The Companies Announcements Office,
The Australian Stock Exchange Limited,
SYDNEY
Via: asxonline
13th September 2006

APPENDIX 4E

The results for announcement to the market are as follows:-

1. The reporting period is twelve months from 1st July 2005 to 30th June 2006. The previous reporting period is twelve months to 30th June 2005.

2. Key information relating to the above reporting period is as follows:-

	30 June 2006	30 June 2005	%age change
2.1 Revenues from ordinary activities	$1,707,952	$1,446,178	up 18.1%
2.2 Loss from ordinary activities after tax attributable to members	$1,877,981	$4,001,546	down 53.1%
2.3 Net loss attributable to members	$1,877,981	$4,001,546	down 53.1%
2.4 Proposed dividend	Nil	Nil	
2.5 Not applicable			
2.6 Refer attached report			
2.7 Net tangible assets per issued security	$0.0029	$0.0016	

4. The company did not gain or lose control over any other entity during the reporting period.
5. There was no payment of dividends during the reporting period.
6. There is no dividend reinvestment plan in operation.
7. There are no associates or joint venture entities.
8. The company is not a foreign entity.

9 to 14 – see attached financials

15. The accounts are in the process of being audited.

COMMENTARY ON RESULTS FOR THE PERIOD

REVENUE

Revenues from ordinary activities were 18% higher than in 2005 due to new sales by Nuvanta in S.E. Asia and improved margins from Pharmanex which increased sales by 81% over the prior year.

No product sales in Australia have been recorded since the distribution agreement with the company's Australian distributor was terminated in November 2005. This dispute is the subject of litigation. The company is advancing negotiations for alternative product distribution in Australia with an outcome expected in the first half of this financial year.

EXPENDITURE

Operational expenditure reduced by 42% overall compared to the previous year or by over $1.8m as the company reduced staff, contracted out most R&D activities and also reduced administrative and corporate expenditure

BUSINESS STRATEGY

The company continues to narrow its focus by concentrating on securing distribution agreements with major companies for its probiotic products in Australia and overseas.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2006

	NOTES	CONSOLIDATED		PROBIOMICS LIMITED	
		2006	2005	**2006**	2005
		$	$	$	$
Sale of goods	4(a)	**1,684,644**	1,388,812	**1,684,644**	1,388,812
Finance revenue	4(a)	**23,308**	57,366	**23,308**	57,366
Revenue		**1,707,952**	1,446,178	**1,707,952**	1,446,178
Cost of sales		**(1,293,637)**	(1,048,802)	**(1,293,637)**	(1,048,802)
Gross profit		**414,315**	397,376	**414,315**	397,376
Other income	4(b)	**47,369**	38,988	**47,369**	38,988
Research & development expenses	4(f)	**(606,116)**	(697,962)	**(606,116)**	(697,962)
Intellectual property expenses		**(93,094)**	(307,650)	**(93,094)**	(307,650)
Marketing expenses		**(338,484)**	(947,985)	**(338,484)**	(947,985)
Administrative and corporate expenses	4(d)/4(e)	**(1,576,772)**	(2,484,313)	**(1,576,772)**	(2,484,313)
Finance costs	4(c)	**(5,596)**	-	**(5,596)**	-
Loss before income tax		**(2,158,378)**	(4,001,546)	**(2,158,378)**	(4,001,546)
Income tax (expense)/refund	5	**280,397**	-	**280,397**	-
Loss after tax attributable to members of the parent		**(1,877,981)**	(4,001,546)	**(1,877,981)**	(4,001,546)
Basic loss per share (cents per share)	6	(1.33)	(3.81)	(1.33)	(3.81)
Diluted loss per share (cents per share)	6	(1.33)	(3.81)	(1.33)	(3.81)

Balance Sheet

AS AT 30 JUNE 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PROBIOMICS LIMITED 2006 $	PROBIOMICS LIMITED 2005 $
ASSETS					
Current Assets					
Cash and cash equivalents	8	**209,427**	403,486	**209,427**	403,486
Trade and other receivables	9	**679,138**	381,044	**679,138**	381,044
Inventories	10	**92,188**	364,160	**92,188**	364,160
Prepayments		**3,956**	23,491	**3,956**	23,491
Government grants		**9,836**	-	**9,836**	-
Total current assets		**994,545**	1,172,181	**994,545**	1,172,181
Non-current assets					
Other financial assets	11	**-**	-	**100**	410
Property, plant and equipment	12	**78,775**	129,001	**78,775**	129,001
Total non-current assets		**78,775**	129,001	**78,875**	129,411
TOTAL ASSETS		**1,073,320**	1,301,182	**1,073,420**	1,301,592
LIABILITIES					
Current liabilities					
Trade and other payables	15	**626,130**	1,039,922	**626,230**	1,040,332
Provisions	17	**33,362**	66,653	**33,362**	66,653
Government grants		**-**	9,012	**-**	9,012
Total current liabilities		**659,492**	1,115,587	**659,592**	1,115,997
Non-current liabilities					
Provisions	17	**3,245**	7,631	**3,245**	7,631
TOTAL LIABILITIES		**662,737**	1,123,218	**662,837**	1,123,628
NET ASSETS		**410,583**	177,964	**410,583**	177,964
EQUITY					
Contributed equity	18	**24,990,320**	22,900,486	**24,990,320**	22,900,486
Other reserves	18	**122,520**	101,754	**122,520**	101,754
Accumulated losses	18	**(24,702,257)**	(22,824,276)	**(24,702,257)**	(22,824,276)
TOTAL EQUITY		**410,583**	177,964	**410,583**	177,964

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2006

	Issued Capital $	Retained Earnings $	Other Reserves $	Total Equity $
CONSOLIDATED				
At 1 July 2004	19,955,725	(18,822,730)	32,137	1,165,132
Cost of issue of shares	(154,989)	-	-	(154,989)
Total income and expense for the period recognised directly in equity	(154,989)	-	-	(154,989)
Loss for the period	-	(4,001,546)	-	(4,001,546)
Total income and expense for the period	(154,989)	(4,001,546)	-	(4,156,535)
Issue of shares	3,099,750	-	-	3,099,750
Cost of share-based payments	-	-	69,617	69,617
At 30 June 2005	22,900,486	(22,824,276)	101,754	177,964
At 1 July 2005	22,900,486	(22,824,276)	101,754	177,964
Cost of issue of shares	(120,188)	-	-	(120,188)
Total income and expense for the period recognised directly in equity	(120,188)	-	-	(120,188)
Loss for the period	-	(1,877,981)	-	(1,877,981)
Total income and expense for the period	(120,188)	(1,877,981)	-	(1,998,169)
Issue of shares	2,210,022	-	-	2,210,022
Cost of share-based payments	-	-	20,766	20,766
At 30 June 2006	24,990,320	(24,702,257)	122,520	410,583

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PROBIOMICS LIMITED 2006 $	PROBIOMICS LIMITED 2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**1,396,586**	1,636,450	**1,396,586**	1,636,450
Payments to suppliers and employees		**(3,756,802)**	(4,553,255)	**(3,756,802)**	(4,553,255)
Receipt of government grants		**73,729**	68,628	**73,729**	68,628
Interest received		**23,308**	57,366	**23,308**	57,366
NET CASH FLOWS USED IN OPERATING ACTIVITIES	8	**(2,263,179)**	(2,790,811)	**(2,263,179)**	(2,790,811)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant & equipment		**38,010**	-	**38,010**	-
Acquisition of property, plant & equipment		**(58,724)**	(19,094)	**(58,724)**	(19,094)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**(20,714)**	(19,094)	**(20,714)**	(19,094)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		**2,210,022**	3,099,750	**2,210,022**	3,099,750
Payment of share issue costs		**(120,188)**	(154,988)	**(120,188)**	(154,988)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**2,089,834**	2,944,762	**2,089,834**	2,944,762
NET INCREASE/(DECREASE) IN CASH HELD		**(194,059)**	134,857	**(194,059)**	134,857
ADD OPENING CASH BROUGHT FORWARD		**403,486**	268,629	**403,486**	268,629
CLOSING CASH CARRIED FORWARD	8	**209,427**	403,486	**209,427**	403,486

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

1. CORPORATE INFORMATION

Probiomics Limited is a company limited by shares incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on an historical cost basis.

The financial report is presented in Australian dollars.

Going concern

Although the company completed a capital raising of $1,025,000 in August 2006, its ability to continue as a going concern is dependent on it generating sufficient income to cover costs and the completion of an additional capital raising within the coming months. The directors believe there is no reason to doubt that these sources of funds will become available. However, should losses continue and/or the future capital raising not be successful, the company may not be able to continue as a going concern. If the company is unable to obtain such funding at an amount and timing necessary to meet its future operational plans, or to successfully exploit its intellectual property, the company may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement.* The company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 26.

AASB Amend-ment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard	Application date for Group
2004-3	AASB 1 *First-time adoption of AIFRS* AASB 101 *Presentation of Financial Statements* AASB 124 *Related Party Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-4	AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time adoption of AIFRS*,	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-5	AASB 1 *First-time adoption of AIFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-9	AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB Amend-ment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard	Application date for Group
2005-10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time adoption of AIFRS*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
2006-1	AASB 121 *The Effects of Change in Foreign Currency Rates*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006

New or revised Standard/ UIG Affected Standard (s)	Nature of change to accounting policy	Application date of standard / interpretation	Application date for Group
AASB 119 *Employee Benefits*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
AASB 7 *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
UIG 4 *Determining whether an Arrangement contains a Lease*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
UIG 8 *Scope of AASB 2*	No change to accounting policy required. Therefore no impact.	1 May 2006	1 May 2006
UIG 9 *Reassessment of Embedded Derivatives*	No change to accounting policy required. Therefore no impact.	1 June 2006	1 June 2006

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Probiomics Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The subsidiaries have been dormant for the entire current year.

(d) Significant accounting judgements, estimates and assumptions

(i) *Significant accounting estimates and assumptions:*

Share-based payment transactions:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Black-Scholes model, using the assumptions detailed in note 13.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.
(ii) Interest income
The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 30 June 2006 and 30 June 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting policies applicable for the year ending 30 June 2006
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for the year ending 30 June 2005
Revenue is recognised when the Group's right to receive payment is established.

(f) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit and loss.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(i) Cash and short term deposits

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Trade receivables, which generally have 30-90 day terms, are recognised and carried forward at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for the year ending 30 June 2005

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

(k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:
Raw materials – purchase cost on a first-in first-out basis; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(l) Impairment of financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
The Group assess at each balance date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, the asset is included in a group of financial assets with similar risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost
If there is subjective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available for sale investments
If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Accounting policies applicable for the year ending 30 June 2005
For current financial assets, refer to note 2(j) and note 2(u) for the impairment accounting policy.
For non-current financial assets, refer to note 2(u) for the impairment accounting policy.

(m) Foreign currency translation

Both the functional and presentation currency of Probiomics Limited and its Australian subsidiaries is Australian dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(n) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:-

• when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
• when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:
• when the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; or
•when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and the taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset or the liability is settled, based on tax rates, and tax laws, that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(o) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:
• where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of the expense items as applicable; and
• receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financial activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.
Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(p) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a diminishing-value basis over the estimated useful life of the assets as follows:-

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment – ranging from 2 to 20 years
Office equipment – ranging from 2 to 14 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) De-recognition and disposal

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the year the asset is de-recognised.

(q) Investments and other financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-values this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains and losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an unidentified period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are classified as any of the three preceding categories. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is de-recognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in recognised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation technologies. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting policies applicable for the year ending 30 June 2005

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount.

Recoverable amount
Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount.

(r) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

(s) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset’s value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of its time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An assessment is made at each reporting date also as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(t) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005
Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Group.

(u) Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(v) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. The Group does not provide for sick leave as it has no obligation to pay accumulated sick leave not taken when employees leave the Group's employment.

(ii) Long service leave
The liability for long service leave is recognised in non-current provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match as closely as possible the estimated cash outflows.

(w) Pensions and other post-employment benefits

The Group provides only superannuation that is required under government legislation. The cost is expensed as it is incurred.

(x) Share –based payment transactions

(i) Equity-settled transactions
The Group provides benefits to employees, including directors, of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions')
The plan in place to provide these benefits is the Employee Share Option Plan (ESOP) which provides benefits to directors and senior executives by way of options to purchase fully paid shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, details of which are given in note 13.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Probiomics Limited ('market conditions') if applicable.
The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date, reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performances conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangements, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilutions in the computation of earnings per share (see note 6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(z) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. SEGMENT INFORMATION

Geographical segments
The Group's geographical segments are determined based on the location of the Group's assets.

The following tables present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 30 June 2006 and 30 June 2005.

	Australia		USA		SE ASIA		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Revenue								
Sales to external customers	**90,113**	680,252	**1,301,400**	717,285	**316,439**	48,641	**1,707,952**	1,446,178
Other revenues from external customers	**47,369**	38,988	**-**	-	**-**	-	**47,369**	38,988
Segment revenue	**137,482**	718,111	**1,301,400**	717,285	**316,439**	48,641	**1,755,321**	1,484,037
Other segment information								
Segment assets	**981,132**	1,098,159	**92,188**	203,023	**-**	-	**1,073,320**	1,301,182
Capital expenditure	**58,724**	19,094	**-**	-	**-**	-	**58,724**	19,094

The consolidated entity does not perform an analysis of costs and expenses by segment. All costs and expenses are measured on a combined basis and are not allocated between segments.

	CONSOLIDATED		PROBIOMICS LIMITED	
	2006	2005	**2006**	2005
	$	$	**$**	$
4. REVENUES AND EXPENSES				
Revenues from continuing operations				
(a) Revenue				
Sale of goods	**1,684,644**	1,388,812	**1,684,644**	1,388,812
Finance revenue – interest received and receivable	**23,308**	57,366	**23,308**	57,366
	1,707,952	1,446,178	**1,707,952**	1,446,178
(b) Other income				
Government grants	**83,565**	69,957	**83,565**	69,957
Exchange gains/(losses)	**(3,024)**	(16,783)	**(3,024)**	(16,783)
Profit/(loss) on disposal of property, plant and equipment	**(33,172)**	(14,186)	**(33,172)**	(14,186)
	47,369	38,988	**47,369**	38,988

Government grants have been received to partly fund research and development expenditure. There are no unfulfilled conditions or contingencies attaching to these grants.

(c) Finance costs				
Finance charges payables under finance leases and hire purchase contracts	**5,596**	-	**5,596**	-
(d) Depreciation, foreign exchange differences included in the income statement				
Included in Administration and corporate expenses				
Depreciation	**37,768**	34,939	**37,768**	34,939
Included in other income				
Net foreign exchange losses	**3,024**	16,783	**3,024**	16,783
(e) Employee benefits expense				
Included in Administration and Corporate expenses				
Wages and salaries	**529,676**	1,072,824	**529,676**	1,072,824

	CONSOLIDATED		PROBIOMICS LIMITED	
	2006	2005	**2006**	2005
(e) Employee benefits expense (cont.)	**$**	$	**$**	$
Redundancy costs	**13,596**	54,436	**13,596**	54,436
Annual leave provision (reduction)	**(33,291)**	(13,547)	**(33,291)**	(13,547)
Long service leave provision (reduction)	**(4,386)**	(3,791)	**(4,386)**	(3,791)
(f) Research and development expense				
Wages and salaries	**245,449**	168,349	**245,449**	168,349

5. INCOME TAX

The major components of income tax expense/(benefit) for the years ended 30 June 2006 and 30 June 2005 are:				
Income statement				
Current income tax				
Current income tax charge	**-**	-	**-**	-
Research and development rebate received in respect of the year ended 30 June 2005	**280,397**	-	**280,397**	-
Deferred income tax	-	-	-	-
Relating to origination and reversal of temporary timing differences	-	-	-	-
Income tax (benefit) reported in the income statement	**280,397**	-	**280,397**	-
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended 30 June 2006 and 30 June 2005 is as follows:				
Accounting loss before income tax	**2,158,378**	4,001,546	**2,158,378**	4,001,546
At the Company's statutory income tax rate of 30% (2005: 30%)	647,514	1,200,464	647,514	1,200,464
Expenditure not allowable for income tax purposes	11,117	11,278	11,117	11,278
Losses not brought to account	(939,028)	(1,211,742)	(939,028)	(1,211,742)
Income tax benefit reported in accounts	(280,397)	-	(280,397)	-
Effective income tax rate	(13%)	0%	(13%)	0%
Research and Development rebate received in respect of the year ended 30 June 2005	(280,397)	-	(280,397)	-
Income tax (benefit) reported in income statement	(280,397)	-	(280,397)	-

As at 30 June 2006 the consolidated entity has not brought to account a future income tax benefit (at 30%) of $6,789,293 made up of tax losses of $6,769,901 and timing differences of $19,392 (2005: $6,236,668 – tax losses $6,206,507, timing differences of $30,161) as realisation of the benefit is not probable.

The future income tax benefit will be obtained only if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised,
(b) the condition for deductibility imposed by tax legislation continue to be complied with, and
(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax consolidation
Probiomics Limited and its 100% owned Australian subsidiaries have formed a tax consolidation group with effect from 1 July 2004.

6. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	CONSOLIDATED	
	2006	2005
	$	$
Net loss attributable to ordinary equity holders of the parent from continuing operations	**1,877,981**	4,001,546
	2006 Number	2005 Number
Weighted average number of ordinary shares for basic earnings per share	**132,446,078**	104,764,195

7. DIVIDENDS PAID AND DECLARED

No dividends have been paid or declared in the reporting period.

	CONSOLIDATED		PROBIOMICS LIMITED	
	2006	2005	**2006**	2005
	$	$	**$**	$
8. CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	**209,427**	403,486	**209,427**	403,486
Reconciliation of net loss after tax to net cash flows from operations				
Net profit/(loss)	**(1,877,981)**	(4,001,546)	**(1,877,981)**	(4,001,546)
Adjustments for:				
Depreciation	**37,768**	34,929	**37,768**	34,929
Net (profit)/loss on disposal of property, plant and equipment	**33,172**	14,186	**33,172**	14,186
Cost of share options	**20,766**	59,486	**20,766**	59,486
Changes in assets and liabilities				
(Increase)/decrease in inventories	**271,972**	75,776	**271,972**	75,776
(Increase)/decrease in trade and other receivables	**(298,094)**	1,041,986	**(298,094)**	1,041,986
(Increase)/decrease in prepayments	**19,535**	64,630	**19,535**	64,630
(Decrease)/increase in trade and other payables	**(413,792)**	(85,479)	**(413,792)**	(85,479)
(Decrease)/increase in provisions	**(37,677)**	(3,791)	**(37,677)**	(3,791)
Decrease/(Increase) in government grants	**(18,848)**	9,012	**(18,848)**	9,012
Net cash flows from operating activities	**(2,263,179)**	(2,790,811)	**(2,263,179)**	(2,790,811)
9. TRADE AND OTHER RECEIVABLES				
Trade receivables	**611,203**	261,772	**611,203**	261,772
Other receivables	**67,935**	119,272	**67,935**	119,272
	679,138	381,044	**679,138**	381,044
Australian dollar equivalent of amounts receivable in foreign currencies not formally hedged.				
United States dollars	**240,535**	4,572	**240,535**	4,572
10. INVENTORIES				
Raw materials (at cost)	**92,188**	171,178	**92,188**	171,178
Finished goods (at cost)	-	192,982	**-**	192,982
	92,188	364,160	**92,188**	364,160

Inventory write-downs recognised as an expense totalled $75,532 (2005: nil) for the Group. The expense is included in the cost of sales line item in the Income Statement.

	Percentage of equity held by the company	CONSOLIDATED		PROBIOMICS LIMITED	
		2006	2005	**2006**	2005
		$	$	$	$
11. OTHER FINANCIAL ASSETS					
Shares in Controlled Entities at cost					
- Convergent BioScience Pty Ltd	100%	**-**	-	**-**	100
- Sphere Animal Health Ltd	100%	**-**	-	**100**	100
- VRI Diagnostics Pty Ltd	100%	**-**	-	**-**	100
- VRI Therapeutics & Vaccines Pty Ltd	100%	**-**	-	**-**	100
- Vasse Research Institute Pty Ltd	100%	**-**	-	**-**	10
		-	-	**100**	410

During the reporting period the company deregistered Convergent BioScience Pty Ltd., VRI Diagnostics Pty Ltd., VRI Therapeutics Pty Ltd., and Vasse Research Institute Pty ltd. The carrying amounts of the investments in those companies were expensed.

	CONSOLIDATED 2006	CONSOLIDATED 2005	PROBIOMICS 2006	PROBIOMICS 2005
12. PROPERTY, PLANT & EQUIPMENT				
Plant and equipment				
At 1 July 2005 net of accumulated depreciation	**129,001**	159,033	**129,001**	159,033
Additions	**58,724**	19,094	**58,724**	19,094
Disposals	**(71,182)**	(14,187)	**(71,182)**	(14,187)
Depreciation charge for the year	**(37,768)**	(34,939)	**(37,768)**	(34,939)
At 30 June 2006 net of accumulated depreciation	**78,775**	129,001	**78,775**	129,001
At 30 June 2006				
Cost or fair value	**240,983**	286,324	**240,983**	286,324
Accumulated depreciation	**(162,208)**	(157,323)	**(162,208)**	(157,323)
Net carrying amount	**78,775**	129,001	**78,775**	129,001

13. SHARE BASED PAYMENT PLANS

Employee Share Option Plan

The Group provides benefits to employees, including directors, of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (‘equity-settled transactions’)

The plan in place to provide these benefits is the Employee Share Option Plan (ESOP) which provides benefits to directors and senior executives by way of options to purchase fully paid shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Probiomics Limited (‘market conditions’).

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date, reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performances conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

13. SHARE BASED PAYMENT PLANS (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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

	2006 *No.*	***2006*** *WAEP*	*2005* *No.*	*2005* *WAEP*
Outstanding at the beginning of the year	**3,500,000**	**$0.60**	3,930,000	$0.69
Granted during the year	**3,500,000**	**$0.25**	2,250,000	$0.25
Expired during the year	**(2,890,000)**	**$0.25**	(2,680,000)	$0.67
Outstanding at the end of the year	**4,110,000**	**$0.39**	3,500,000	$0.60
Exercisable at the end of the year	**4,110,000**		3,500,000	

The outstanding balance as at 30 June 2006 is represented by:
- 360,000 options over ordinary shares with an exercise price of $0.75 each, exercisable by 23 November 2006
- 750,000 options over ordinary shares with an exercise price of $0.75 each, exercisable by 14 January 2008, and
- 3,000,000 options over ordinary shares with an exercise price of $0.25 each, exercisable by 31 July 2007

The weighted average remaining contractual life for the share options outstanding as at 30 June 2006 is between 1 and 2 years (2005: 1 and 3 years).

The range of exercisable prices for options outstanding at the end of the year was $0.25 to $0.75 (2005: $0.25 to $0.75)

The weighted average fair value of options granted during the year was $0.006 (2005: $0.022)

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

The following table lists the inputs to the model used for the years ended 30 June 2006 and 30 June 2005.

	2006	2005
Expected volatility %	**60**	60
Risk-free interest rate %	**6**	5
Expected life of options (years)	**2**	2
Option exercise price	**$0.25**	$0.25
Weighted average share price at grant date ($c)	**$0.078**	$0.155

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

The fair vale of the cash-settled options is measured at the grant date using the Black-Scholes option pricing model taking into account the terns and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss.

The carrying amount of the liability relating to the cash-settled share-based payments at 30 June 2006 is $122,520 (2005: $101,754).

14. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Group provides only that superannuation that is legally enforceable in Australia. The current rate is 9% of wages and salaries. (2005: 9%).

15. TRADE AND OTHER PAYABLES

	CONSOLIDATED		PROBIOMICS LIMITED	
	2006	2005	**2006**	2005
	$	$	$	$
Trade payables (i)	**551,375**	873,820	**551,375**	873,820
Accrued expenses	**28,034**	26,254	**28,034**	26,254
GST liability	**3**	14,215	**3**	14,215
Employee superannuation payable	**22,498**	39,407	**22,498**	39,407
PAYG payable	**24,220**	79,186	**24,220**	79,186
Other payables	**-**	7,040	**100**	7,450
	626,130	1,039,922	**626,230**	1,040,332
(i) Trade payables are non-interest bearing and are generally settled on 60 day terms.				
Australian dollar equivalents of amounts payable in foreign currencies not formally hedged:				
United States Dollars	**169,249**	165,874	**169,249**	165,874

16. INTEREST-BEARING LOANS AND BORROWINGS

The Group has no interest-bearing loans or borrowings.

17. PROVISIONS

Current				
Employee annual leave				
At 1 July	**66,653**	80,200	**66,653**	80,200
Arising during year	**29,852**	55,550	**29,852**	55,550
Utilised	**(63,143)**	(69,097)	**(63,143)**	(69,097)
At 30 June	**33,362**	66,653	**33,362**	66,653
Non-current				
Employee long service leave				
At 1 July	**7,631**	11,422	**7,631**	11,422
Arising during the year	**-**	-	**-**	-
Utilised	**-**	-	**-**	-
Unused amounts reversed	**(4,386)**	(3,791)	**(4,386)**	(3,791)
At 30 June	**3,245**	7,631	**3,245**	7,631

18. CONTRIBUTED EQUITY AND RESERVES

Ordinary shares – issued and fully paid	**24,990,320**	22,900,486	**24,990,320**	22,900,486

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value of shares. Accordingly the Parent does not have authorised capital nor par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Number of shares	$	**Number of shares**	$
Movement in ordinary shares on issue				
1 July 2004	**83,973,127**	19,955,725	**83,973,127**	19,955,725
Issued on 20 July 2004 for cash	**21,000,000**	2,100,000	**21,000,000**	2,100,000
Issued 13 May 2005 for cash	**8,331,250**	999,750	**8,331,250**	999,750
Cancelled by a selective reduction in capital	**(260,000)**	-	**(260,000)**	-
Transaction costs on share issue	**-**	(154,989)	**-**	(154,989)
30 June 2005	**113,044,377**	22,900,486	**113,044,377**	22,900,486
Issued 26 August 2005 for cash	**12,588,000**	1,007,040	**12,588,000**	1,007,040
Issued 13 December 2005 for cash	**16,039,843**	1,202,982	**16,039,843**	1,202,982
Transaction costs on share issues	**-**	(120,188)	**-**	(120,188)
At 30 June 2006	**141,672,220**	24,990,320	**141,672,220**	24,990,320

18. CONTRIBUTED EQUITY AND RESERVES (continued)

Share options
The company has an Employee Share Option Plan (ESOP) under which options to subscribe for the company's shares have been granted to certain executives and other employees (refer note 24)

Retained earnings
Movements in retained earnings were as follows:

	CONSOLIDATED		**PROBIOMICS LIMITED**	
	2006	2005	**2006**	2005
	$	$	**$**	$
Balance 1 July	**(22,824,276)**	(18,822,730)	**(22,824,276)**	(18,822,730)
Loss for the year	**(1,877,981)**	(4,001,546)	**(1,877,981)**	(4,001,546)
Balance 30 June	**(24,702,257)**	(22,824,276)	**(24,702,257)**	(22,824,276)

Reserves
Movements in reserves were as follows:

Balance 1 July	**101,754**	32,137	**101,754**	32,137
Share-based payment	**20,766**	69,617	**20,766**	69,617
Balance 30 June	**122,520**	101,754	**122,520**	101,754

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases by the Parent company in currencies other than the Group's functional currency which is Australian dollars (A$).

Approximately 93% of the Group's sales were denominated in currencies other than A$, whilst approximately 24% of cost of sales are denominated in A$.

The Group does not hedge its foreign currency transactions as both sales and cost of sales are in the same currency viz. US$.

Credit risk
The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the Group since the Group has only a few major customers at this stage of its development.

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

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

Liquidity risk
The Group's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required. The Group has no borrowings.

20. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

	Carrying amount		Fair value	
	2006	2005	**2006**	2005
	$	$	**$**	$
CONSOLIDATED				
Financial assets				
Cash	**209,427**	403,486	**209,427**	403,486
Trade receivables	**611,203**	261,772	**611,203**	261,772
Other financial assets (current)	**67,935**	119,272	**67,935**	119,272
Financial liabilities				
Trade payables	**551,375**	873,820	**551,375**	873,820
Other financial liabilities (current)	**74,755**	166,102	**74,755**	166,102

	Carrying amount		Fair value	
	2006	2005	**2006**	2005
PARENT				
Financial assets				
Cash	**209,427**	403,486	**209,427**	403,486
Trade receivables	**611,203**	261,772	**611,203**	261,772
Other financial assets (current)	**67,935**	119,272	**67,935**	119,272
Financial liabilities				
Trade payables	**551,375**	873,820	**551,375**	873,820
Other financial liabilities (current)	**74,855**	166,512	**74,855**	166,512

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

	CONSOLIDATED				**PARENT**			
YEAR ENDED 30 JUNE 2006	**Less than one year**	**Two to five years**	**Greater than five years**	**Weighted average effective interest rate**	**Less than one year**	**Two to five years**	**Greater than five years**	**Weighted average effective interest rate**
		$'000	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**%**
Floating rate								
Cash and cash equivalents	**209,427**	**-**	**-**	**3.5%**	**209,427**	**-**	**-**	**3.5%**
Interest-bearing liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	CONSOLIDATED				PARENT			
	Less than one year	Two to five years	Greater than five years	Weighted average effective interest rate	Less than one year	Two to five years	Greater than five years	Weighted average effective interest rate
YEAR ENDED 30 JUNE 2005	$'000	$'000	$'000	%	$'000	$'000	$'000	%
Floating rate								
Cash and cash equivalents	403,486	-	-	2.9%	403,486	-	-	2.9%
Interest-bearing liabilities	-	-	-	-	-	-	-	-

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

21. COMMITMENTS AND CONTINGENCIES

The Group has no lease or other financial commitments.

Legal claims

(i) As at the date of this report the company is in a legal dispute with an ex-consultant who commenced proceedings in 2003 for the recovery of alleged fees owing of $135,000. If the action is successful through the Court process, the company would be liable to pay these fees plus estimated legal costs of between $60,000 and $70,000 plus interest and the claimant's costs.

The Directors are of the opinion, based on legal advice, that the matter will be defended successfully so no provision has been recognised in the financial statements at 30 June 2006.

(ii) Probiomics Limited has commenced proceedings against the ex-distributor of proTract for the recovery of goods held on behalf of the company by the distribution company and also for full payment of amounts owing by that company. The Directors are of the opinion, based on legal advice, that the action will be successful and no provision has been made for non-recovery of the goods or the debt in the financial statements. The distribution company's contract was terminated during the period and that company has made a cross-claim against Probiomics Limited seeking damages of $750,000 for breach of contract including wrongful termination. The figure of $750,000 is the maximum that can be claimed in the Court in which the claim was lodged. The particulars received to date in respect of the cross-claim indicate the actual amount of the claim to be substantially less than $750,000. The Directors are of the opinion, based on legal advice, that the cross-claim will not be successful so no provision has been made in the financial statements at 30 June 2006 for the cross-claim.

22. EVENTS AFTER BALANCE SHEET DATE

(i) Subsequent to the reporting date the company raised $1,025,000 (before costs of $51,250) by way of a placement of 20,500,000 shares to sophisticated investors at $0.05 per share. This capital will provide the company with working capital and will allow it to continue to develop and market its products. The placement has not been recognised in the financial statements for the year ended 30 June 2006.

(ii) On 15 August 2006 the company announced that it was calling a general meeting of shareholders to ratify the above placement of shares, to approve the granting of two options to a client of Tolhurst Noall Limited to purchase two tranches of shares and to issue options to a Director. The first tranche of options for the client of Tolhurst Noall is for 17m shares at $0.05 per share is exercisable by 30 September 2006 and the second tranche of 18m shares at $0.08 per share is exercisable by 30 April 2007.

23. AUDITORS REMUNERATION

The auditor of Probiomics Limited is Ernst & Young.

	Consolidated		**Probiomics Limited**	
	2006	2005	**2006**	2005
	$	$	**$**	$
Amounts received and receivable by Ernst & Young (Australia) for:				
- an audit or review of the financial reports of the entity and any other entity in the consolidated entity	**66,950**	59,163	**66,950**	59,163
- other services in relation to the entity and any other entity in the consolidated entity				
- Tax compliance	**8,000**	19,935	**8,000**	19,935
- Special audits required by regulators	**-**	12,100	**-**	12,100
	74,950	91,198	**74,950**	91,198

24. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

B M Gardiner	Chairman
P D Ford	Non-executive director
R Penny	Non-executive director

(ii) Executives

K R Slatyer	Chief Executive Officer
P B Magoffin	Chief Financial Officer & Company Secretary
P W French*	Manager – Innovation & Business Development
P L Conway**	Chief Scientist

*Dr French became a part-time employee from 1st May 2006.
** A/Prof Conway's contract was terminated on 7th June 2006.

There have been no changes of the CEO or other key management personnel after the reporting date and the date that the financial report was authorised for issue.

(b) Compensation of Key Management Personnel

(i) Compensation policy
The Remuneration Committee of the Board of Directors of Probiomics Limited is responsible for determining and reviewing compensation arrangements for its Directors, the Chief Executive Officer and other senior employees. The Remuneration Committee assesses the appropriateness of the nature and quantum of each officer's remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. The company requires all employees including executives to sign an employment agreement upon commencement of employment and this agreement allows *inter alia* for employees to take their remuneration package in a variety of forms if they wish such as a motor vehicle in lieu of salary. It is intended that the manner of payment chosen will be optional for the employee without creating undue administrative expense for the company. The current employment agreements for the Chief Executive Officer and Chief Financial Officer/Company Secretary provide for a notice period of three months by both parties or payment in lieu thereof. There are no other termination payments due under the contracts other than statutory entitlements.

Employee option Plan:
In addition to the agreed remuneration package, some senior employees are offered the opportunity to participate in the company's Employee Option Plan which grants the employee options to purchase shares at a fixed price at some time in the future in accordance with the plan's rules . This is designed to be an incentive for the employees granted options to remain with the company so that it can achieve its operational and corporate goals and budgets.
Details of the options are set out in note 13.

(ii) Remuneration Committee
The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.
Salaries are reviewed periodically by the Committee but there is no specific link to company performance as the company has, until recently, been engaged mainly in research and development and linking remuneration to R&D outcomes would be inappropriate in the company's view.

None of the named directors and officers' remuneration contains a component 'at risk'.

Details of the nature and amount of each element of the emolument of each Director of the Company and each of the four executive officers of the Company and the consolidated entity receiving the highest emolument for the financial year are as follows:

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(iii) Remuneration of Specified Directors and Specified Executives

		Short-term		Post - employment	Share-based payments	Other	TOTAL
Directors		Directors fees	Salary	Superannuation	Options		
B M Gardiner	**2006**	**55,000**	**-**	**4,950**	**-**	**1,978**	**61,928**
	2005	15,000	-	1,012	9,000	8,115	33,127
R Penny	**2006**	**45,000**	**-**	**4,050**	**-**	**1,978**	**51,028**
	2005	15,000	-	1,012	9,000	8,115	33,127
P D Ford	**2006**	**48,750**	**-**	**4,388**	**-**	**1,978**	**55,116**
	2005	-	-	-	-	8,115	8,115
	2006	**148,750**	**-**	**13,388**	**-**	**5,934**	**168,072**
	2005	30,000	-	2,024	18,000	24,345	74,369

		Short-term		Post- employment	Share-based payments	Other	TOTAL
Executives		Directors fees	Salary	Superannuation	Options		
K R Slatyer	**2006**	**-**	**150,000**	**13,500**	**-**	**1,978**	**165,478**
	2005	15,000	143,481	17,638	-	45,615	221,734
P B Magoffin	**2006**	**-**	**135,000**	**12,150**	**-**	**1,978**	**149,128**
	2005	-	131,732	11,855	-	8,115	151,702
P W French	**2006**	**-**	**143,846**	**12,946**	**-**	**1,978**	**158,770**
	2005	-	168,060	15,125	-	8,115	191,300
P L Conway	**2006**	**-**	**91,667**	**8,250**	**18,000**	**7,978**	**125,895**
	2005	-	91,667	8,250	-	14,115	114,032
	2006	**-**	**520,513**	**46,846**	**18,000**	**13,912**	**599,271**
	2005	15,000	534,940	52,868	-	75,960	678,768

(c) Compensation options: Granted and vested during the year (Consolidated)

During the financial year options were granted as equity compensation benefits under the Employee Share Option Plan (ESOP) to Directors as disclosed below. No share options were granted to Key Executives under the ESOP. The options were issued free of charge. Each option entitled the holder to subscribe for one fully paid ordinary share in the entity at an exercise price of $0.25. The options expired on 30th June 2006 and none was exercised. There are no cash settlement alternatives. For further details relating to the options, refer to note 13.

	Vested	**Granted**	**Terms and conditions of each grant**					
30 June 2006	Number	Number	Grant date	Fair Value per option at grant date (note 13)	Exercise price per option (note 13)	Expiry date	First exercise date	Last exercise date
Directors								
B M Gardiner	250,000	250,000	20 Jan 06	-	$0.25	30 June 06	20 Jan 06	30 June 06
R Penny	250,000	250,000	20 Jan 06	-	$0.25	30 June 06	20 Jan 06	30 June 06

	Vested	**Granted**	**Terms and conditions of each grant**					
30 June 2005	Number	Number	Grant date	Fair Value per option at grant date (note 19)	Exercise price per option (note 19)	Expiry date	First exercise date	Last exercise date
Directors								
B M Gardiner	500,000	500,000	8 Apr 05	$0.018	$0.25	30 June 06	8 Apr 05	30 June 06
R Penny	500,000	500,000	8 Apr 05	$0.018	$0.25	30 June 06	8 Apr 05	30 June 06
G C Wild	500,000	500,000	26 Nov 04	$0.044	$0.25	30 June 06	26 Nov 04	30 June 06
G C Wild	250,000	250,000	25 May 05	$0.007	$0.25	30 June 06	25 May 05	30 June 06
V Garland	500,000	500,000	8 Apr 05	$0.018	$0.25	30 June 06	8 Apr 05	30 June 06

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Option holdings of Key Management Personnel

30 June 2006	*Balance at beginning of period 1 Jul 05*	*Granted as remuneration*	*Options exercised*	*Options lapsed*	*Balance at end of period 30 Jun 06*	*Vested at 30 June 2006*		
						Total	*Exercisable*	*Not-exercisable*
Directors								
B M Gardiner	500,000	250,000	Nil	750,000	Nil	-	-	-
R Penny	500,000	250,000	Nil	750,000	Nil	-	-	-
P D Ford	-	-	-	-	-	-	-	-
Executives								
K R Slatyer	-	-	-	-	-	-	-	-
P B Magoffin	-	-	-	-	-	-	-	-
P W French	750,000	-	Nil	-	750,000	750,000	750,000	-
P L Conway	500,000	3,000,000	Nil	140,000	3,360,000	3,360,000	3,360,000	-

30 June 2005	*Balance at beginning of period 1 Jul 04*	*Granted as remuneration*	*Options exercised*	*Options lapsed*	*Balance at end of period 30 Jun 05*	*Vested at 30 June 2005*		
						Total	*Exercisable*	*Not-exercisable*
Directors								
B M Gardiner	-	500,000	Nil	-	500,000	500,000	500,000	500,000
R Penny	-	500,000	Nil	-	500,000	500,000	500,000	500,000
P D Ford	-	-	-	-	-	-	-	-
Executives								
K R Slatyer	-	-	-	-	-	-	-	-
P B Magoffin	-	-	-	-	-	-	-	-
P W French	750,000	-	Nil	-	750,000	750,000	625,000	125,000
P L Conway	500,000	-	Nil	-	500,000	-	-	-

(e) Shareholdings of Key Management Personnel (consolidated)

No Directors or Key Management Personnel hold any shares in the company other than those held beneficially as detailed in the Directors' Report.

(f) Loans to Key Management Personnel (consolidated)

No loans have been made to any Director or Key Management Personnel.

(g) Other transactions and balances with Key Management Personnel

There were no other transactions with Key Management personnel during the year.

25. RELATED PARTY DISCLOSURES

Probiomics Limited is the ultimate Australian parent company.

Transactions with Directors.

(i) During the year Probiomics Limited was provided services, on normal commercial terms and conditions, by Taylor Collison Pty Limited, totalling $121,551. Mr Patrick Ford is an employee of Taylor Collison Limited.

(ii) During the year Probiomics Limited was provided services, on normal terms and conditions, by Good Health Solutions Pty Ltd totalling $19,459. Prof Ron Penny is a director of Good Health Solutions Pty Ltd.

26. TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Company prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These annual financial statements for the year ended 30 June 2006 are the first the Company is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Company has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 2. In preparing these financial statements, the Company has started from an opening balance sheet as at 1 July 2004, the Company's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

This note explains the principal adjustments made by the Company in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied:
AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.
The Company has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the Company has adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.

- AASB 2 Share-based Payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

Explanation of material adjustments to the cash flow statement
There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

Balance sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2004.

	Notes	CONSOLIDATED			PROBIOMICS LIMITED		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		$	$	$	$	$	$
CURRENT ASSETS							
Cash and cash equivalents		268,629		268,629	268,629		268,629
Trade and other receivables		1,423,030		1,423,030	1,423,030		1,423,030
Inventories		439,936		439,936	439,936		439,936
Other		88,121		88,121	88,121		88,121
TOTAL CURRENT ASSETS		2,219,716		2,219,716	2,219,716		2,219,716
NON-CURRENT ASSETS							
Property, plant and equipment		159,033		159,033	159,033		159,033
TOTAL NON-CURRENT ASSETS		159,033		159,033	159,033		159,033
TOTAL ASSETS		2,378,749		2,378,749	2,378,749		2,378,749
CURRENT LIABILITIES							
Trade and other payables		1,111,854	10,141	1,121,995	1,111,854	10,141	1,121,995
Provisions		80,200		80,200	80,200		80,200
TOTAL CURRENT LIABILITIES		1,192,054		1,202,195	1,192,054		1,202,195
NON-CURRENT LIABILITIES							
Provisions		11,422		11,422	11,422		11,422
TOTAL NON-CURRENT LIABILITIES		11,422		11,422	11,422		11,422
TOTAL LIABILITIES		1,203,476		1,213,617	1,203,476		1,213,617
NET ASSETS		1,175,273	(10,141)	1,165,132	1,175,273	(10,141)	1,165,132

26. TRANSITION TO AIFRS (continued)

	Notes	CONSOLIDATED			PROBIOMICS LIMITED		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		$	$	$	$	$	$
EQUITY							
Contributed equity		19,955,725	-	19,955,725	19,955,725	-	19,955,725
Reserves	A	-	32,137	32,137	-	32,137	32,137
Retained profits	A	(18,780,452)	(42,278)	(18,822,730)	(18,780,452)	(42,278)	(18,822,730)
TOTAL EQUITY		1,175,273	(10,141)	1,165,132	1,175,273	(10,141)	1,165,132

Balance sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005.

	Notes	CONSOLIDATED			PROBIOMICS LIMITED		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		$	$	$	$	$	$
CURRENT ASSETS							
Cash and cash equivalents		403,486	-	403,486	403,486	-	403,486
Trade and other receivables		381,044	-	381,044	381,044	-	381,044
Inventories		364,160	-	364,160	364,160	-	364,160
Prepayments		23,491	-	23,491	23,491	-	23,491
Government grants		-	-	-	-	-	-
TOTAL CURRENT ASSETS		1,172,181		1,172,181	1,172,181		1,172,181
NON-CURRENT ASSETS							
Property, plant and equipment		129,001	-	129,001	129,001	-	129,001
TOTAL NON-CURRENT ASSETS		129,001	-	129,001	129,001	-	129,001
TOTAL ASSETS		1,301,182		1,301,182	1,301,182		1,301,182
CURRENT LIABILITIES							
Trade and other payables		1,039,922	-	1,039,922	1,039,922	-	1,039,922
Provisions		66,653		66,653	66,653		66,653
Government grants		-	9,012	9,012	-	9,012	9,012
TOTAL CURRENT LIABILITIES		1,106,575	9,012	1,115,587	1,106,575	9,012	1,115,587
NON-CURRENT LIABILITIES							
Provisions		7,631	-	7,631	7,631	-	7,631
TOTAL NON-CURRENT LIABILITIES		7,631	-	7,631	7,631	-	7,631
TOTAL LIABILITIES		1,114,206	9,012	1,123,218	1,114,206	9,012	1,123,218
NET ASSETS		186,976	(9,012)	177,964	186,976	(9,012)	177,964
EQUITY							
Contributed equity		22,900,486	-	22,900,486	22,900,486	-	22,900,486
Reserves	A	-	101,754	101,754	-	101,754	101,754
Retained profits	A,B,	(22,713,510)	(110,766)	(22,824,276)	(22,713,510)	(110,766)	(22,824,276)
TOTAL EQUITY		186,976	(9,012)	177,964	186,976	(9,012)	177,964

26. TRANSITION TO AIFRS (continued)

Income statement for the year ended 30 June 2005.

YEAR ENDED 30 June 2005	Notes	CONSOLIDATED			PROBIOMICS LIMITED		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		$	$	$	$	$	$
Sales revenue		1,388,812	-	1,388,812	1,388,812	-	1,388,812
Finance revenue		57,366	-	57,366	57,366	-	57,366
		1,446,178	-	1,446,178	1,446,178	-	1,446,178
Cost of sales		(1,048,802)	-	(1,048,802)	(1,048,802)	-	(1,048,802)
Gross Profit		397,376	-	397,376	397,376	-	397,376
Other income		37,859	1,129	38,988	37,859	1,129	38,988
Research and development costs		(697,962)	-	(697,962)	(697,962)	-	(697,962)
Intellectual property expenses		(307,650)	-	(307,650)	(307,650)	-	(307,650)
Marketing expenses		(947,985)	-	(947,982)	(947,985)	-	(947,982)
Administrative and corporate expenses		(2,414,696)	(69,617)	(2,484,313)	(2,414,696)	(69,617)	(2,484,313)
Finance costs		-	-	-	-	-	-
Profit before income tax expense		(3,933,058)	(68,488)	(4,001,546)	(3,933,058)	(68,488)	(4,001,546)
Income tax expense		-	-	-	-	-	-
Profit after income tax expense		(3,933,058)	(68,488)	(4,001,546)	(3,933,058)	(68,488)	(4,001,546)

Impact of adopting AIFRS

Outlined below are the areas impacted by adoption of AIFRS, including the financial impact on equity and profit.

Reference	Item	AGAAP	AIFRS	Impact	
				CONSOLIDATED	PARENT
A	Share based payments	Share-based payments were not required to be expensed	AASB 2 *Share-based payments* requires entities to recognise an expense in relation to shares, options and other equity instruments provided to employees (including directors). These share-based payment transactions must be fair valued at grant date and recognised as an expense in profit or loss evenly over the vesting period. An adjustment was required to recognise share-based payments granted after 7 November 2002 and vesting after 1 January 2005.	*Equity at transition:* Increase to accumulated losses and increase to employee equity benefits reserve of $32,137. Net effect zero. *Equity at 30 June 2005:* Increase to accumulated losses and increase to employee equity benefits reserve of $101,754. *Profit for 30 June 2005:* Decrease in profit of $69,617	*Equity at transition:* Increase to accumulated losses and increase to employee equity benefits reserve of $32,137. Net effect zero. *Equity at 30 June 2005:* Increase to accumulated losses and increase to employee equity benefits reserve of $101,754. *Profit for 30 June 2005:* Decrease in profit of $69,617

Reference	Item	AGAAP	AIFRS	Impact	
B	Government grants	Fair value of the government grant was recognised as revenue when the entity gained control over the grant.	Under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, grant income should be matched to the expenditure to which it relates in the period when the expenditure is incurred.	CONSOLIDATED *Equity on transition:* Increase to accumulated losses and recognition of government grants (deferred income) of $10,141 *Equity at 30 June 2005:* Increase to accumulated losses and recognition of government grants (deferred income) of $9,012 *Loss for 30 June 2005:* Decrease to loss of $1,129	PARENT *Equity on transition:* Increase to accumulated losses and recognition of government grants (deferred income) of $10,141 *Equity at 30 June 2005:* Increase to accumulated losses and recognition of government grants (deferred income) of $9,012 *Loss for 30 June 2005:* Decrease to loss of $1,129

(A) Under AASB 2 ‘Share Based Payments’, the Company has recognised the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. This standard extends to other forms of equity based remuneration such as Probiomics Limited’s Employee Share Plan. Share-based payment costs were not recognised under AGAAP.

(B) Under AASB 120 the Company is required to match expenditure on projects that attract a government grant against the revenue from the grant in the same reporting period. The adjustments to the Company’s operating losses for the above years now reflect that treatment.