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13 September 2006

The Manager - Companies  
Australian Stock Exchange Limited  
20 Bridge Street  
SYDNEY NSW 2000

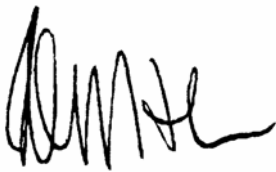
(46 pages by email)

Dear Madam,

**RE: YEAR END ACCOUNTS AND PRELIMINARY FINAL REPORT**

I attach the Company's Year End Accounts and Appendix 4E Preliminary Final Report for the year ended 30 June 2006.

Yours sincerely



Peter J. Nightingale  
Company Secretary

pjn3623

BIOTRON LIMITED

# Appendix 4E

## Preliminary final report

Name of entity

<b>BIOTRON LIMITED</b>
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ABN or equivalent company reference

<b>60 086 399 144</b>
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Financial year ended ('current period')

<b>30 JUNE 2006</b>
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### Results for announcement to the market

Revenues from ordinary activities	up	19%	to	\$894,761
Loss from ordinary activities after tax attributable to members	up	17%	to	\$2,198,973
Net loss for the period attributable to members	up	17%	to	\$2,198,973
<b>Dividends (distributions)</b>	Amount per security		Franked amount per security	
Final dividend	Nil		Nil	
Interim dividend	Nil		Nil	
Previous corresponding period				
Final dividend	Nil		Nil	
Interim dividend	Nil		Nil	
Record date for determining entitlements to the dividend.	N/A			
Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:				
Refer attached Financial Report for the year ended 30 June 2006.				
<b>NTA backing</b>	Current period		Previous corresponding period	
Net tangible asset backing per ordinary security	5.0 cents		3.3 cents	

The accounts which form part of this Appendix 4E have been audited.

**BIOTRON LIMITED**

**A.B.N. 60 086 399 144**

**ANNUAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2006**

# BIOTRON LIMITED

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# BIOTRON LIMITED

## CHAIRMAN'S REPORT

I am pleased to present Biotron's Annual Report for the year ended 30 June 2006. The last twelve months have seen major advances in progression of the Company's projects – particularly the Virion anti-HIV drug development program. This program has made excellent progress, to the point where we are now approaching a human clinical trial with Biotron's anti-HIV drug BIT225. This represents a first-in-class, new mode of action drug for treatment of HIV.

New approaches to HIV therapy are needed to counteract the development of drug resistance that occurs with current therapies. Studies conducted during the last 12 months have demonstrated that BIT225 is active *in vitro* against strains of HIV that are resistant to other HIV drugs.

Biotron's BIT225 specifically targets HIV in the viral reservoirs – immune cells where the virus hides for long periods when the patient otherwise seems to be carrying negligible viral loads. Existing HIV drugs have no effect on the underlying reservoir, which contributes to production of drug resistant virus and long term disease.

Since selection of BIT225 as the Company's anti-HIV lead compound in the second half of 2005, the Company's drug development program has progressed through adaptation of the manufacturing process from the previous bench top scale to kilo-scale reactors at audited international regulatory standard, producing high grade BIT225 which will be used for the upcoming Phase I/IIa human clinical trial. Final preclinical safety and toxicology studies are in progress and are due to conclude before the end of 2006. The data from these preclinical studies will be submitted to appropriate hospital, ethics and regulatory authorities to support approval for commencement of a Phase I/IIa clinical trial early in 2007.

Biotron's Board is mindful of the need to realise the value of its wider antiviral drug portfolio. While the anti-HIV program remains the major focus of Company activities, the Virion technology has the potential to treat a wider range of viral diseases, substantially adding further to its value. Development of a lead compound for treatment of Hepatitis C virus (HCV) is following fast on the heels of the HIV program.

During the year, Biotron raised \$4.3 million (net) through an underwritten rights issue. These funds will support the Phase I/IIa human trial for BIT225, advance the Company's HCV antiviral program through preclinical development towards the clinic and progress development of therapeutics for other viral diseases of interest. The Board is appreciative of the support of shareholders who participated in this recent capital raising.

During the year, Biotron also received funds awarded under a number of competitive grants, including a grant from the ACT government to facilitate further commercial development of the Company's cancer diagnostic program. Biotron has continued to optimise its assay methods and to identify differences in the free oligosaccharide and glycolipid expression profiles between prostate and colorectal cancer patients and normal individuals. Analysis of a larger data set is currently in progress to validate earlier results.

Biotron is also currently investigating the potential application of the C-Test diagnostic technology to a wider range of cancer types and other diseases including diabetes.

The last financial year could be summed up as one of challenges and achievements. The next year offers immense hope and opportunity.

On behalf of the shareholders and Directors, I would like to thank all Biotron staff for their untiring efforts during the year. Thanks to their commitment and dedication, your Company is well placed to meet the next stage of its development.

Yours sincerely



**Michael J. Hoy**  
Chairman

# BIOTRON LIMITED

## OPERATING AND FINANCIAL REVIEW

### OVERVIEW

During the year ended 30 June 2006 there has been a major focus on Biotron's antiviral drug development program, with a particular emphasis on clinical development of its anti-HIV therapeutic candidate BIT225.

The following significant events were achieved during the year under review:

- Selection of an anti-HIV lead compound, BIT225, for progression to manufacture and formal safety studies. A clinical development plan has been implemented for this drug, with the aim of commencing human clinical trials in early 2007.
- Review of the Company's anti-HIV development program with BIT225, including clinical trial design, in the USA by a panel of eminent international HIV expert clinicians.
- BIT225 was shown to have activity against strains of HIV that are resistant to existing HIV drugs.
- BIT225 was shown to improve the activity of existing HIV therapies.
- Commencement and continuation of formal preclinical safety and toxicology studies for BIT225 at a leading European contract research organisation.
- Selection of a contract manufacturer for clinical grade (GMP) BIT225, including scale-up and process development and the manufacture and supply of 2.5 kilograms of GMP grade BIT225.
- Initiation and continuation of chemical stability studies of BIT225.
- Development of numerous compound analogues to enhance Biotron's library of compounds and further strengthen the Company's patent position over the BIT225 structure.
- Demonstration of efficacy of several Biotron compounds against Influenza A, including the H5N1 (bird flu) strain, and Influenza B viruses.
- Continued development of the Company's Hepatitis C antiviral development program.
- Further strengthening of the Company's intellectual property portfolio through filing of additional patent applications.
- Completion of an underwritten rights issue, raising \$4.3 million (net) from the issue of 19.9 million shares.

The Company's efforts have been focused on commercial development of the Virion and C-Test Projects, with a specific emphasis on development of the Company's Virion antiviral platform. Excellent progress has been made with the anti-HIV development program, with a lead compound, BIT225, selected to progress into a clinical development program. During this 12 month period to 30 June 2006, BIT225 has progressed through a series of rigorous preclinical safety tests that are required before human clinical trials can be commenced. The program is on track for initiation of the first human testing in early 2007.

Biotron has continued to receive funds from successful grant applications under the Federal Government's BIF and Start grant programs. The Company also received funds under a \$200,000 Knowledge Fund grant from the ACT Government for progressing the C-Test cancer diagnostic technology. Biotron's success in obtaining these independently reviewed, competitive grants demonstrates the international competitiveness, innovation and commercial potential of the Company's projects.

## BIOTRON LIMITED

In April 2006, the Company raised \$4.3 million, after costs of the issue, by an underwritten rights issue of 19.9 million new fully paid ordinary shares. These funds will enable the Company to:

- Complete the pre-clinical development studies for the Company's anti-HIV lead compound, BIT225. These safety studies are currently underway and due for completion before the end of 2006.
- Undertake a Phase I/IIa clinical trial for Biotron's anti-HIV candidate BIT225, due to commence early in 2007. The trial design and location are currently being finalised, and discussions are underway with regulatory authorities.
- Progress the Company's Hepatitis C antiviral program through preclinical development towards a clinical development program. This program has substantial commercial potential, based on the Company's antiviral platform technology, can be fast tracked because of the work already done to progress the Company's anti-HIV lead compound.
- Expand the Company's Virion antiviral platform technology into other viruses of interest. Several Biotron compounds have been shown to have activity against other viruses including the H5N1 (bird flu) strain of the influenza A virus, SARS and dengue fever. Funds will be allocated to further characterise the antiviral activity of the Company's library of compounds and progression of these compounds towards clinical development.
- Screening, testing and development of the Company's library of compounds against a number of other viruses will be continued.
- Progress the Company's C-Test project to a stage suitable for partnering.

Biotron's model is to take projects such as Virion and C-Test through proof of concept studies into preclinical and early stage clinical development. The Company then aims to form partnerships and alliances with international pharmaceutical or biotechnology companies for further late stage clinical development and marketing of products.

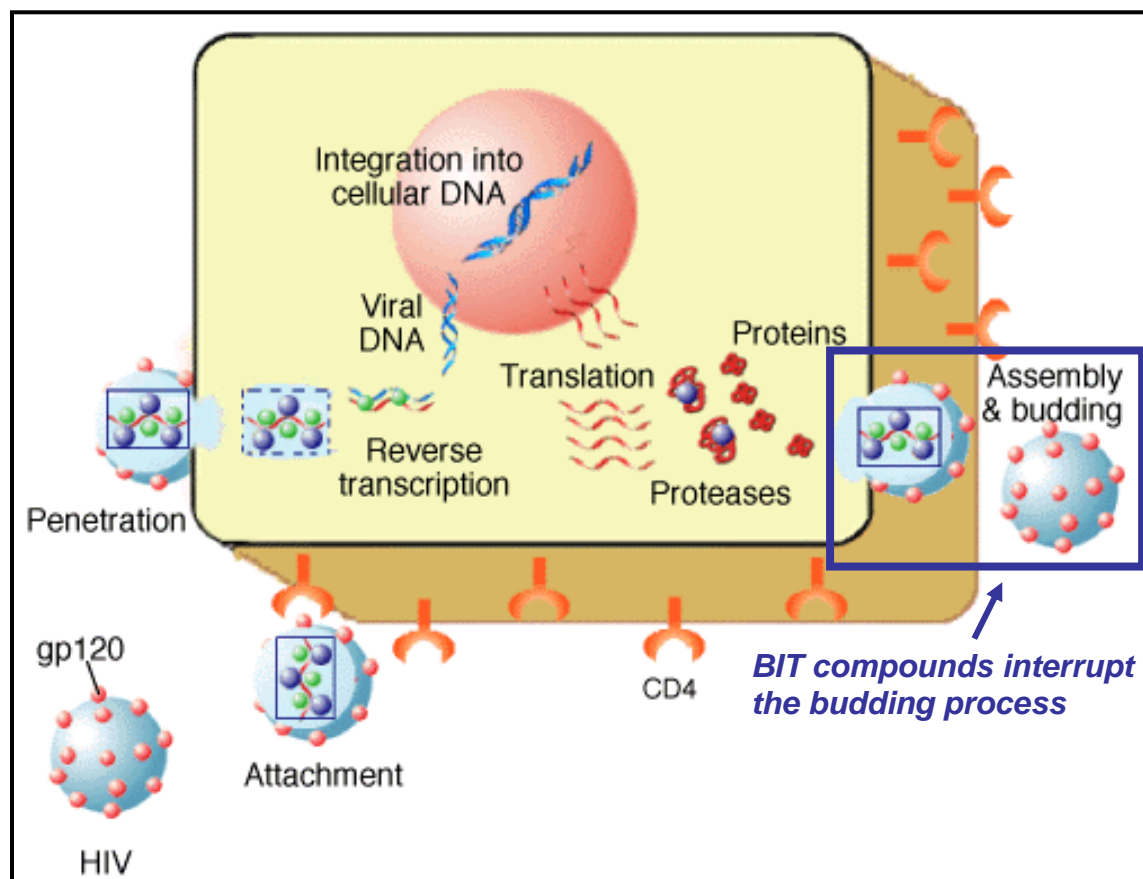
During the year under review, on-going discussions have been held with potential partners regarding the Virion technology and the C-Test project.

Whilst keen to secure a partner to take the Company's Virion compounds through into clinical development, Biotron can significantly increase the value of the technology by undertaking the proposed Phase I/IIa clinical trial with BIT225 before forming an alliance. This will translate into much higher returns to the Company in the form of upfront payments as well as increased milestone and royalty payments in the future.



## BIOTRON LIMITED

BIT225 represents a novel, first in class approach to the treatment of HIV. BIT225 targets a different HIV protein, Vpu, than those targeted by other existing HIV therapies. It is well recognised that new approaches to HIV therapy are needed to counteract the development of drug resistance that occurs with current therapies. By blocking a new pathway in HIV infectivity, BIT225 has the potential to combat drug resistant viral strains, in combination with highly active antiretroviral therapies ('HAART') and in monotherapy. Studies conducted during the last 12 months have demonstrated that BIT225 is active *in vitro* against strains of HIV that are resistant to other HIV drugs.



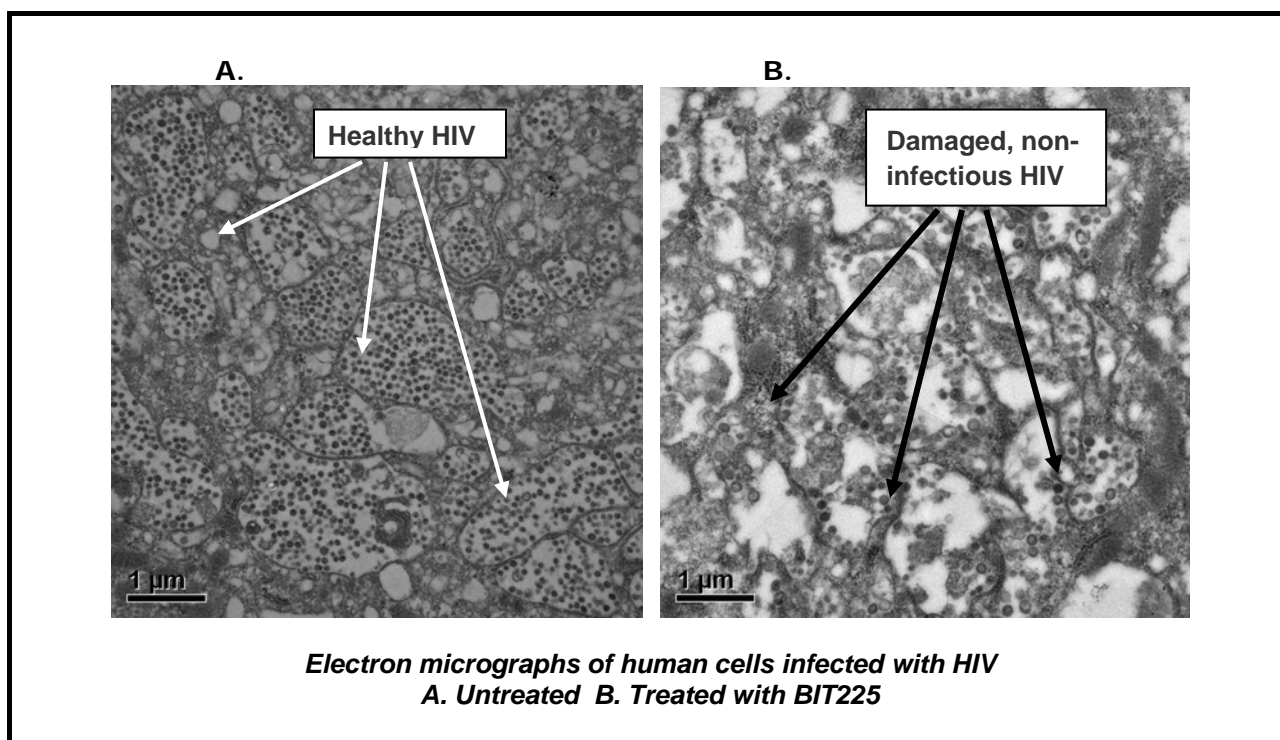
### **BIT225 targets a different stage of the HIV life cycle**

Critically, BIT225 specifically targets HIV in reservoir cells, in contrast to current therapies that work by reducing the levels of HIV in the blood to undetectable levels. However, these drugs have no effect on the underlying reservoir of infected cells where the HIV hides from the immune system. Over the lifetime of a patient virus from these reservoir cells rebounds into the blood, necessitating on-going treatment with antiretroviral drugs.

Currently, no therapies are active in these latent cells and elimination of this reservoir of HIV is essential if the virus is to be completely eliminated from the body. BIT225 is specifically active in these reservoir cells and represents an opportunity to attack HIV at its source. BIT225 could be used in combination with existing antiretroviral therapies to achieve the dual effect of arresting viral replication and eliminating the viral reservoir to achieve total elimination of HIV in the body.

Recent *in vitro* studies have demonstrated that BIT225 is able to improve the activity of current HIV therapies, further supporting the use of BIT225 in combination with other existing HIV drugs.

## BIOTRON LIMITED



Early in 2006, after a period of extensive review of quotations and capabilities of chemical manufacturers, Dr Reddy's Laboratories Ltd, Hyderabad, India was contracted to manufacture and supply 5 kilograms of GMP-grade BIT225. The 5 kilograms of BIT225 will be manufactured in two batches of 2.5 kilograms, to minimise any risk associated with the manufacturing process and to validate the process.

The manufacturing is being done to audited international regulatory standards and will be suitable for use in human clinical trials. The contract includes process development and scale up of the manufacturing process from the previous bench top scale to kilo-scale reactors. Process development and scale up has been successfully completed, and Biotron has received the first of two 2.5 kilogram batches of BIT225 made to GMP standards.

Excellent results have been achieved in terms of product quality, demonstrating that BIT225 may be successfully scaled up from lab to commercial scale. Stability studies on the final product are in progress, and results to date have indicated that the product has good stability profiles. The manufacturing is being done to audited international regulatory standards and will be suitable for use in human clinical trials.

Biotron selected an international contract research organisation ('CRO') to undertake the final preclinical safety studies that must be completed before a human trial can commence. These studies will comply with international regulatory standards, and the results will form the basis of future regulatory approvals for Biotron's drug with organisations including the Therapeutic Goods Administration ('TGA') in Australia and the Food and Drug Administration ('FDA') in the USA, which control approvals for new drugs in humans. These safety studies are being completed using the batches of BIT225 manufactured by Dr Reddy's Laboratories.

Final preclinical safety and toxicology studies are in progress with a leading European CRO and are due to conclude before the end of 2006. These have included a range of cell and animal-based studies to determine the safety profile and potential toxicities of the compound. Specific tests have monitored cardiovascular, respiratory and neurological functions. The preclinical testing program is progressing very smoothly, with good results in the various pharmacokinetic, toxicology and safety studies performed to date. The success of BIT225 is largely due to the rigorous lead selection program that was implemented by Biotron in the selection of BIT225 as the lead candidate compound. The data from these preclinical studies will be submitted to appropriate hospital, ethics and regulatory authorities to support approval for commencement of a Phase I/IIa clinical trial, and will be used to determine the starting dosage for the human studies.

## BIOTRON LIMITED

Biotron is in the final stages of design of the human trial and is in discussions with doctors specialising in treatment of HIV as well as a site for the trial. The Investigators Brochure for BIT225, which is the prime document that forms the basis for ethics and regulatory approvals, is currently being finalised. It is expected that the human trial will commence in early 2007 with commencement dependent on receipt of final reports from the CRO completing the preclinical studies and the ethics and regulatory approval process.

### *Hepatitis C and Other Viruses*

Whilst Biotron's prime focus is on its anti-HIV drug development program, specifically with progression of BIT225 into a human clinical trial, development of therapeutics for viruses other than HIV continue with a focus on Hepatitis C virus ('HCV'). Biotron has identified several compounds with activity against the HCV virus through screening of its rationally designed compound library in the Company's proprietary assays.

Lead optimisation is in process to identify a lead compound suitable for progression into clinical trials for HCV.

HCV is a very attractive target for Biotron. It is estimated that in the US alone some 4 million people have been infected with Hepatitis C, with 2.7 million suffering from chronic infection. Worldwide, 170 million people are infected. Existing drugs for HCV are ineffective and toxic, leaving an unmet need for new therapies. The worldwide market is currently almost US\$3 billion, but is estimated that this market will expand to over US\$10 billion as safe, effective therapies enter the market. In addition to HCV, several Biotron compounds have been shown to be active against other commercially relevant viruses, from in-house assays as well as assays done in conjunction with overseas screening programs. The aim is to progress lead compounds from these other viral drug development programs into clinical trials.

Earlier this year a number of Biotron's proprietary antiviral compounds were tested against various strains of influenza A and B viruses. Several compounds had activity against various influenza A subtypes whilst one compound was shown to have good activity against a broad range of influenza A subtypes, including the H5N1 strain, as well as against influenza B. Further tests are being expedited.

The H5N1 strain of influenza A is a highly pathogenic avian influenza subtype that is becoming endemic in Asia. In recent months several human cases of the disease have occurred with a high fatality rate. Countries around the world are currently stockpiling existing flu drugs in case of a worldwide pandemic of a human form of H5N1.

Influenza B is less common than type A, but also causes epidemics. The disease is milder than that produced by influenza A, but is potentially more serious in elderly patients. Current influenza drugs are ineffective against influenza B. The broad range of activity of Biotron compounds against influenza A and B suggests a new mode of action for Biotron's drugs.

In addition, Biotron has developed a high throughput assay to rapidly screen compound libraries for activity against drug resistant strains of influenza A. This test will be a valuable tool in development of the next generation of influenza drugs.

### **C-Test**

Cancer cells have a number of characteristics that distinguish them from normal cells. Most tumour markers are neither sensitive nor specific enough to screen for cancer or to diagnose the type of cancer without the support of other clinical tests. While a number of tumour markers have been identified in the past, they have generally been found to lack sensitivity and specificity for different types of cancers.

There is a real need for new tests that allow unambiguous cancer diagnoses to be made at an early stage. The best tests will be simple and non-invasive assays that allow rapid and accurate diagnosis of the type of cancer and its stage.

## BIOTRON LIMITED

To address this need, Biotron is developing sensitive, rapid, non-invasive assays to detect and diagnose specific types of cancer. Research undertaken by the C-Test project team has led to the profiling of sera from patients with different types of cancer, showing that the glycolipid expression pattern is unique between cancer types.

The Company has developed proprietary technology for extraction and analysis of carbohydrates from blood, and has developed algorithms for analysing the expression profile of these molecules. Trials have been undertaken to demonstrate the utility of this glycomics approach for diagnosis of prostate and colorectal cancers.

In 2005 Biotron was awarded a competitive grant of \$200,000 from the ACT Government to facilitate further commercial development of C-Test for these diseases. During the last 12 months, Biotron has continued to optimise its assay methods and identify differences in the free oligosaccharide and glycolipid expression profiles between cancer patients and normal individuals. Analysis of a larger data set is currently in progress to validate earlier results.

Biotron is currently investigating wider applications for its C-Test technology. The methodology has potential application for a wider range of diseases than cancer, including various immune based disorders such as diabetes.

### Muscion and Other Tier 2 Project

Muscion is a tier two project that is at an earlier stage of development compared to Virion and C-Test.

Contraction of muscle, including heart muscle, depends on release of calcium from stores inside cells through calcium channels called ryanodine receptors. The Muscion project team is identifying compounds that selectively target ryanodine receptors in heart, skeletal and insect muscle. Biotron researchers are developing drugs to boost the output of a damaged or failing heart muscle and, as part of this process, have identified peptides that stimulate heart muscle contraction *in vitro*.

During the past year, work has continued to be focused on characterisation of small molecule compounds, identified in collaboration with researchers at the Australian National University, which target the human ryanodine receptor. These compounds are potential therapeutics for cardiovascular disease, and are being assessed for their ability to reverse heart failure in appropriate disease models.

The remaining projects are underpinned by a platform technology, research on ion channels in membranes. These projects are at an earlier stage of development than the Virion and C-Test projects and, as such, limited resources are committed due to the Company's focus on commercial development of the Virion and C-Test projects.

The **Hypoxion** project is focused on identifying compounds that prevent the symptoms of stroke and heart attack. Animal models of the diseases are being established. The **GeneTrans** project has generated a novel cell line that may have utility in drug screening tests to check the safety of new pharmaceutical drugs. The **Gabion** project is investigating compounds that act on the GABA receptor, which has been implicated in numerous neurological disorders.

### PATENT UPDATE

Biotron recognises that the key to establishment of partnerships is the expansion and continued strengthening of Biotron's intellectual property (IP) portfolio. Strong, defensible, international patents are essential to attract partners and to ensure a competitive advantage for our products in the marketplace. Biotron continues to build a strong defensible wall of patents around the Company's intellectual property to maximise the value of the technology and to ensure Biotron's competitive position.

During the past year, Biotron expanded its compound library and generated a large number of analogues of BIT225 to further strengthen its patent position. In addition, an application was filed over a new surrogate assay for screening compounds for antiviral activity.

## BIOTRON LIMITED

A summary of Biotron's patent portfolio is set out in the table below.

TITLE	STATUS
PCT/AU99/00872 A method of modulating ion channel functional activity	Granted in Australia, New Zealand and China. Under examination elsewhere.
PCT/AU97/00638 A method of determining ion channel activity of a substance	Granted in Australia and USA. Under examination elsewhere.
PCT/AU2004/000866 Antiviral compounds and methods	Entered into National Phase in all jurisdictions.
PCT/AU2006/000800 Antiviral compounds and methods	International PCT application filed June 2006.
Constructs and methods of identifying anti-viral agents	Provisional patent application filed April 2006.
PCT/AU01/00877 Method of identifying cancer markers and uses therefore in the diagnosis of cancer	Granted in Australia, Singapore and South Africa. Under examination elsewhere.
PCT/AU02/01113 A novel cancer marker and uses therefore in the diagnosis of cancer	Granted in South Africa. Under examination elsewhere.
PCT/AU01/01093 Modified proteins, isolated novel peptides, and uses therefore	Under examination in all jurisdictions.
PCT/AU02/00608 Method of modulating the activity of calcium channels in cardiac cells and reagents therefore	Granted in South Africa. Under examination elsewhere.

# BIOTRON LIMITED

## STATEMENT OF CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations, unless otherwise stated.

### Board of Directors

The board of directors is responsible for the overall corporate governance of the Company including its strategic direction, setting remuneration, establishing goals for management and monitoring the achievement of these goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The composition of the board has been determined on the basis of providing the Company with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. The names and further information regarding the skills, experience, qualifications and relevant expertise of the directors are set out in the Directors' Report. The board is composed of a minimum of three directors.

The composition of the board is monitored constantly to ensure that it provides the Company with the appropriate levels of both expertise and experience. The board comprises a majority of independent, non-executive directors including the Chairperson. The independence of directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests.

When a board vacancy exists, through whatever cause, or where it is considered that the board would benefit from the services of a new director with particular skills, the board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed and the board appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Directors, other than the Managing Director, are subject to re-election by the shareholders at least every three years.

Having regard to the current membership of the board and the size, organisational complexity and scope of operations of the consolidated entity, a Nomination Committee, a Remuneration Committee and an Audit Committee have not been established.

Each director has the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, but such approval is not unreasonably withheld. A copy of the advice received by the director is made available to all other members of the board.

In the event that a potential conflict of interest may arise, involved directors must withdraw from all deliberations concerning the matter.

### Remuneration

The remuneration of the directors is determined by the board as a whole, with the director to whom a particular decision relates being absent from the meeting during the time that the remuneration level is discussed and decided upon.

For details on the amount of remuneration for each director, refer to the Key Management Personnel note to the financial statements and the Remuneration Report in the Directors' Report.

### Internal Controls

The board of directors acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The system of internal control adopted by the Company seeks to provide an appropriate division of responsibility and careful selection and training of personnel relative to the level of activities and size of the Company.

## BIOTRON LIMITED

The full board takes responsibility for reviewing financial reporting procedures, internal controls and the performance of the financial management. Selected internal control mechanisms employed to support the business include:

- Investment appraisal – the Company has documented guidelines for capital expenditure and investment appraisals. These include annual budgets, expenditure review procedures and appropriate levels of authority.
- Business planning, budgeting and reporting – a comprehensive business planning process includes evaluation of strategies, objectives, and risks resulting in an annual budget approved by the board. Monthly actual performance is reported against budget and revised forecasts for the year are prepared regularly.
- Quality and integrity of employees – there are clearly defined accountabilities, performance measures, and reinforcement of values and ethics by management.

The CEO and CFO state in writing to the board that the Company's financial statements present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

### External Auditors

Board nominees review the performance of the external auditors and meet with them during the half yearly review and annual audit to discuss any issues that have arisen with respect to accounting policies, any significant operational issues and the level of proposed audit fees.

KPMG, the Company's auditors, were appointed on 20 November 2001.

### Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, endeavouring at all times to enhance the performance and reputation of the Company. Every employee has direct access to a director to whom they may refer any ethical issues that may arise from their employment.

Directors, officers and employees are permitted to trade in the Company's securities only in accordance with the provisions of the Corporations Act and ASX Listing Rules. The directors are under an obligation to report any dealings by them in the Company's securities.

### The Role of Shareholders

The board ensures that the shareholders are informed of all major developments affecting the Company by the following means:

- Distribution of the annual report to all shareholders which contains relevant information about the operations of the Company during the year in addition to disclosures required by the Corporations Act 2001.
- Lodgement of quarterly reports with the ASX which show summarised financial information for the quarter. Copies of these reports are available to shareholders on request.
- Lodgement of the half yearly report with the ASX which contains summarised and audit reviewed financial information. Copies of half yearly financial statements prepared in accordance with the Corporations Act are available to any shareholder on request.
- Lodgement of the annual report with the ASX which contains full audited financial information prepared in accordance with the Corporations Act. The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document).

## BIOTRON LIMITED

- Announcements to the ASX concerning any significant development in the Company's operations, financing and administration. All announcements are immediately available to the general public.
- Disclosure of all major announcements to the ASX on the Company's website.
- The Annual General Meeting is the main opportunity for the shareholders to hear the Managing Director and Chairman provide updates on the Company's performance, ask questions of the board and to express views and vote on various matters of business on the agenda.

The shareholders are responsible for voting on the appointment of directors.

### **Risk Management**

The full board oversees the establishment, implementation and ongoing review of the Company's risk management and internal control system. The internal control system covers financial, operational and compliance risks.

Recommendations made by external auditors and other external advisers are investigated by the board, and, where necessary, appropriate action is taken to ensure that the Company has the internal control environment to manage the key risks identified. Ways of enhancing existing risk management strategies, including segregation of duties, employment and training of suitably qualified and experienced personnel are investigated by the board.

Each director reviews the business risks affecting his particular area of expertise annually and reports to the board. The board then determines the appropriate actions to eliminate or minimise the identified business risks. The full board oversees the establishment, implementation and ongoing review of the Company's risk management and internal control system. The internal control system covers financial, operational and compliance risks.

Recommendations made by external auditors and other external advisers are investigated by the board and, where necessary, appropriate action is taken to ensure that the Company has the internal control environment to manage the key risks identified. Ways of enhancing existing risk management strategies, including segregation of duties, employment and training of suitably qualified and experienced personnel are investigated by the board.

### **Performance**

Given the size and nature of the Company and the number of key executives, the board has adopted an informal and continuous performance evaluation process of its key executives.

# BIOTRON LIMITED

## DIRECTORS' REPORT

The directors present their report together with the financial report of Biotron Limited ('the Company') for the year ended 30 June 2006 and the auditor's report thereon.

### Directors

The names and particulars of the directors of the Company at any time during or since the end of the financial year are:

***Mr Michael J. Hoy***  
***Independent and Non-Executive Chairman***

Mr Hoy has more than 30 years' corporate experience in Australia, the United Kingdom, USA and Asia. He is Chairman of CityPrint Holdings Pty Limited, a director of Eiffel Technologies Limited and a former director of John Fairfax Holdings Limited and FXF Trust.

He has been a director since 7 February 2000 and Chairman since 16 March 2000.

***Dr Michelle Miller, BSc, MSc, PhD, GCertAppFin (Finsia)***  
***Managing Director***

Dr Miller has worked for over 20 years in the bioscience industry, with extensive experience in managing commercial bioscience research. She completed her PhD in the Faculty of Medicine at Sydney University investigating molecular models of cancer development. Her experience includes a number of years at Johnson and Johnson developing anti-HIV gene therapeutics through preclinical research to clinical trials. She has experience in early-stage start-ups from time spent as Investment Manager with a specialist bioscience venture capital fund.

She was appointed as Managing Director on 21 June 2002.

***Dr Michael S. Hirshorn, MBA, MB, BS***  
***Independent and Non-Executive Director***

Dr Hirshorn has over 20 years' experience in the commercialisation of Australian Technology, particularly in the medical device industry, and extensive experience in collaboration with Australian research institutes.

He played a major role in all commercial aspects of Cochlear Limited's development, was a founding director of Resmed Inc., and Chief Executive Marketing for Polartech Limited.

He has served on numerous government advisory committees, including the Start IT and T Committee, the Start Grants Biological Sciences Committee of the Department of Industry, Science and Resources and is currently an Investment Manager with a venture capital firm, Nanyang Ventures. Dr Hirshorn was appointed as a director on 16 March 2000.

***Mr Bruce Hundertmark***  
***Independent and Non-Executive Director***

Mr Hundertmark is an independent businessman and company director with a wide range of experience in high technology based company start-up operations and promoting the formation of venture capital companies, including News Datacom Limited in Israel and PT Indo Bio Products in Indonesia.

He is a director of Eiffel Technologies Limited and has been a director of News International PLC, Prudential Cornhill Insurance Limited and was Managing Director of IMFC Limited, a merchant bank.

Mr Hundertmark was appointed as a director on 16 March 2000.

## BIOTRON LIMITED

**Mr Peter G. Scott**  
**Non-Executive Director**

Mr Scott is a founding director of Biotron Limited with more than 30 years of commercial and entrepreneurial experience in Australia.

He is a director of Scott's Acorn Pty Ltd and was formerly Chairman and Managing Director of Scottcom Pty Ltd and Managing Director of ICAM Pty Ltd, audio visual and multimedia companies.

Mr Scott has been a director since 23 February 1999.

**Professor Peter W. Gage, MB ChB, PhD, DSc FAA**  
**Research Director**

Professor Gage was professor of Physiology at the John Curtin School of Medical Research at the Australian National University and President of the Australian Physiological and Pharmacological Society.

He had more than 35 years' experience in medical research, including training medical researchers, particularly PhD students. For the past 25 years his research focus had been on ion channels.

Professor Gage was admitted as a fellow of the Australian Academy of Science in 1977 and was the recipient of an Award of a Special Research Centre by the government in 1982 for research on nerve and muscle ion channels.

We were all saddened by the death during the financial year of Professor Peter Gage. He was an internationally acclaimed pioneer of the use of ion channels as a treatment for viral diseases and the Company is now privileged to have the opportunity to develop the outcomes of his research into treatments for life threatening diseases such as HIV and HCV.

He was a director from 23 February 1999 to 13 August 2005.

**Peter J. Nightingale**  
**Company Secretary**

Mr Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

As a director or company secretary Mr Nightingale has, for the past 19 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L. and ETT Limited. Mr Nightingale is currently a director or company secretary of Bolnisi Gold NL, Cockatoo Coal Limited, IMD Group Limited, Planet Gas Limited and Palmarejo Silver and Gold Corporation.

### Directors' Meetings

The number of directors' meetings held and number of meetings attended by each of the directors of the Company, while they were a director, during the year are:

	No. of Meetings Held	No. of Meetings Attended
Michael J. Hoy	6	6
Michelle Miller	6	6
Michael S. Hirshorn	6	6
Bruce Hundertmark	6	6
Peter G. Scott	6	6
Peter W. Gage	1	1

## BIOTRON LIMITED

### Directors' Interests

At the date of this report, the beneficial interests of each director of the Company in the issued share capital of the Company and options, each exercisable to acquire one fully paid ordinary share of the Company are:

	Fully Paid Ordinary Shares	Options	Option Terms (Exercise Price and Term)
Michael J. Hoy	1,316,314	500,000	\$0.35 at any time up to 30 September 2010
Michelle Miller	-	250,000	\$0.60 at any time up to 14 January 2007
		500,000	\$0.75 at any time up to 14 January 2007
		500,000	\$1.00 at any time up to 14 January 2007
		500,000	\$0.35 at any time up to 30 September 2010
		500,000	\$0.40 at any time from 30 September 2006 up to 30 September 2010
		500,000	\$0.45 at any time from 30 September 2006 up to 30 September 2010
Michael S. Hirshorn	-	200,000	\$0.35 at any time up to 30 September 2010
Bruce Hundertmark	-	200,000	\$0.35 at any time up to 30 September 2010
Peter G. Scott	8,895,014	-	-

### Option holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each specified director, including their personally-related entities, is as follows

	Held at 1 July 2005	Granted as Remuneration	Expired	Held at 30 June 2006	Vested and Exercisable at 30 June 2006
Michael J. Hoy	500,000	500,000	(500,000)	500,000	500,000
Michelle Miller	1,250,000	1,500,000	-	2,750,000	1,750,000
Peter W. Gage	-	-	-	-	-
Michael S. Hirshorn	200,000	200,000	(200,000)	200,000	200,000
Bruce Hundertmark	200,000	200,000	(200,000)	200,000	200,000
Peter G. Scott	-	-	-	-	-

### Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each specified director, including their personally-related entities, is as follows

	Held at 1 July 2005	Purchased	Received on Exercise of Options	Sales	Held at 30 June 2006
Michael J. Hoy	1,023,800	292,514	-	-	1,316,314
Michelle Miller	-	-	-	-	-
Peter W. Gage	9,400,000	-	-	-	9,400,000
Michael S. Hirshorn	-	-	-	-	-
Bruce Hundertmark	-	-	-	-	-
Peter G. Scott	8,573,800	321,214	-	-	8,895,014

## BIOTRON LIMITED

### Remuneration Report

The policy of remuneration of directors and senior executives is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the executive directors who, in turn, evaluate the performance of all other senior executives. The evaluation process is intended to assess the Company's business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives

Remuneration generally comprises salary and superannuation. Longer term incentives are able to be provided through the Company's Incentive Option Plan which acts to align the directors and senior executives' actions with the interests of the shareholders. The remuneration disclosed below represent the cost to the Company for the services provided under these arrangements.

No directors or senior executives receive performance related remuneration. No bonuses were paid during the year.

Details of director and senior executive remuneration and the nature and amount of each major element of the remuneration of each director and senior executive of the Company are:

	Year	Primary Salary and Fees \$	Post-Employment Superannuation Benefits \$	Equity Compensation Value of Options \$	Total \$	Options as a % of Remuneration
<b>Directors</b>						
<i>Non-executive</i>						
Michael J. Hoy (Chairman)	2006	60,000	5,400	24,016	89,416	27%
	2005	60,000	5,400	-	65,400	-
Michael S. Hirshorn	2006	30,000	2,700	9,606	42,306	23%
	2005	30,000	2,700	-	32,700	-
Bruce Hundertmark	2006	30,000	2,700	9,606	42,306	23%
	2005	30,000	2,700	-	32,700	-
Peter G. Scott	2006	5,000	27,700	-	32,700	-
	2005	19,583	13,117	-	32,700	-
<i>Executive</i>						
Michelle Miller (Managing Director)	2006	155,000	25,873	46,361	227,234	20%
	2005	150,000	13,500	-	163,500	-
Peter W. Gage	2006	5,000	450	-	5,450	-
	2005	70,000	2,700	-	72,700	-
Total, all specified directors	2006	285,000	64,823	89,589	439,412	20%
	2005	359,583	40,117	-	399,700	-
<b>Executives</b>						
Peter J. Nightingale (Company Secretary)	2006	60,000	-	9,606	69,606	14%
	2005	60,000	-	-	60,000	-
Total, all specified directors and executives	2006	345,000	64,823	99,195	509,018	19%
	2005	419,583	40,117	-	459,700	-

## BIOTRON LIMITED

The fair value of the options at grant date was determined based on Black-Scholes formula. The model inputs were the share price of \$0.17, expected volatility (based on historic volatility) of 50%, a nil dividend and risk-free interest rate of 5.25%.

### Options

At the date of this report, unissued ordinary shares of the Company under option are:

Number of Options	Exercise Price	Expiry Date
250,000	\$0.60	14 January 2007
500,000	\$0.75	14 January 2007
500,000	\$1.00	14 January 2007
3,600,000	\$0.35	30 September 2010

The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

### Principal Activities

The principal activities of the Company during the financial year were the funding and management of intermediate and early applied biotechnology research and development projects.

### Financial Result and Review of Operations

The operating loss of the Company for the financial year after income tax was \$2,198,973 (2005 - \$1,883,575).

A review of the Company's operations for the year is set out in the Operating and Financial Review.

### Impact of Legislation and Other External Requirements

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the consolidated entity.

### Dividends

The directors recommend that no dividend be paid by the Company. No dividend has been paid or declared since the end of the previous financial year.

### State of Affairs

In the opinion of the directors, significant changes in the state of affairs of the Company that occurred during the financial year under review were as follows:

- The continued advancement of the Company's projects, particularly the Virion project.
- Completion of an underwritten rights issue, raising \$4.3 million (net) from the issue of 19.9 million shares.

### Environmental Regulation

The Company's operations are not subject to significant environmental regulations under Commonwealth or State legislation in relation to its research projects.

# BIOTRON LIMITED

## Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## Likely Developments

During the year ended 30 June 2006, the Company continued to fund and manage its research and development projects. The success of these research projects, which cannot be assessed on the same fundamentals as trading and manufacturing enterprises, will determine future likely developments.

In the opinion of the directors, it would prejudice the interests of the Company to provide additional information, except as reported in this Annual Report, relating to likely developments in the operations of the Company.

## Indemnification of Officers and Auditors

During or since the end of the financial year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company against a liability incurred by such an officer or auditor. In addition, the Company has not paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

## Non-audit Services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act 2001 is included in the directors' report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	2006 \$	2005 \$
<b>Statutory audit</b>		
Auditors of the Company		
- audit and review of financial reports (KPMG Australia)	<u>17,782</u>	<u>15,614</u>
<b>Services other than statutory audit</b>		
- Grant audit (KPMG Australia)	<u>4,750</u>	<u>3,000</u>

## BIOTRON LIMITED

### Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 20 and forms part of the directors' report for the year ended 30 June 2006.

This report has been signed in accordance with a resolution of the directors and dated 13 September 2006:

A handwritten signature in blue ink, appearing to read "Michael J. Hoy".

**Michael J. Hoy**  
Chairman

A handwritten signature in blue ink, appearing to read "Michelle Miller".

**Michelle Miller**  
Managing Director



**Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

To the Directors of Biotron Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006, there have been:

- (i) no contravention of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

**KPMG**

A handwritten signature in black ink that reads 'S.J. Board'.

**S.J. Board  
Partner**

13 September 2006

# BIOTRON LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
Other income	2	794,862	621,099
Administration and consultants' expenses		(311,452)	(327,995)
Depreciation		(83,040)	(137,662)
Employee and director expenses		(514,001)	(446,669)
Direct research and development expenses		(1,875,449)	(1,404,084)
Rent and outgoings expenses		(44,649)	(82,641)
Legal expenses		(16,584)	(9,894)
Other expenses from ordinary activities		(248,559)	(228,674)
<b>Operating loss before financing income</b>	3	<u>(2,298,872)</u>	<u>(2,016,520)</u>
Interest income		<u>99,899</u>	<u>132,945</u>
<b>Net financing income</b>		<u>99,899</u>	<u>132,945</u>
<b>Loss before tax</b>		<u>(2,198,973)</u>	<u>(1,883,575)</u>
Income tax expense	5	<u>-</u>	<u>-</u>
<b>Loss for the year</b>		<u><u>(2,198,973)</u></u>	<u><u>(1,883,575)</u></u>
Basic loss per share attributable to ordinary equity shareholders	4	<u>(3.00) cents</u>	<u>(2.81) cents</u>
Diluted loss per share attributable to ordinary equity shareholders	4	<u>(3.00) cents</u>	<u>(2.81) cents</u>

# BIOTRON LIMITED

## STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$	2005 \$
<b>Loss for the year</b>	(2,198,973)	(1,883,575)
<b>Total recognised income and expense for the year</b>	<u>(2,198,973)</u>	<u>(1,883,575)</u>

Other movements in equity arising from transactions with owners as owners are set out in note 12.

# BIOTRON LIMITED

## BALANCE SHEET AS AT 30 JUNE 2006

	Notes	2006 \$	2005 \$
<b>Current assets</b>			
Cash and cash equivalents		4,623,586	2,112,796
Trade and other receivables	6	4,824	45,729
Inventories	7	21,538	38,781
Other	8	19,040	6,909
<b>Total current assets</b>		4,668,988	2,204,215
<b>Non-current assets</b>			
Property, plant and equipment	9	142,565	224,393
Other	8	2,403	-
<b>Total non-current assets</b>		144,968	224,393
<b>Total assets</b>		4,813,956	2,428,608
<b>Current liabilities</b>			
Trade and other payables	10	270,788	118,440
Employee entitlements	11	47,320	31,438
<b>Total current liabilities</b>		318,108	149,878
<b>Total liabilities</b>		318,108	149,878
<b>Net assets</b>		4,495,848	2,278,730
<b>Equity</b>			
Issued capital	12	16,865,134	12,651,368
Reserves	13	251,076	110,850
Accumulated losses	14	(12,620,362)	(10,483,488)
<b>Total equity</b>		4,495,848	2,278,730

# BIOTRON LIMITED

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		874,347	669,528
Payments for research and development		(2,044,239)	(1,530,451)
Cash payments in the course of operations		<u>(712,608)</u>	<u>(982,718)</u>
Cash generated from operations		(1,882,500)	(1,843,641)
Interest received		<u>95,076</u>	<u>132,946</u>
<b>Net cash from operating activities</b>	15	<u>(1,787,424)</u>	<u>(1,710,695)</u>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		<u>(1,212)</u>	<u>(546)</u>
<b>Net cash from investing activities</b>		<u>(1,212)</u>	<u>(546)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		<u>4,299,426</u>	<u>1,206,408</u>
<b>Net cash from financing activities</b>		<u>4,299,426</u>	<u>1,206,408</u>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		2,510,790	(504,833)
<b>Cash and cash equivalents at the beginning of the financial year</b>		<u>2,112,796</u>	<u>2,617,629</u>
<b>Cash and cash equivalents at the end of the financial year</b>	15	<u><u>4,623,586</u></u>	<u><u>2,112,796</u></u>

# BIOTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Biotron Limited (the 'Company') is a company domiciled in Australia.

The financial report was authorised for issue by the directors on 8 September 2006.

#### Statement of compliance

This general purpose financial report has been prepared in accordance with Australian Accounting Standards ('AASBs'), which are called the Australian equivalents to International Financial Reporting Standards ('AIFRSs') and the Corporations Act 2001.

This is the Company's first financial report prepared in accordance with AIFRS and AASB 1 'First Time Adoption of Australian Equivalents to International Financial Reporting Standards' has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 20.

#### Basis of preparation

The financial report is presented in Australian dollars and is prepared on the historical cost basis. The Company has elected to early adopt the following standards and amendments:

- AASB 119 Employee Benefits (December 2004).
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures.
- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement.
- AASB 2005-3 Amendments to Australian Accounting Standards (June 2005) amending AASB 119 Employee Benefits (either July or December 2004).
- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004).
- AASB 2005-5 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), and AASB 139 Financial Instruments: Recognition and Measurement.
- AASB 2005-6 Amendments to Australian Accounting Standards (June 2005) amending AASB 3 Business Combinations.
- AASB 2006-1 Amendments to Australian Accounting Standards (January 2006) amending AASB 121 The Effects of Changes in Foreign Exchange Rates (July 2004).
- UIG 4 Determining whether an Arrangement contains a Lease.
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- UIG 8 Scope of AASB 2.

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.

# BIOTRON LIMITED

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Con't)

- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures 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 Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The Company plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company to date.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to AIFRSs.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

### **Trade and other receivables**

Trade and other receivables are stated at their amortised cost less impairment losses.

### **Inventory**

Inventory is carried at the lower of cost and net realisable value.

### **Property, plant and equipment**

Property plant and equipment are stated at their historical cost and are depreciated over their estimated useful lives using the reducing balance method from the date of acquisition at rates between 13% and 40% per annum.

### **Research and development**

#### *Grants*

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue when there is reasonable assurance it will be received.

# BIOTRON LIMITED

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Con't)

### *Costs*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development.

### **Trade and other payables**

Trade and other payables are stated at their amortised cost, are non-interest bearing and are normally settled within 60 days.

### **Employee entitlements**

#### *Wages, salaries, annual leave and sick leave*

Liabilities for employee entitlements for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wages and salary rates that the company expect to pay as to reporting date including related on-cost, such as workers compensation insurance and superannuation.

### **Taxation**

#### *Income tax*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are temporary differences are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### *Goods and services tax*

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### **Revenue recognition**

#### *Interest revenue*

Interest revenue is recognised as it accrues using the effective interest rate method.

# BIOTRON LIMITED

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Con't)

### Earnings per share

Basic earnings per share are calculated by dividing the net loss of the Company by the weighted average number of ordinary shares outstanding during the financial year.

### Incentive option plan

The Incentive Option Plan allows the Company's employees or directors, or individuals whom the Plan Committee determine to be employees for the purposes of the Plan, with the opportunity to acquire options over unissued shares in the Company. The fair value of options granted is measured at grant date and spread as an expense over the period during which the employees or directors become unconditionally entitled to the options. The fair value of the options granted is measured using Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

### Impairment

The carrying amounts of the Company's assets, other than deferred tax assets and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. 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 the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

	2006	2005
	\$	\$
<b>2. OTHER INCOME</b>		
Research and development grants	794,862	621,099
Total	<u>794,862</u>	<u>621,099</u>

## 3. LOSS FROM OPERATING ACTIVITIES

Loss from ordinary activities has been arrived at after charging the following items:

Auditors' remuneration paid to KPMG		
- Audit and review of financial reports	17,782	15,614
- Other audit services	4,750	3,000
Depreciation		
- Office equipment	6,212	11,204
- Plant and equipment	76,828	126,458
Direct research and development expenditure expensed as incurred	1,875,449	1,404,084
Provision for employee entitlements	15,882	729

## BIOTRON LIMITED

### 4. LOSS PER SHARE

The calculation of basic loss per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of \$2,198,973 (2005 - \$1,883,575 loss) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 73,242,769 (2005 - 67,030,455), calculated as follows:

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Net loss for the year	2,198,973	1,883,575
	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>
Issued ordinary shares at 1 July	69,800,550	64,055,750
Effect of shares issued on 31 December 2004	-	2,974,705
Effect of shares issued on 28 April 2006	3,442,219	-
Weighted average number of ordinary shares	73,242,769	67,030,455

Options disclosed in the Issued Capital note below are potential ordinary shares, but are not included in the calculation of diluted loss per share as they are not dilutive.

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>

### 5. INCOME TAX EXPENSE

#### Numerical reconciliation between tax expense and pre-tax net profit

Loss before tax - continuing operations	(2,198,973)	(1,883,575)
Income tax using the domestic corporation tax rate of 30%	(659,692)	(565,072)
Increase in income tax expense due to:		
- Non-deductible expenses	1,093	839
- Effect of tax losses not recognised	658,599	564,233
Income tax expense current and deferred	-	-

#### Deferred tax assets have not been recognised in respect of the following items:

Deductible temporary differences (net)	106,218	-
Tax losses	4,203,171	3,374,650
Net	4,309,389	3,374,650

### 6. RECEIVABLES

#### Current

Other debtors	4,824	45,729
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## BIOTRON LIMITED

	2006 \$	2005 \$
<b>7. INVENTORIES</b>		
Stores - at cost	<u>21,538</u>	<u>38,781</u>
<b>8. OTHER</b>		
Current prepayments	<u>19,040</u>	<u>6,909</u>
Non-current prepayments	<u>2,403</u>	<u>-</u>
<b>9. PLANT AND EQUIPMENT</b>		
Office equipment - at cost	92,985	91,773
Accumulated depreciation	<u>(80,435)</u>	<u>(74,223)</u>
	<u>12,550</u>	<u>17,550</u>
Plant and equipment - at cost	892,480	892,480
Accumulated depreciation	<u>(762,465)</u>	<u>(685,637)</u>
	<u>130,015</u>	<u>206,843</u>
Total plant and equipment - net book value	<u>142,565</u>	<u>224,393</u>
<b>Reconciliations</b>		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
<b>Office equipment</b>		
Carrying amount at the beginning of the financial year	17,550	28,208
Additions	1,212	546
Depreciation	<u>(6,212)</u>	<u>(11,204)</u>
Carrying amount at the end of the financial year	<u>12,550</u>	<u>17,550</u>
<b>Plant and equipment</b>		
Carrying amount at the beginning of the financial year	206,843	333,301
Depreciation	<u>(76,828)</u>	<u>(126,458)</u>
Carrying amount at the end of the financial year	<u>130,015</u>	<u>206,843</u>
<b>10. PAYABLES</b>		
<b>Current</b>		
Other creditors and accruals	<u>270,788</u>	<u>118,440</u>
<b>11. EMPLOYEE ENTITLEMENTS</b>		
<b>Current</b>		
Employee annual leave provision	<u>47,320</u>	<u>31,438</u>
	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>
Number of employees at the end of the financial year	<u>8</u>	<u>10</u>

## BIOTRON LIMITED

	2006	2005
	\$	\$
<b>12. ISSUED CAPITAL</b>		
<b>Issued and paid up capital</b>		
89,743,565 (2005 - 69,800,550) fully paid ordinary shares	16,865,134	12,651,368

During the year ended 30 June 2006, in excess of 425 shareholders participated in a share rights issue, resulting in the allotment of 19,943,015 new fully paid ordinary shares for a net cash consideration totalling \$4,213,766 after issue cost of \$373,128.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

The following options were on issue at 30 June 2006, each exercisable to acquire one fully paid ordinary share:

- Nil (2005 - 900,000) at \$0.50 at any time up to 30 September 2005.
- 250,000 (2005 - 250,000) at \$0.60 at any time up to 14 January 2007.
- 500,000 (2005 - 500,000) at \$0.75 at any time up to 14 January 2007.
- 500,000 (2005 - 500,000) at \$1.00 at any time up to 14 January 2007.
- 3,600,000 (2005 - nil) at \$0.35 at any time up to 30 September 2010.
- 500,000 (2005 - nil) at \$0.40 at any time from 30 September 2006 up to 30 September 2010.
- 500,000 (2005 - nil) at \$0.45 at any time from 30 September 2007 up to 30 September 2010.

During the year ended 30 June 2006, 4,600,000 options were granted at a weighted average fair value at the grant date of \$0.044 per option. Included in these options are 2,600,000 options granted to directors and key executives as described in note 17 and 2,000,000 options, each exercisable to acquire one fully paid ordinary share, with an exercise price of \$0.35 at any time up to 30 September 2010, which were issued to a third party in exchange for underwriting the share rights issue. The fair value of these options at grant date, \$85,660, which was determined based on Black-Scholes formula, was charged against issued capital as a cost of the share rights issue. The model inputs were the share price of \$0.17, expected volatility (based on historic volatility) of 50%, a nil dividend and risk-free interest rate of 5.25%.

The weighted average exercise price of options was \$0.62 for options outstanding at the beginning of the financial year, \$0.37 for options issued during the financial year, \$0.50 for options that expired during the financial year, \$0.46 for options outstanding at the end of the financial year and \$0.47 for options exercisable at the end of the financial year.

### 13. RESERVES

#### Equity compensation

Balance at the beginning of the financial year	110,850	110,850
Issue of options	202,326	-
Transfer to accumulated losses on lapse of options	(62,100)	-
Balance at the end of the financial year	251,076	110,850

This reserve represents the fair value, at the date of issue, of options issued as compensation.

## BIOTRON LIMITED

	2006	2005
	\$	\$
<b>14. ACCUMULATED LOSSES</b>		
Accumulated losses at the beginning of the financial year	10,483,488	8,599,913
Transfer from reserve	(62,100)	-
Net loss attributable to members of the Company	<u>2,198,973</u>	<u>1,883,575</u>
Accumulated losses at the end of the financial year	<u>12,620,361</u>	<u>10,483,488</u>

### 15. STATEMENT OF CASH FLOWS

#### Reconciliation of net loss from operating activities to net cash used in operating activities

Loss from operating activities after tax	<u>(2,198,973)</u>	<u>(1,883,575)</u>
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#### Non-cash items

Depreciation of plant and equipment	83,040	137,662
Provisions	15,882	(729)
Equity compensation	99,195	-

#### Changes in assets and liabilities

Decrease in receivables	40,906	19,773
Decrease in inventories	2,936	25,809
(Increase)/decrease in prepayments	17,243	(6,909)
(Increase)/decrease in payables	<u>152,347</u>	<u>(2,726)</u>

#### Net cash used in operating activities

	<u>(1,787,424)</u>	<u>(1,710,695)</u>
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#### Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and cash on deposit net of bank overdrafts and excluding security deposits. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

Cash	<u>4,623,586</u>	<u>2,112,796</u>
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### 16. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the Company at any time during the reporting period:

#### Non-executive directors

Michael J. Hoy (Chairman)  
 Michael S. Hirshorn  
 Bruce Hundertmark  
 Peter G. Scott

#### Executive directors

Michelle Miller (Managing Director)  
 Peter W. Gage (deceased on 13 August 2005)

#### Executive

Peter J. Nightingale (Company Secretary)

## BIOTRON LIMITED

### 16. KEY MANAGEMENT PERSONNEL (Con't)

The following table provides the details of all key management personnel of the Company for the entire reporting period.

	Year	Primary salary and fees \$	Post-employment superannuation benefits \$	Equity compensation value of options \$	Total \$
<b>Directors</b>					
<i>Non-executive</i>					
Michael J. Hoy	2006	60,000	5,400	24,016	89,416
(Chairperson)	2005	60,000	5,400	-	65,400
Michael S. Hirshorn	2006	30,000	2,700	9,606	42,306
	2005	30,000	2,700	-	32,700
Bruce Hundertmark	2006	30,000	2,700	9,606	42,306
	2005	30,000	2,700	-	32,700
Peter G. Scott	2006	5,000	27,700	-	32,700
	2005	19,583	13,117	-	32,700
<i>Executive</i>					
Michelle Miller	2006	155,000	25,873	46,361	227,234
(Managing Director)	2005	150,000	13,500	-	163,500
Peter W. Gage	2006	5,000	450	-	5,450
	2005	70,000	2,700	-	72,700
Total, all specified directors	2006	285,000	64,823	89,589	439,412
	2005	359,583	40,117	-	399,700
<b>Executives</b>					
Peter J. Nightingale	2006	60,000	-	9,606	69,606
(Company Secretary)	2005	60,000	-	-	60,000
Total, all specified directors and executives	2006	345,000	64,823	99,195	509,018
	2005	419,583	40,117	-	459,700

#### Options and rights over equity instruments granted as remuneration

Details of relevant interests of key management personnel of the Company and their related entities in shares and options of the Company at year end are as follows:

## BIOTRON LIMITED

### 16. KEY MANAGEMENT PERSONNEL (Con't)

#### Fully paid ordinary shareholdings and transactions - 2006

	Held at 1 July 2005	Purchased	Received on exercise of options	Sales	Held at 30 June 2006
<b>Directors</b>					
Michael J. Hoy	1,023,800	292,514	-	-	1,316,314
Michelle Miller	-	-	-	-	-
Michael S. Hirshorn	-	-	-	-	-
Bruce Hundertmark	-	-	-	-	-
Peter G. Scott	8,573,800	321,214	-	-	8,895,014
<b>Executives</b>					
Peter J. Nightingale	1,000,000	610,497	-	-	1,610,497

#### Fully paid ordinary shareholdings and transactions - 2005

	Held at 1 July 2004	Purchased	Received on exercise of options	Sales	Held at 30 June 2005
<b>Directors</b>					
Michael J. Hoy	1,000,000	23,800	-	-	1,023,800
Michelle Miller	-	-	-	-	-
Peter W. Gage	9,400,000	-	-	-	9,400,000
Michael S. Hirshorn	-	-	-	-	-
Bruce Hundertmark	-	-	-	-	-
Peter G. Scott	8,550,000	23,800	-	-	8,573,800
<b>Executives</b>					
Peter J. Nightingale	1,000,000	-	-	-	1,000,000

#### Option holdings - 2006

	Held at 1 July 2005	Granted as remuneration	Expired	Held at 30 June 2006	Vested and exercisable at 30 June 2006
<b>Directors</b>					
Michael J. Hoy	500,000	500,000	(500,000)	500,000	500,000
Michelle Miller	1,250,000	1,500,000	-	2,750,000	1,750,000
Peter W. Gage	-	-	-	-	-
Michael S. Hirshorn	200,000	200,000	(200,000)	200,000	200,000
Bruce Hundertmark	200,000	200,000	(200,000)	200,000	200,000
Peter G. Scott	-	-	-	-	-
<b>Executives</b>					
Peter J. Nightingale	-	200,000	-	200,000	200,000

## BIOTRON LIMITED

### 16. KEY MANAGEMENT PERSONNEL (Con't)

#### Option holdings - 2005

	Held at 1 July 2004	Granted as remuneration	Exercised	Held at 30 June 2005	Vested and exercisable at 30 June 2005
<b>Directors</b>					
Michael J. Hoy	500,000	-	-	500,000	500,000
Michelle Miller	1,250,000	-	-	1,250,000	1,250,000
Peter W. Gage	-	-	-	-	-
Michael S. Hirshorn	200,000	-	-	200,000	200,000
Bruce Hundertmark	200,000	-	-	200,000	200,000
Peter G. Scott	-	-	-	-	-
<b>Executives</b>					
Peter J. Nightingale	-	-	-	-	-

During the year ended 30 June 2006, key management personnel purchased 1,224,225 fully paid ordinary shares for total amount of \$281,572 pursuant to the Company's 2 for 7 Rights Issue and neither purchased nor sold any options in the Company.

During the year ended 30 June 2006, Peter Gage ceased to be the director of the Company on 13 August 2005 and his holding of Company shares was transferred to the Estate of Peter Gage.

During the year ended 30 June 2006, Michael J. Hoy had an interest in an entity, CityPrint Pty Limited, which provided printing services to the Company. Payments to CityPrint Pty Limited, which were in the ordinary course of business and on normal terms and conditions, amounted to \$29,909 (2005 - \$15,479).

During the year ended 30 June 2006, Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided full administrative services, including rental accommodation, administrative staff, services and supplies, to the consolidated entity. Fees paid to Mining Services Trust during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to \$120,000 (2005 - \$120,000).

During the year ended 30 June 2006, Peter J. Nightingale, had an interest in an entity, Rosignol Consultants Pty Limited, which rendered financial and administrative services to the Company. Fees paid to Rosignol Consultants Pty Limited during the year, which were in the ordinary course of business and on normal commercial terms and conditions, amounted to \$69,606 (2005 - \$60,000).

### 17. EMPLOYEE AND DIRECTOR INCENTIVE OPTION PLAN

At 30 June 2006, the Company had 8 employees (2005 - 10). All other personnel are contracted by the Company on a consultancy basis.

The Company has an Incentive Option Plan to provide eligible persons, being employees or directors, or individuals whom the Plan Committee determine to be employees for the purposes of the Plan, with the opportunity to acquire options over unissued ordinary shares in the Company. The number of options granted or offered under the Plan will not exceed 10% of the Company's issued share capital and the exercise price of options will be the greater of the market value of the Company's shares as at the date of grant of the option or such amount as the Plan Committee determines. Options have no voting or dividend rights.

## BIOTRON LIMITED

### 17. EMPLOYEE AND DIRECTOR INCENTIVE OPTION PLAN (Con't)

In the event that the employment or office of the optionholder is terminated, any options which have not reached their exercise period will lapse and any options which have reached their exercise period may be exercised within three months of the date of termination of employment. Any options not exercised within this three month period will lapse.

During the year ended 30 June 2006, 2,600,000 options were granted to directors and key executives. No ordinary shares have been issued as a result of the exercise of any option granted pursuant to the Incentive Option Plan.

The fair value of the options at grant date, \$116,666, was determined based on Black-Scholes formula. The model inputs were the share price of \$0.17, expected volatility (based on historic volatility) of 50%, a nil dividend and risk-free interest rate of 5.25%.

These options are not listed and accordingly have no market value at year end. The market value of the ordinary shares under option at 30 June 2006 was \$0.195 (2005 - \$0.13) each. The amount recognised in the financial statements in relation options issued during the financial year was \$99,195 (2005 - \$0). Options issued are summarised below:

Grant Date	Exercise Date	Expiry Date	Exercise Price	Number of Options		
				30 June 2005 On Issue	30 June 2006 On Issue	30 June 2006 Vested
06/02/02	06/02/02	14/01/07	\$0.60	250,000	250,000	250,000
28/06/03	30/06/03	14/01/07	\$0.75	500,000	500,000	500,000
28/06/03	30/06/04	14/01/07	\$1.00	500,000	500,000	500,000
14/10/05	14/10/05	30/09/10	\$0.35	900,000	1,600,000	1,600,000
14/10/05	30/09/06	30/09/10	\$0.40	-	500,000	-
14/10/05	30/09/07	30/09/10	\$0.45	-	500,000	-

### 18. FINANCIAL INSTRUMENTS DISCLOSURE

#### Interest rate risk

The Company's exposure to interest rate risk and repricing periods are the effective weighted average interest rate for classes of financial assets and financial liabilities as follows:

	Note	Effective interest rate %	Floating interest rate 6 months or less \$	Non-interest bearing \$	Total \$
<b>2006</b>					
<b>Financial assets</b>					
Cash assets		3.39	4,623,586	-	4,623,586
Receivables	6	-	-	4,824	61,706
<b>Financial liabilities</b>					
Payables and employee benefits	10 and 11	-	-	318,108	310,595

## BIOTRON LIMITED

### 18. FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

#### Interest rate risk (Con't)

	Note	Effective interest rate %	Floating interest rate 6 months or less \$	Non-interest bearing \$	Total \$
<b>2005</b>					
<b>Financial assets</b>					
Cash assets		4.38	2,112,796	-	2,112,796
Receivables	6	-	-	45,729	45,729
<b>Financial liabilities</b>					
Payables and employee benefits	10 and 11	-	-	149,879	149,879

#### Credit risk exposure

The credit risk exposure on financial assets of the Company which have been recognised in the balance sheet is the carrying amount, net of any impairment loss.

Credit risk on cash assets is minimised by dealing with Australian regulated banks.

#### Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair values given the variable interest rates and/or short term to maturity.

### 19. FINANCIAL REPORTING BY SEGMENTS

The Company operates in the biotechnology industry in Australia.

### 20. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in note 1, these are the Company's first annual financial Statements prepared in accordance with Australian Accounting Standards – AIFRS.

The accounting policies in note 1 have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information for the year ended 30 June 2005, and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the Company's date of transition).

The transition to AIFRS has no material impact on the Company's financial position, financial performance or cash flows; hence the consolidated entity has made no adjustments to amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (previous GAAP).

# BIOTRON LIMITED

## DIRECTORS' DECLARATION

In the opinion of the directors of Biotron Limited:

- (a) the financial statements and notes thereto, set out on pages 21 to 37, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Company as at 30 June 2006 and of its performance, as represented by the results of its operations and cash flows for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2006.

This report has been signed in accordance with a resolution of the directors and is dated 13 September 2006:



**Michael J. Hoy**  
Chairman



**Michelle Miller**  
Managing Director



**INDEPENDENT AUDIT REPORT TO THE MEMBERS  
OF BIOTRON LIMITED**

**Scope**

***The financial report and directors' responsibility***

The financial report comprises the income statement, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes 1 to 20 to the financial statements, and the directors' declaration for Biotron Limited for the year ended 30 June 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments as required under the Australian Accounting Standard AASB 1 "First-time Adoption of Australian equivalents to International Financial Reporting Standards".

***Audit approach***

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

**Audit opinion**

In our opinion, the financial report of Biotron Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**KPMG**

13 September 2006

**S.J. Board  
Partner**

# BIOTRON LIMITED

## ADDITIONAL STOCK EXCHANGE INFORMATION

### Home Exchange

The Company is listed on the Australian Stock Exchange Limited. The home exchange is Sydney.

### Use of Cash and Assets

Since the Company's listing on the Australian Stock Exchange, the Company has used its cash and assets in a way consistent with its stated business objectives.

### Class of Shares and Voting Rights

There is only one class of shares in the Company, fully paid ordinary shares.

The rights attaching to shares in the Company are set out in the Company's Constitution. The following is a summary of the principal rights of the holders of shares in the Company.

Every holder of shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of shares who is present in person or by proxy, attorney or representative has one vote for every fully paid share registered in the shareholder's name on the Company's share register.

A poll may be demanded by the chairperson of the meeting, by at least 5 shareholders entitled to vote on the resolution or shareholders with at least 5% of the votes that may be cast on the resolution on a poll.

### Substantial Shareholders

As at the date of the Directors' Report, the Register of Substantial Shareholders showed the following:

Estate Late Peter Gage	9,200,000 fully paid ordinary shares
Rigi Investment Pty Ltd	4,380,145 fully paid ordinary shares
Peter G. Scott	4,250,000 fully paid ordinary shares
Gail S. Scott	4,249,550 fully paid ordinary shares
Australian National University	4,216,222 fully paid ordinary shares

### Distribution of Equity Securityholders

As at 31 August 2006, the distribution of each class of equity was as follows:

Range	Fully Paid Ordinary Shares	14 January 2007 \$0.60 Options	14 January 2007 \$0.75 Options	14 January 2007 \$1.00 Options	30 September 2010 \$0.35 Options
1- 1,000	53	-	-	-	
1,001 - 5,000	487	-	-	-	
5,001 - 10,000	360	-	-	-	
10,001 - 100,000	581	-	-	-	
100,001 and over	114	1	1	1	6
	<b>1,595</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>6</b>

At 31 August 2006, 179 shareholders held less than a marketable parcel of 2,326 shares.

Lost Ark Nominees Pty Limited No 99 A/c is the holder of 2,000,000 30 September 2010 \$0.35 options.

## BIOTRON LIMITED

### Twenty Largest Quoted Shareholders

At 31 August 2006 the twenty largest fully paid ordinary shareholders held 48.27% of fully paid ordinary as follows:

	<b>Name</b>	<b>Fully Paid Ordinary Shares</b>	<b>%</b>
1	Estate Late Peter Gage	9,200,000	10.25
2	Rigi Investments Pty Ltd	4,380,145	4.88
3	Peter Scott	4,250,000	4.74
4	Gail Scott	4,249,550	4.74
5	Australian National University	4,124,700	4.60
6	Angela Dulhunty	2,400,000	2.67
7	Chris and Bhama Parish	2,100,000	2.34
8	Philip and Marylyn Board	1,799,950	2.01
9	Bray Chan	1,400,000	1.56
10	Michael John Hoy	1,316,314	1.47
11	Merrill Lynch (Australia) Nominees Pty Ltd Berndale A/c	1,206,159	1.34
12	Peter Nightingale	1,175,714	1.31
13	Jey Investments Pty Ltd	849,656	0.95
14	Lost Ark Nominees Pty Ltd MYA Super A/c	842,319	0.94
15	ANZ Nominees Limited Cash Income A/c	826,294	0.91
16	CBDF Pty Ltd Canberra Bus Dev Fund A/c	737,743	0.82
17	Forbar Custodians Limited	676,286	0.75
18	UOB Kay Hian Pte Ltd Clients A/c	642,857	0.72
19	Shano Developments Pty Ltd	570,000	0.64
20	Chifley Portfolios Pty Ltd D&P Hannon Retirement A/c	561,546	0.63

There are no current on-market buy-backs.

# BIOTRON LIMITED

## CORPORATE DIRECTORY

### Directors:

Mr Michael J. Hoy (Chairman)  
Dr Michelle Miller (Managing Director)  
Dr Michael S. Hirshorn  
Mr Bruce Hundertmark  
Mr Peter G. Scott

### Company Secretary:

Mr Peter J. Nightingale

### Registered Office:

Level 8, 261 George Street  
SYDNEY NSW 2000  
Phone: 61-2 9247 8212  
Fax: 61-2 9247 3932  
E-mail: [enquiries@biotron.com.au](mailto:enquiries@biotron.com.au)  
Homepage: [www.biotron.com.au](http://www.biotron.com.au)

### Share Registrar:

Computershare Investor Services Pty Limited  
PO Box 523  
BRISBANE QLD 4001  
Phone: 61-7 3237 2100  
Fax: 61-7 3229 9860

### Auditors:

KPMG  
Level 30, Central Plaza One  
345 Queen Street  
BRISBANE QLD 4000

### Home Exchange:

Australian Stock Exchange Limited  
20 Bridge Street  
SYDNEY NSW 2000

### Solicitors:

Minter Ellison  
88 Phillip Street  
SYDNEY NSW 2000

Biotron Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.