



The Companies Announcements Office,
The Australian Stock Exchange Limited,
SYDNEY

Via: asxonline
13th September 2005

APPENDIX 4E

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

1. The reporting period is twelve months from 1st July 2004 to 30th June 2005. The previous reporting period is twelve months to 30th June 2004.
2. Key information relating to the above reporting period is as follows:-

| | 30 June 2005 | 30 June 2004 | %age change |
|---|--------------|--------------|-------------|
| 2.1 Revenues from ordinary activities | \$1,515,006 | \$1,900,165 | down 20.3% |
| 2.2 Loss from ordinary activities after tax attributable to members | \$3,933,058 | \$4,337,044 | down 9.3% |
| 2.3 Net loss attributable to members | \$3,933,058 | \$4,337,044 | down 9.3% |
| 2.4 Proposed dividend | Nil | Nil | |
| 2.5 Not applicable | | | |
| 2.6 Refer attached report | | | |
| 2.7 Net tangible assets per issued security | \$0.0016 | \$0.014 | |
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 20% lower than in 2004 due to Government grant income being only \$68,828 in 2005 compared to \$721,552 in 2004. The START and BIF grants both terminated during 2004/2005.

Revenue from the sale of products increased by 27.3% due to the inclusion of sales from the proTract range for a full year. Sales were lower than budget due to production problems which resulted in some customers being without product for up to 7 months.

EXPENDITURE

Operational expenditure reduced by 13% overall or by over \$750,000 as the company narrowed its activities by terminating R&D on vaccines and diagnostics and concentrating on the promotion and sale of its probiotic range of products.

BUSINESS STRATEGY

Our primary objective is to achieve a cash flow positive business.

A streamlining of the production process will enable us to attract new licencing partners that are capable of product marketing and distribution. To this end we are advancing discussions with major pharmaceutical companies. We will therefore be relieved of the unsustainable requirement to market our own products and will revert to our core competence of product development for our partners.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

| | NOTES | CONSOLIDATED | | PROBIOMICS LIMITED | |
|---|-------|--------------|-------------|--------------------|-------------|
| | | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| REVENUES FROM ORDINARY ACTIVITIES | 2 | 1,515,006 | 1,900,165 | 1,515,006 | 1,900,165 |
| Cost of goods sold | | (1,048,802) | (871,860) | (1,048,802) | (871,860) |
| Annual report | | (15,427) | (30,194) | (15,427) | (30,194) |
| Audit fees | | (91,198) | (143,810) | (91,198) | (143,810) |
| Depreciation expenses | | (34,939) | (36,825) | (34,939) | (36,825) |
| Directors' fees | | (119,583) | (198,555) | (119,583) | (198,555) |
| Insurances | | (219,301) | (208,230) | (219,301) | (208,230) |
| Legal fees | | (51,815) | (56,227) | (51,815) | (56,227) |
| Product design and marketing costs | | (947,985) | (828,696) | (947,985) | (828,696) |
| Salaries and employee benefits expense | | (1,055,686) | (874,083) | (1,055,686) | (874,083) |
| Redundancy costs | | (54,436) | (318,016) | (54,436) | (318,016) |
| Research and development expenditure | | (697,962) | (1,486,173) | (697,962) | (1,486,173) |
| Intellectual property protection costs | | (307,650) | (179,350) | (307,650) | (179,350) |
| Travel expenses | | (274,917) | (187,824) | (274,917) | (187,824) |
| Rental expenses | | (69,270) | (156,160) | (69,270) | (156,160) |
| Consultancy fees | | - | (64,998) | - | (64,998) |
| Other expenses from ordinary activities | 3 | (459,093) | (596,208) | (459,093) | (596,208) |
| LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE | | (3,933,058) | (4,337,044) | (3,933,058) | (4,337,044) |
| INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES | 4 | - | - | - | - |
| NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE | 14 | (3,933,058) | (4,337,044) | (3,933,058) | (4,337,044) |
| Share issue costs | | (154,988) | (475,651) | (154,988) | (475,651) |
| TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF PROBIOMICS LIMITED AND RECOGNISED DIRECTLY IN EQUITY | | (154,988) | (475,651) | (154,988) | (475,651) |
| TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF PROBIOMICS LIMITED | | (4,088,046) | (4,812,695) | (4,088,046) | (4,812,695) |
| Basic loss per share (cents per share) | | (3.8) | (5.6) | (3.8) | (5.6) |
| Diluted loss per share (cents per share) | | (3.8) | (5.6) | (3.8) | (5.6) |

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

| | NOTES | CONSOLIDATED | | PROBIOMICS LIMITED | |
|----------------------------------|-------|------------------|------------------|--------------------|------------------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash assets | | 403,486 | 268,629 | 403,486 | 268,629 |
| Receivables | 5 | 381,044 | 1,423,030 | 381,044 | 1,423,030 |
| Inventories | 6 | 364,160 | 439,936 | 364,160 | 439,936 |
| Prepayments | 7 | 23,491 | 88,121 | 23,491 | 88,121 |
| TOTAL CURRENT ASSETS | | 1,172,181 | 2,219,716 | 1,172,181 | 2,219,716 |
| NON-CURRENT ASSETS | | | | | |
| Other Financial Assets | 8 | - | - | 410 | 410 |
| Property, Plant and Equipment | 9 | 129,001 | 159,033 | 129,001 | 159,033 |
| TOTAL NON-CURRENT ASSETS | | 129,001 | 159,033 | 129,411 | 159,443 |
| TOTAL ASSETS | | 1,301,182 | 2,378,749 | 1,301,592 | 2,379,159 |
| CURRENT LIABILITIES | | | | | |
| Payables | 10 | 1,039,922 | 1,111,854 | 1,040,332 | 1,112,264 |
| Provisions | 11 | 66,653 | 80,200 | 66,653 | 80,200 |
| TOTAL CURRENT LIABILITIES | | 1,106,575 | 1,192,054 | 1,106,985 | 1,192,464 |
| NON-CURRENT LIABILITIES | | | | | |
| Provisions | 12 | 7,631 | 11,422 | 7,631 | 11,422 |
| TOTAL LIABILITIES | | 1,114,206 | 1,203,476 | 1,114,616 | 1,203,886 |
| NET ASSETS | | 186,976 | 1,175,273 | 186,976 | 1,175,273 |
| EQUITY | | | | | |
| Contributed Equity | 13 | 22,900,486 | 19,955,725 | 22,900,486 | 19,955,725 |
| Accumulated Losses | 14 | (22,713,510) | (18,780,452) | (22,713,510) | (18,780,452) |
| TOTAL EQUITY | | 186,976 | 1,175,273 | 186,976 | 1,175,273 |

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
30 JUNE 2005

| | NOTES | CONSOLIDATED | | PROBIOMICS LIMITED | |
|---|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | | 1,636,450 | 731,487 | 1,636,450 | 731,487 |
| Government grants | | 68,628 | 793,707 | 68,628 | 793,707 |
| Payments to suppliers and employees | | (4,660,440) | (4,760,331) | (4,660,440) | (4,760,331) |
| Interest received | | 57,366 | 87,618 | 57,366 | 87,618 |
| Research and development costs | | (697,962) | (1,709,905) | (697,962) | (1,709,905) |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | 15 | (3,595,958) | (4,857,424) | (3,595,958) | (4,857,424) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Proceeds from sale of property, plant & equipment | | - | 4,669 | - | 4,669 |
| Proceeds from short term deposits | | 805,147 | 120,300 | 805,147 | 120,300 |
| Purchase of short term deposits | | - | (805,147) | - | (805,147) |
| Acquisition of property, plant & equipment | | (19,094) | (51,648) | (19,094) | (51,648) |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | 786,053 | (731,826) | 786,053 | (731,826) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issue of ordinary shares | | 3,099,750 | 5,020,185 | 3,099,750 | 5,020,185 |
| Payment of share issue costs | | (154,988) | (511,970) | (154,988) | (511,970) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | 2,944,762 | 4,508,215 | 2,944,762 | 4,508,215 |
| NET INCREASE/(DECREASE) IN CASH HELD | | 134,857 | (1,081,035) | 134,857 | (1,081,035) |
| ADD OPENING CASH BROUGHT FORWARD | | 268,629 | 1,349,664 | 268,629 | 1,349,664 |
| CLOSING CASH CARRIED FORWARD | 15 | 403,486 | 268,629 | 403,486 | 268,629 |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

1. 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 Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. There accounting policies have been applied consistently by each entity in the Consolidated Entity and are consistent with those of the previous year. The financial report has been prepared on an accrual basis of accounting including the historical cost convention and the going concern assumption.

Going concern

Although the company completed a capital raising of \$1,000,000 in August 2005, 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.

Unless otherwise stated these accounts have been prepared in Australian dollars

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Probiomics Limited (the parent company) and all entities which Probiomics Limited controlled from time to time during the year and at the balance date. Information from the financial statements of controlled entities is included from the date the parent company obtains control until such time control ceases. Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(d) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract. All resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

(e) Cash and cash equivalents

Cash on hand and in banks and short term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within three months, net of outstanding bank overdrafts.

Interest is taken up as income on an accrual basis.

(f) Receivables

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

Receivables from related parties are recognised and carried at the nominal amount due.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

(g) Investments

Investments in controlled entities are carried at cost.

(h) Inventories

Manufacturing and maintenance

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
- Finished goods and work-in progress – cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

(i) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value using a market determined risk adjusted discount rate.

(j) Plant and equipment

Cost, valuation and depreciation

Items of plant and equipment are recorded in the financial report at cost. Depreciation is calculated on a diminishing value basis over the useful life as follows:-

| | |
|--|--------------------|
| Plant and equipment ranging from 2 to 20 years | (2004: 2-20 years) |
| Office equipment ranging from 2 to 14 years | (2004: 2-14 years) |

(k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(l) Research and development.

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs.

(m) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, where charged by the lender, is recognised as an expense on an accrual basis.

(n) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. It is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(o) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on ordinary shares issued at balance date are recognised directly in equity as a reduction of the share proceeds received.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

(p) Revenue recognition

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

Sale of goods

Control of the goods has passed to the buyer.

Interest

Control of a right to receive the interest payment.

Government grants – Research & development START grant income from AusIndustry and Bio First (BIF) grant income from the NSW Dept of State and Regional Development

This is recognised as revenue upon receipt.

(q) Taxes

Income taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

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 the asset or as part of the expense item as applicable; and
- receivables and payables 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing 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.

(r) Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts expected to be paid when the liability is settled. All other employee entitlement liabilities are measured at the present value of the estimate future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlements expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee entitlements

are charged against profits on a net basis in their respective categories.

The value of the employee share option plan described in Note 20 is not charged as an employee benefits expense.

(s) Earnings per share

Basic EPS is calculated as net profit attributable to members, 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.

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FOR THE YEAR ENDED 30 JUNE 2005

Diluted EPS is calculated as net profit attributable to members, 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.

(t) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

| | CONSOLIDATED | | PROBIOMICS LIMITED | |
|--|------------------|------------------|--------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| 2. REVENUE FROM ORDINARY ACTIVITIES | | | | |
| Included in the operating loss is the following: | | | | |
| Revenues from operating activities | | | | |
| Revenue from sale of goods | 1,388,812 | 1,090,995 | 1,388,812 | 1,090,995 |
| Revenue from non-operating activities | | | | |
| Interest received | | | | |
| - Other persons/corporations | 57,366 | 87,618 | 57,366 | 87,618 |
| START Grant (i) | (27,783) | 412,407 | (27,783) | 412,407 |
| BIF Grant | 96,611 | 309,145 | 96,611 | 309,145 |
| | 126,194 | 809,170 | 126,194 | 809,170 |
| Total revenues from ordinary activities | 1,515,006 | 1,900,165 | 1,515,006 | 1,900,165 |
| 3. EXPENSES AND LOSSES | | | | |
| (a) Expenses | | | | |
| Other expenses include: | | | | |
| - ASX listing and other fees | 49,641 | 30,557 | 49,641 | 30,557 |
| - Computer costs | 35,773 | 53,622 | 35,773 | 53,622 |
| - Conferences and seminars | 22,056 | 37,885 | 22,056 | 37,885 |
| - Laboratory general supplies | 7,531 | 35,739 | 7,531 | 35,739 |
| - Motor vehicle running expenses | 6,525 | 4,678 | 6,525 | 4,678 |
| - Payroll tax | 48,098 | 62,027 | 48,098 | 62,027 |
| - QA direct costs | 49,557 | 3,467 | 49,557 | 3,467 |
| - Royalties (ii) | (52,905) | 78,230 | (52,905) | 78,230 |
| - Printing and stationery | 35,947 | 32,464 | 35,947 | 32,464 |
| - Scientific and Medical Advisory Board fees | 50,300 | - | 50,300 | - |
| - Share registry costs | 42,783 | 36,710 | 42,783 | 36,710 |
| - Subscriptions | 8,630 | 11,383 | 8,630 | 11,383 |
| - Telephone and other communication costs | 48,500 | 60,218 | 48,500 | 60,218 |
| - Website design and maintenance | 23,846 | 13,982 | 23,846 | 13,982 |
| - Other administration expenses | 82,811 | 135,246 | 82,811 | 135,246 |
| | 459,093 | 596,208 | 459,093 | 596,208 |
| (b) Losses (gains) | | | | |
| Net foreign currency losses | 16,783 | 21,575 | 16,783 | 21,575 |

Note (i): Following the completion of the START grant an amount identified as overpaid in 2004 was repaid to AusIndustry.

Note (ii): The company has re-negotiated the royalty arrangement with Chief Scientist – Patricia Conway applicable from the commencement of the agreement waiving all previous amounts due in exchange for 3 million options over ordinary shares in the company (to be issued).

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

| | CONSOLIDATED | | PROBIOMICS LIMITED | |
|--|--------------|-------------|--------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| 4. INCOME TAX EXPENSE | | | | |
| The prima facie tax expense (benefit) on the operating profit/(loss) from ordinary activities is reconciled to the income tax provided in the financial statements as follows: | - | - | - | - |
| Prima facie tax benefit on operating loss from ordinary activities at 30% (2004: 30%) | (1,179,917) | (1,301,113) | (1,179,917) | (1,301,113) |
| Tax effect of permanent differences | | | | |
| Entertainment | 4,657 | 277 | 4,657 | 277 |
| Other net timing differences | 6,621 | (54,620) | 6,621 | (54,620) |
| Future Income Tax Benefit not brought to account | 1,168,639 | 1,355,456 | 1,168,639 | 1,355,456 |
| Income tax expense/(benefit) attributable to loss from ordinary activities | - | - | - | - |

As at 30 June 2005 the consolidated entity has not brought to account a future tax benefit (at 30%) of \$6,236,668 (2004: \$5,068,029) as realisation of the benefit is not virtually certain.

The future income tax benefit will only be obtained 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

The head entity of the tax consolidation group is Probiomics Limited. There is no material effect to the financial statements as no tax provision or deferred tax liability is recognised.

The company adopted the tax consolidation regime when it lodged its 30 June 2004 tax return.

As at 30 June 2004 the Company had no tax franking credits available.

5. RECEIVABLES (CURRENT)

Current

| | | | | |
|--|---------|-----------|---------|-----------|
| Trade debtors | 261,772 | 438,399 | 261,772 | 438,399 |
| GST – input tax credits | 100,810 | 81,113 | 100,810 | 81,113 |
| Short-term deposits | - | 805,147 | - | 805,147 |
| Service contractor | - | 80,751 | - | 80,751 |
| Other receivables | 18,462 | 17,620 | 18,462 | 17,620 |
| | 381,044 | 1,423,030 | 381,044 | 1,423,030 |
| Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged. | | | | |
| United States Dollars | 4,572 | 312,755 | 4,572 | 312,755 |

Terms and conditions relating to the above financial instruments.

- (i) Trade debtors are non-interest bearing and generally on 30 day terms.
- (ii) Other receivables and GST-Input Tax Credits are non-interest bearing and have repayment terms between 30 and 90 days.
- (iii) Short-term deposits in 2004 were held at National Australia Bank

6. INVENTORIES (CURRENT)

Raw materials and stores

| | | | | |
|---|---------|---------|---------|---------|
| At cost | 171,178 | 328,702 | 171,178 | 328,702 |
| Finished goods | | | | |
| At cost | 192,982 | 111,234 | 192,982 | 111,234 |
| Total value of inventory at the lower of cost or net realisable value | 364,160 | 439,936 | 364,160 | 439,936 |

7. OTHER CURRENT ASSETS

| | | | | |
|-------------|--------|--------|--------|--------|
| Prepayments | 23,491 | 88,121 | 23,491 | 88,121 |
|-------------|--------|--------|--------|--------|

PROBIOMICS LIMITED
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

| | CONSOLIDATED | | PROBIOMICS LIMITED | |
|---|--------------|-----------|--------------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| 8. OTHER FINANCIAL ASSETS | | | | |
| Non-Current | | | | |
| Investments at cost comprise: | | | | |
| Shares in Controlled Entities | | | | |
| - Convergent BioScience Pty Ltd | - | - | 100 | 100 |
| - Sphere Animal Health Ltd | - | - | 100 | 100 |
| - VRI Diagnostics Pty Ltd | - | - | 100 | 100 |
| - VRI Therapeutics & Vaccines Pty Ltd | - | - | 100 | 100 |
| - Vasse Research Institute Pty Ltd | - | - | 10 | 10 |
| | - | - | 410 | 410 |
| 9. PLANT & EQUIPMENT | | | | |
| Plant and equipment – at cost | 70,155 | 107,670 | 70,155 | 107,670 |
| Accumulated depreciation | (26,803) | (42,663) | (26,803) | (42,663) |
| | 43,352 | 65,007 | 43,352 | 65,007 |
| Office equipment – at cost | 216,169 | 198,060 | 216,169 | 198,060 |
| Accumulated depreciation | (130,520) | (104,034) | (130,520) | (104,034) |
| | 85,649 | 94,026 | 85,649 | 94,026 |
| Total plant & equipment | | | | |
| Cost | 286,324 | 305,730 | 286,324 | 305,730 |
| Accumulated depreciation | (157,323) | (146,697) | (157,323) | (146,697) |
| Total written down amount | 129,001 | 159,033 | 129,001 | 159,033 |
| Reconciliations | | | | |
| Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year. | | | | |
| Plant and equipment | | | | |
| Carrying amount at beginning | 65,007 | 63,538 | 65,007 | 63,538 |
| Additions | 984 | 12,802 | 984 | 12,802 |
| Disposals (net of depreciation written back) | (14,187) | - | (14,187) | - |
| Depreciation expense | (8,452) | (11,333) | (8,452) | (11,333) |
| | 43,352 | 65,007 | 43,352 | 65,007 |
| Office Equipment | | | | |
| Carrying amount at beginning | 94,026 | 102,820 | 94,026 | 102,820 |
| Additions | 18,110 | 34,152 | 18,110 | 34,152 |
| Disposals | - | (17,454) | - | (17,454) |
| Depreciation expense | (26,487) | (25,492) | (26,487) | (25,492) |
| | 85,649 | 94,026 | 85,649 | 94,026 |

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

| | | CONSOLIDATED | | PROBIOMICS LIMITED | |
|--|--|--------------------|-------------------|--------------------|-------------------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | \$ | \$ | \$ | \$ |
| 10. PAYABLES (CURRENT) | | | | | |
| Trade creditors | | 873,820 | 769,095 | 873,820 | 769,095 |
| Accrued expenses | | 26,254 | 246,602 | 26,254 | 246,602 |
| GST liability | | 14,215 | 12,945 | 14,215 | 12,945 |
| Employee superannuation payable | | 39,407 | 39,449 | 39,407 | 39,449 |
| PAYG payable | | 79,186 | 34,753 | 79,186 | 34,753 |
| Other payables | | 7,040 | 9,010 | 7,450 | 9,420 |
| | | <u>1,039,922</u> | <u>1,111,854</u> | <u>1,040,332</u> | <u>1,112,264</u> |
| Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged: | | | | | |
| United States Dollars | | <u>165,874</u> | <u>307,558</u> | <u>165,874</u> | <u>307,558</u> |
| Terms and conditions relating to the above financial instruments. | | | | | |
| - Trade creditors are non-interest bearing and are normally settled on 30 – 60 day terms. | | | | | |
| 11. PROVISIONS (CURRENT) | | | | | |
| Employee benefits | | <u>66,653</u> | <u>80,200</u> | <u>66,653</u> | <u>80,200</u> |
| 12. PROVISIONS (NON-CURRENT) | | | | | |
| Employee benefits | | <u>7,631</u> | <u>11,422</u> | <u>7,631</u> | <u>11,422</u> |
| 13. CONTRIBUTED EQUITY | | | | | |
| Issued and paid up capital | | | | | |
| (a) Ordinary shares fully paid | | <u>22,900,486</u> | <u>19,955,725</u> | <u>22,900,486</u> | <u>19,955,725</u> |
| (b) Movements in shares on issue | | | | | |
| | | 2005 | | 2004 | |
| | | Number of | | Number of | |
| | | Shares | \$ | Shares | \$ |
| Beginning of the financial year | | <u>83,973,127</u> | <u>19,955,725</u> | <u>61,849,637</u> | <u>15,411,191</u> |
| Issued during the year | | | | | |
| • placement to Institutional and Sophisticated investors: July 2003 | | - | - | 6,000,000 | 1,500,000 |
| • pro-rata share issue to shareholders: September 2003 | | - | - | 11,169,604 | 2,727,564 |
| • placement to Institutional and Sophisticated investors: July 2004 | | 21,000,000 | 2,100,000 | - | - |
| • placement to Institutional and Sophisticated investors: April 2005 (2004: April 2004) | | 8,331,250 | 999,750 | 4,953,886 | 792,624 |
| • Shares cancelled by a selective reduction of capital on 26 th November 2004 | | (260,000) | - | - | - |
| Less capitalised prospectus costs | | | (154,989) | | (475,654) |
| End of the financial year | | <u>113,044,377</u> | <u>22,900,486</u> | <u>83,973,127</u> | <u>19,955,725</u> |

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(i) On 24th August 2005 12,588,000 shares were issued to Institutional and Sophisticated shareholders at \$0.08 per share by way of a private placement.

(c) Terms and condition of contribution equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote either in person or by proxy, at a meeting of the company.

(d) Share options

| Listed options over ordinary shares | 2005 | | 2004 | |
|--|-------------------|----|-------------------|----|
| | Number of Options | \$ | Number of Options | \$ |
| Beginning of the financial year | 34,543,372 | - | 23,373,768 | - |
| Pro –rata bonus issue of options to shareholders: September 2003 | - | - | 11,169,604 | - |
| Pro –rata bonus issue of options to shareholders: July 2004 | 20,528,379 | - | - | - |
| Options granted to Taylor Collison Limited and an associated company in part consideration for placement of 21 million shares in August 2004 | 5,000,000 | - | - | - |
| End of the financial year | 60,071,751 | - | 34,543,372 | - |

| | CONSOLIDATED | | PROBIOMICS LIMITED | |
|---|--------------|------------|--------------------|------------|
| | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| 14. ACCUMULATED LOSSES | | | | |
| Accumulated losses | | | | |
| Balance at beginning of year | 18,780,452 | 14,443,408 | 18,780,452 | 14,443,408 |
| Operating loss after income tax attributable to members of Probiomics Limited | 3,933,058 | 4,337,044 | 3,933,058 | 4,337,044 |
| Balance at end of year | 22,713,510 | 18,780,452 | 22,713,510 | 18,780,452 |

15. STATEMENT OF CASH FLOWS

(a) Reconciliation of the Operating profit/(loss) after tax to the Net Cash Flows from/(used in) Operations

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Net loss | (3,933,058) | (4,337,044) | (3,933,058) | (4,337,044) |
| Depreciation of non-current Assets | 34,939 | 36,825 | 34,939 | 36,825 |
| Loss on disposal of financial assets | 14,186 | 12,785 | 14,186 | 12,785 |
| Changes in assets and liabilities | | | | |
| Trade creditors | 104,725 | (53,392) | 104,725 | (53,392) |
| Other payables & provisions | (193,995) | 285,185 | (193,995) | 285,185 |
| Trade debtors | 176,627 | (363,551) | 176,627 | (363,551) |
| Other receivables | 124,842 | (70,784) | 124,842 | (70,784) |
| Inventories | 75,776 | (367,448) | 75,776 | (367,448) |
| Net cash flow used in operating activities | (3,595,958) | (4,857,424) | (3,595,958) | (4,857,424) |

(b) Reconciliation of cash

Cash balance comprises:

| | | | | |
|----------------------------|---------|---------|---------|---------|
| - Cash at bank and on hand | 403,486 | 268,629 | 403,486 | 268,629 |
| | 403,486 | 268,629 | 403,486 | 268,629 |

(c) Financing facilities

As at the reporting date the Company had no financing facilities.

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16. EXPENDITURE COMMITMENTS

| | | | | |
|--|--------|--------|--------|--------|
| Lease expenditure commitments | | | | |
| Operating leases | | | | |
| Minimum lease payments | | | | |
| - not later than one year | 5,625 | 17,728 | 5,625 | 17,728 |
| - later than one year and not later than five years | 4,688 | 10,313 | 4,688 | 10,313 |
| <hr/> | | | | |
| Aggregate lease expenditure contracted for at balance date | 10,313 | 28,041 | 10,313 | 28,041 |

Notes: The above commitments consist of the balance of a three year lease of a photocopying machine which commenced in May 2004.

17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

As at the date of this report the company is in a legal dispute with an ex-consultant who has commenced proceedings 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 made for these costs at balance date.

18. SUBSEQUENT EVENTS

- (a) Subsequent to the end of this reporting period the company raised \$1m (before costs of \$50,000) by way of a placement of 12.588 million shares to Institutional and Sophisticated investors at \$0.08 per share. This capital will provide the company with working capital and will allow it to continue to develop its products. The placement has not been recognised in the financial statements for the year ended 30 June 2005.
- (b) Subsequent to the end of this reporting period the company terminated the employment of most of the staff based at the University of New South Wales and some marketing employees based at Eveleigh.

The company will incur redundancy payments of approximately \$30,000 in respect of these employees in the year to 30 June 2006.

19. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Probiomics Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the final year ended 30 June 2006. Probiomics Limited reviewed each of the areas in order of priority, with priority given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Company's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when the Company prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) on-going work being undertaken; (b) potential amendments to AIFRS and Interpretations thereof being issued by the standard setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

Quantified disclosures:

- (i) Under AASB2 Share based Payments, the company would recognise the fair value of options issued to employees as remuneration as an expense on a pro-rata basis in the income statement. Share-based payment costs are not recognised under AGAAP. This would result in an increase in the loss from AGAAP to AIFRS of \$50,750.

Disclosures not yet quantified:

- (ii) *Government grants*

Under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, government grants will be recognised at their fair value where 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 will be recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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When the grant relates to an asset, the fair value will be 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.

- (iii) Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The group's current accounting policy is to determine the recoverable amount of an asset on the basis of cash flows. The Group's assets will be tested for impairment on transition and each subsequent reporting date. This may result in an impairment loss.
- (iv) AASB 112 *Income Taxes* requires the Group to use a balance sheet liability method, rather the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. The company is currently determining its assets for tax purposes which may result in the recognition of a deferred tax liability in relation to those assets.

Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

