum. We have not, other than as set out above, been involved in the preparation of or authorised or caused the issue of this Information Memorandum.

Yours sincerely

David H Randerson, BE, PhD
Managing Director

Acuity Technology Management

Acuity is a consultancy firm that advises on R&D and its commercialisation with a particular emphasis on biotechnology. Dr Randerson has over 30 years experience as a practicing biomedical engineer and research adviser. He has managed commercial and academic research programs, taught engineering at tertiary institutes and worked in the medical device and pharmaceutical industries. Acuity undertakes technology and market assessments of projects and provides advice to investors in relation to high technology projects.

APPENDIX 6: UNAUDITED BALANCE SHEET OF DIATRANZ LIMITED AS AT 30 SEPTEMBER 2003

	Unaudited 30 September 2003 NZ$000
CURRENT ASSETS	
Cash assets	16
Receivables	(5)
Stocks	12
TOTAL CURRENT ASSETS	25
NON CURRENT ASSETS	
Property, plant and equipment	775
TOTAL NON CURRENT ASSETS	775
TOTAL ASSETS	798
CURRENT LIABILITIES	
Payables	(162)
Loans	(3,714)
Hire purchase	(2)
Provisions	(26)
Other*	(563)
TOTAL CURRENT LIABILITIES	(4,467)
NON CURRENT LIABILITIES	-
TOTAL NON CURRENT LIABILITIES	-
TOTAL LIABILITIES	(4,467)
NET ASSETS	(3,669)
EQUITY	
Issued share capital	7,663
Share premium reserve	2,439
Fund raising costs	(2,850)
Retained earnings	(11,121)
NET ASSETS	(3,669)

*- Includes NZ$552,836 of accrued loan interest.

Source: Supplied by LCT directors

APPENDIX 7: SUMMARY OF TOP 5 LCT SHAREHOLDERS IN WAY POST-TRANSACTION

Shareholder	Proposed shareholding in WAY	Percentage of shares in issue
Diatranz shareholders	17,000,000	35.5%
K One W One Limited	6,916,435	14.4%
Graham and David Collinson	5,231,007	10.9%
M Cooper Nominees Pty Ltd	1,250,000	2.6%
M Knox Holdings Pty Ltd	500,001	1.0%
	30,897,443	**64.4%**

Note the above excludes Waymouth shareholders who will hold 23.3% of the issued WAY share capital if the proposed transaction is accepted.

APPENDIX 8: CALCULATION OF IMPACT ON WAY CAPITAL STRUCTURE IF ALL OPTIONS AND CONVERTIBLE NOTES ARE EXERCISED

Number of WAY shares on issue pre-transaction	12,787,500		
WAY shares issued as part of proposed transaction	35,143,402		
WAY shares on issue post-transaction	47,930,902		
Value of WAY net assets post-transaction	$8,462,164		
Assessed value per WAY share post-transaction	$0.18		
Assume all options are exercised	**Number**	**Exercise Price**	**Cash Value**
WAY options	1,000,000	$0.22	$220,000
LCT options	12,336,150	$0.21	$2,590,592
Assume all convertible notes are converted			
Value of convertible loans in LCT	$1,080,682		
Conversion price	$0.35		
Equivalent number of LCT shares	3,087,663		
Convert to WAY on the basis of 17 WAY for 10 LCT	5,249,027		
Summary			
WAY shares in issue post-transaction	47,930,902		
Number of shares issued as options are called	13,336,150		
Number of shares issued as loans are converted	5,249,027		
Revised number of shares on issue	66,516,079		
Net assets post-transaction	$8,462,164		
Cash received from exercise of options	$2,810,592		
Removal of loans converted to equity	$1,080,682		
Revised net assets	$12,353,438		
Revised value per share	$0.19		
Revised WAY share capital held by:			
WAY shareholders	13,787,500	20.7%	
LCT shareholders	52,728,579	79.3%	
	66,516,079		

APPENDIX 9: OPTIONS VALUATIONS USING BLACK & SCHOLES OPTION PRICING MODEL

WAY Options

Refer Section 3.2 of our report
Exercise Price – 22 cents
Term of Expiry – 30/6/08 (~5 years)
Share Price – 17 cents
(refer Section 7.1.5 of our report)

LCT Options

Refer Section 4.3 of our report
Exercise Price – 35 cents
Term of Expiry 30/6/10 (~7 years)
Share Price – 30 cents
(refer Section 7.2.5 of our report)

Black & Scholes Assumptions

- No dividends.
- Bond equivalent yield – 5.7%
  (November 2003-3 YR GB: 5.7%; 10YR GB: 5.8%)

Volatility	15%	20%	30%	40%	50%	60%	70%
Value of one WAY Option ($)	0.024	0.032	0.046	0.06	0.073	0.086	0.097
17 WAY options ($)	0.408	0.544	0.782	1.02	1.241	1.462	1.649
Value of one LCT option ($)	0.081	0.093	0.118	0.143	0.166	0.187	0.206
10 LCT options ($)	0.81	0.93	1.18	1.43	1.66	1.87	2.06

Black & Scholes Input Variables

We have used the Black & Scholes Option Valuation ("Black & Scholes") model in determining an indicative valuation for the options referred to above.

The Black & Scholes model is reliant on the following series of input criteria:

- market price of the underlying security;
- option exercise price;
- term to maturity of the option;
- Commonwealth Government Bond rate, that matches the option term to maturity;
- annual rate of dividends; and
- volatility.