

# Appendix 4E

## Preliminary Final Report

Name of entity

Cell Aquaculture Limited

ACN

091 687 740

Reporting Period

Year ended 30 June 2005

Previous Corresponding Period

Year ended 30 June 2004

### Results for announcement to the market

|  |      |                            |    | \$A'000                            |
|--|------|----------------------------|----|------------------------------------|
| Revenues from ordinary activities  | Down | 28%                        | to | 71                                 |
| Loss from ordinary activities after tax attributable to members  | Up   | 1%                         | to | (704)                              |
| Loss for the period attributable to members  | Up   | 1%                         | to | (704)                              |
| <b>Dividends (distributions)</b>   |      | <b>Amount per security</b> |    | <b>Franked amount per security</b> |
| Final and interim dividend   |      | None                       |    | - ¢                                |
| Record date for determining entitlements to the dividend   |      | N/A                        |    |                                    |
| <b>Brief Explanation of Revenues and Earnings</b>  |      |                            |    |                                    |
| <p>During the year ended 30 June 2005, the Company continued its development of its aquaculture system, whilst preparing for listing on the Australian Stock Exchange.</p> <p>Revenues consisted of grants received totalling \$36,944 and the sale of fish produced at its Research &amp; Development facility at Hamilton Hill totalling \$28,060.</p> |      |                            |    |                                    |

## Commentary

### Overview

The loss after income tax for the year ended 30 June 2005 was \$704,349 (2004: \$694,737).  
The loss per share was 0.8 cents (2004: 1.0 cents).

### Significant Changes

The following significant changes occurred during the financial year:

1. During the financial year the Company negotiated four Heads of Agreement to enter into joint ventures to build and operate aquaculture production facilities in the Netherlands, India, and two in the United States of America.
2. In September 2004 the Company made a decision to seek listing on the Australian Stock Exchange and commenced the due diligence process.
  - (a) On the 22<sup>nd</sup> of April 2005 the Company issued a Prospectus which offered 25,000,000 shares at an issue price of 20 cents per share to raise \$5,000,000 and for oversubscriptions of up to 10,000,000 shares at 20 cents each to raise a further \$2,000,000.
  - (b) On the 23<sup>rd</sup> of May 2005, ASIC issued an interim stop order in relation to the prospectus which was quickly resolved.
  - (c) On the 31<sup>st</sup> of May 2005 a Supplementary Prospectus was lodged with ASIC and the Directors of Cell Aquaculture resolved to defer the closing date to 30<sup>th</sup> of June 2005.
  - (d) On the 30<sup>th</sup> of June 2005 the Board resolved to extend the offer for an additional two weeks closing at 5.00pm on Friday the 15<sup>th</sup> of July 2005.
  - (e) On the 18<sup>th</sup> of July the Board resolved that, subject to receipt of approval from ASX for admission to quotation, the Company issue and allot 26,007,000 ordinary shares at an issue price of 20 cents per share to the persons identified as applicants of those shares in the final listing, raising a total of \$5,201,400.
  - (f) Cell Aquaculture Ltd was first quoted on the Australian Stock Exchange on 25<sup>th</sup> of July 2005.

### Results Comparison and Activity Analysis

The Hamilton Hill located Eco-Cell facility continued to operate primarily as a Research & Development facility, with the majority of product being utilized in test marketing overseas with some product being sold into the local market.

While revenues declined marginally, the Company continued an aggressive stance on cost control management; however, the Company did incur marketing and legal costs associated with several international business developments, expenditure that we are confident will yield new revenue or profits in the coming years.

The major product development emphasis has been on the development and testing of the new three tank Eco-Cell together with a revolutionary new nursery package.

In co-operation with James Cook University the Company has continued its long term development and research of:

- a) Golden Perch,
- b) Murray Cod, and
- c) The effects of travel time on the future growth rates of Barramundi fingerlings

The focus of the Company for the next financial year is to pursue the promotion, marketing and establishment of joint venture arrangements, promotion and sale of the Eco-Cell systems, and to undertake further research and development of additional species and technologies.

## Statement of financial performance

|  | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|--|--------------------|--------------------|
| Revenue from ordinary activities (see Note 3)  | 70,747             | 97,575             |
| Raw materials and consumables used   | (18,973)           | (4,719)            |
| Marketing expenses   | (48,556)           | (194,164)          |
| Communication expenses   | (13,939)           | (17,513)           |
| Consultancy expenses   | (150,036)          | (13,188)           |
| Consumables  | (31,562)           | (2,568)            |
| Employee benefits expense  | (236,464)          | (320,855)          |
| Insurance expenses   | (31,256)           | (26,896)           |
| Occupancy Costs  | (30,721)           | (31,737)           |
| Professional Costs   | (107,756)          | (167,156)          |
| Depreciation and amortisation expense  | (113,525)          | (102,411)          |
| Borrowing costs expense  | (70,055)           | (30,576)           |
| Other expenses from ordinary activities  | (83,911)           | (58,334)           |
| <b>Loss from ordinary activities before tax</b>                                      | <b>(866,007)</b>   | <b>(872,542)</b>   |
| Income tax benefit on ordinary activities (see Note 2)                               | 161,658            | 177,805            |
| <b>Loss from ordinary activities after tax</b>                                       | <b>(704,349)</b>   | <b>(694,737)</b>   |
| <b>Net loss for the period attributable to members</b>                               | <b>(704,349)</b>   | <b>(694,737)</b>   |
| <b>Total changes in equity not resulting from transactions with owners as owners</b> | <b>(704,349)</b>   | <b>(694,737)</b>   |
| Basic earnings (loss) per share  | (0.8) cents        | (1.0) cent         |
| Diluted earnings (loss) per share  | (0.8) cents        | (1.0) cent         |

## Statement of financial position

|  | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|--|--------------------|--------------------|
| <b>Current assets</b>                      |                    |                    |
| Cash                                       | 6,602              | 110,309            |
| Receivables                                | 43,207             | 53,512             |
| Inventory                                  | 26,235             | 26,235             |
| Other (see Note 4)                         | 323,219            | 1,082              |
| <b>Total current assets</b>                | <b>399,263</b>     | <b>191,138</b>     |
| <b>Non-current assets</b>                  |                    |                    |
| Receivables                                | 2,420              | 2,420              |
| Property, plant and equipment (see Note 5) | 1,143,590          | 1,188,496          |
| Intangible assets (see Note 6)             | 179,767            | 212,767            |
| Other (see Note 4)                         | 1,461,270          | 971,372            |
| <b>Total non-current assets</b>            | <b>2,787,047</b>   | <b>2,375,055</b>   |
| <b>Total assets</b>                        | <b>3,186,310</b>   | <b>2,566,193</b>   |
| <b>Current liabilities</b>                 |                    |                    |
| Payables (see Note 7)                      | 371,857            | 310,002            |
| Interest Bearing Liabilities (see Note 8)  | 210,444            | -                  |
| Other                                      | -                  | 55,000             |
| <b>Total current liabilities</b>           | <b>582,301</b>     | <b>365,002</b>     |
| <b>Non-current liabilities</b>             |                    |                    |
| Interest Bearing Liabilities (see Note 8)  | 305,770            | 1,091,147          |
| <b>Total non-current liabilities</b>       | <b>305,770</b>     | <b>1,091,147</b>   |
| <b>Total liabilities</b>                   | <b>888,071</b>     | <b>1,456,149</b>   |
| <b>Net assets</b>                          | <b>2,298,239</b>   | <b>1,110,044</b>   |
| <b>Equity</b>                              |                    |                    |
| Contributed equity (see Note 9)            | 5,199,744          | 3,307,200          |
| Accumulated losses (see Note 10)           | (2,901,505)        | (2,197,156)        |
| <b>Total equity</b>                        | <b>2,298,239</b>   | <b>1,110,044</b>   |

## Statement of cash flows

|  | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|--|--------------------|--------------------|
| <b>Cash flows from operating activities</b>                |                    |                    |
| Receipts from customers                                    | 26,416             | 31,681             |
| Grant received   | 36,944             | 59,868             |
| Interest received  | 5,743              | 5,494              |
| Borrowing costs  | (38,805)           | (30,576)           |
| Payments to suppliers and employees                        | (593,038)          | (732,688)          |
| Income tax refund  | 161,658            | 177,805            |
| <b>Net cash provided by (used in) operating activities</b> | <b>(401,082)</b>   | <b>(488,416)</b>   |
| <b>(see Note 12)</b>                                       |                    |                    |
| <b>Cash flows from investing activities</b>                |                    |                    |
| Payment from Research & Development                        | (489,898)          | (295,832)          |
| Payments for Property, Plant and Equipment                 | (35,618)           | (203,461)          |
| <b>Net cash provided by (used in) investing activities</b> | <b>(525,516)</b>   | <b>(499,293)</b>   |
| <b>Cash flows from financing activities</b>                |                    |                    |
| Payments for Prospectus and Shares Issue Costs             | (262,637)          | -                  |
| Proceeds from Share Issues                                 | 1,062,100          | 435,250            |
| Share Issue Costs  | (5,806)            | (100,000)          |
| Proceeds from Issue of Convertible Note                    | -                  | 750,000            |
| Repayment of Bank Loan                                     | (35,377)           | (32,894)           |
| Repayment – Aquaculture Technology Agreement               | (145,833)          | (76,167)           |
| Other loans  | -                  | 55,000             |
| <b>Net cash provided by (used in) financing activities</b> | <b>612,447</b>     | <b>1,031,189</b>   |
| <b>Net increase (decrease) in cash held</b>                | <b>(314,151)</b>   | <b>43,480</b>      |
| Cash at beginning of the financial year                    | 110,309            | 66,829             |
| <b>Cash at end of the financial year (see Note 11)</b>     | <b>(203,842)</b>   | <b>110,309</b>     |

## Non-cash financing and investing activities

|   |         |   |
|---|---------|---|
| Other payables at 30 June 2004 converted to issued shares       | 55,000  | - |
| Payment of employee benefits expense satisfied by shares issued | 53,000  | - |
| Exercise of convertible note                                    | 750,000 | - |
| Payment of prospectus and other costs funded by unsecured loan  | 63,500  | - |

## 1. Basis of Preparation

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board. The accounting policies are consistent with those of the previous period unless stated otherwise.

## 2. Research and Development Tax Concession

The Company has recognised an income tax benefit in 2005 of \$161,658 (2004: \$177,805). This relates to tax refunds arising from the Company's expenditure during the year ended 30 June 2004 on research and development activities qualifying for tax concessions.

## 3. Revenue from ordinary activities

|                                  | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|----------------------------------|--------------------|--------------------|
| Revenue from sales of produce    | 28,060             | 33,250             |
| Total sales revenue              | 28,060             | 33,250             |
| Export market development grants | 36,944             | 59,868             |
| Interest revenue                 | 5,743              | 4,457              |
| Total other revenues             | 42,687             | 64,325             |
| <b>Total revenues</b>            | <b>70,747</b>      | <b>97,575</b>      |

#### 4. Other Assets

|   | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|---|--------------------|--------------------|
| <b>Current</b>  |                    |                    |
| Prepaid borrowing costs                                   | 582                | 1,082              |
| Prepaid prospectus and shares issue costs                 | 322,637            | -                  |
|   | 323,219            | 1,082              |
| <b>Non-current</b>  |                    |                    |
| Research & Development – at cost (Note 4 (a) )            | 1,461,270          | 971,372            |
|   | 1,461,270          | 971,372            |
| (a) Research and Development<br>Movements during the year |                    |                    |
| Opening balance   | 971,372            | 675,540            |
| Costs incurred during the year                            | 489,898            | 295,832            |
| Amortisation  | -                  | -                  |
| Closing balance   | 1,461,270          | 971,372            |

#### 5. Property, Plant and Equipment

|   | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|---|--------------------|--------------------|
| <b>Land and Buildings</b>                     |                    |                    |
| Freehold Land – at cost                       | 579,610            | 579,610            |
|   | 579,610            | 579,610            |
| Land improvement – at cost                    | 82,300             | 82,300             |
| Less: Accumulated depreciation                | (14,384)           | (10,269)           |
|   | 67,916             | 72,031             |
| Buildings – at cost                           | 434,992            | 432,932            |
| Less: Accumulated depreciation                | (60,903)           | (36,227)           |
|   | 374,089            | 396,705            |
| <b>Total Land and Buildings (Note 5 (b) )</b> | <b>1,021,615</b>   | <b>1,048,346</b>   |
| <b>Plant &amp; Equipment</b>                  |                    |                    |
| Plant & equipment – at cost                   | 320,571            | 287,011            |
| Less: Accumulated depreciation                | (198,596)          | (148,861)          |
| Total plant & equipment                       | 121,975            | 140,150            |
| <b>Total property, plant and equipment</b>    | <b>1,143,590</b>   | <b>1,188,496</b>   |

(a) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

|                                    | Freehold<br>Land | Land<br>Improvements | Buildings      | Plant &<br>Equipment | Total            |
|------------------------------------|------------------|----------------------|----------------|----------------------|------------------|
| Balance at the beginning of year   | 579,610          | 72,031               | 396,705        | 140,150              | 1,188,496        |
| Additions                          | -                | -                    | 2,060          | 33,559               | 35,619           |
| Disposals                          | -                | -                    | -              | -                    | -                |
| Depreciation expense               | -                | 4,115                | 24,676         | 51,734               | 80,525           |
| Carrying amount at the end of year | <u>579,610</u>   | <u>67,916</u>        | <u>374,089</u> | <u>121,975</u>       | <u>1,143,590</u> |

(b) Freehold Land & Buildings

Subsequent to 30 June 2005, as detailed in Note 20(b), a contract was entered into for the sale of the freehold land and buildings for \$2,600,000.

## 6. Intangible Assets

|                                 | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|---------------------------------|--------------------|--------------------|
| Intellectual property / license | 330,000            | 330,000            |
| Less: Accumulated depreciation  | (151,250)          | (118,250)          |
| Formation expenses              | 178,750            | 211,750            |
|                                 | <u>1,017</u>       | <u>1,017</u>       |
|                                 | <u>179,767</u>     | <u>212,767</u>     |

## 7. Payables

|  | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|--|--------------------|--------------------|
| <b>Current</b>                           |                    |                    |
| Trade creditors and accruals             | 308,357            | 164,169            |
| Loans – Aquaculture Technology Agreement | -                  | 145,833            |
| Loan – Unsecured                         | 63,500             | -                  |
|  | <u>371,857</u>     | <u>310,002</u>     |

## 8. Interest Bearing Liabilities

|                    |              | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|--------------------|--------------|--------------------|--------------------|
| <b>CURRENT</b>     |              |                    |                    |
| Bank Overdraft     | (Note 8(a) ) | 210,444            | -                  |
| <b>NON-CURRENT</b> |              |                    |                    |
| Convertible Note   | (Note 8(b) ) | -                  | 750,000            |
| Bank Loan          | (Note 8(a) ) | 305,770            | 341,147            |
|                    |              | 305,770            | 1,091,147          |

(a) The Bank loan and Bank overdraft are secured over land and buildings

(b) Convertible Note

On 29 October 2004 convertible note on issue was converted to ordinary shares, under the terms of the note, at 8 cents each. As a result of this conversion, 9,765,625 shares at 8 cents were issued, totalling \$781,250. This represents the liability under the notes of \$750,000, plus interest accrued to the date of conversion of \$31,250.

## 9. Issued Capital – Contributed Entity

|   | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|---|--------------------|--------------------|
| 92,709,606 (2004 – 75,468,619) fully paid ordinary shares | 5,199,744          | 3,307,200          |

(a) Fully paid ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

(b) At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(c) Movements in ordinary share capital

|   | 2005       |           | 2004         |           |
|---|------------|-----------|--------------|-----------|
|   | No         | \$        | No           | \$        |
| Opening balance   | 75,468,619 | 3,307,200 | 80,748,619   | 3,041,950 |
| Convertible notes converted to shares<br>(Note 8 (b) )  | 9,765,625  | 781,250   | -            | -         |
| Unsecured loans converted to shares                     | 366,667    | 55,000    | -            | -         |
| Shares issued at 15 cents each                          | 6,727,332  | 1,009,100 | 2,435,000    | 365,250   |
| Shares cancelled  | -          | -         | (10,110,000) | -         |
| Shares issued to employees                              | 354,700    | 53,000    | 1,000,000    | -         |
| Shares issued at 8 cents being for<br>share issue costs | -          | -         | 1,375,000    | -         |
| Share issue costs                                       | -          | (5,806)   | -            | (100,000) |
| Cost of capital raising – issue of options              | -          | (201,250) | -            | -         |
| Issue of options  | -          | 201,250   | -            | -         |
| Other adjustment  | 26,663     | -         | 20,000       | -         |
| Closing balance   | 92,709,606 | 5,199,744 | 75,468,619   | 3,307,200 |

(d) Options

At 30 June 2004, there were 14,885,500 share options outstanding, exercisable at 35 cents per share on or before 30 June 2005. All options expired on 30 June 2005, as no options were exercised.

3,500,000 options exercisable at 20 cents on or before 1 March 2008 were issued on 1 March 2005.

## 10. Retained profits (accumulated losses)

|   | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|---|--------------------|--------------------|
| Retained profits (accumulated losses) at the beginning of the financial period  | (2,197,156)        | (1,502,419)        |
| Net loss attributable to members  | (704,349)          | (694,737)          |
| <b>Retained profits (accumulated losses) at the end of the financial period</b> | <b>(2,901,505)</b> | <b>(2,197,156)</b> |

## 11. Reconciliation of Cash

### Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. 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:

|                            | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|----------------------------|--------------------|--------------------|
| <b>Current Assets</b>      |                    |                    |
| Cash assets                | 6,602              | 110,309            |
|                            | 6,602              | 110,309            |
| <b>Current Liabilities</b> |                    |                    |
| Bank overdraft             | 210,444            | -                  |
|                            | 210,444            | -                  |
| <b>Net Cash</b>            | <b>(203,842)</b>   | <b>110,309</b>     |

## 12. Reconciliation of Operating Loss After Income Tax to Net Cash Flows From Operating Activities

|   | 30 June 2005<br>\$ | 30 June 2004<br>\$ |
|---|--------------------|--------------------|
| Operating loss after income tax           | (704,349)          | (694,737)          |
| Depreciation of non-current assets        | 80,525             | 69,411             |
| Amortisation of License                   | 33,000             | 33,000             |
| Amortisation of borrowing costs           | 500                | 582                |
| Finance cost on convertible notes         | 31,250             | -                  |
| Increase/(decrease) in tax balances       | -                  | -                  |
| Loan written off                          | -                  | -                  |
| Increase/(decrease) in GST balances       | 11,948             | (10,239)           |
| Changes in net assets and liabilities:    |                    |                    |
| <i>(Increase)/decrease in assets</i>      |                    |                    |
| - Current receivables                     | (1,644)            | (1,569)            |
| - Other assets                            | -                  | 1,037              |
| - Stock on hand                           | -                  | 4,719              |
| <i>Increase/(decrease) in liabilities</i> |                    |                    |
| - Current trade creditors and payables    | 147,688            | 109,380            |
| <b>Net cash from operating activities</b> | <b>(401,082)</b>   | <b>(488,416)</b>   |

## 13. Earnings per share (EPS)

|  | <b>2005</b>        | <b>2004</b>        |
|--|--------------------|--------------------|
|  | <b>Cents/share</b> | <b>Cents/share</b> |
| Basic and diluted loss per share   | 0.8                | 1.0                |
|  | <b>Number</b>      | <b>Number</b>      |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 87,065,370         | 71,650,961         |

## 14. Segment Reporting

The economic entity operates predominantly in the aquacultural industry within Australia. Although it has negotiated Heads of Agreements to enter into joint venture agreements that will operate outside Australia, there are no assets or liabilities attributable to these geographical areas at balance date.

## 15. NTA backing

|   | 30 June 2005 | 30 June 2004 |
|---|--------------|--------------|
| Net tangible asset backing per ordinary share | 0.71 cents   | (0.1) cents  |

## 16. Dividends

There were no dividends declared during the year and the directors do not recommend that any dividend be paid.

## 17. Dividend reinvestment plans

N/A.

## 18. Details of entities over which control has been gained or lost during the period

N/A.

## 19. Details of associates and joint ventures

The Company has entered into 4 Heads of Agreement to establish joint ventures in the United States of America (2), The Netherlands (1), and India (1). These Heads of Agreement commit the Company and each prospective joint venture partner to form a separate company for the purposes of operating the land based aquaculture system developed by Cell. The Company and the partner will each hold 50% of the issued capital in the new joint venture company. As at balance date there are no assets or liabilities attributable to joint ventures. At balance date the total initial funding committed by the Company under these Heads of Agreement is \$25,000, and in July 2005 the Company committed a further \$400,000 to progress its joint venture in The Netherlands.

## 20. Subsequent Events

### (a) Issue of Shares

Pursuant to a prospectus dated 22 April 2005, the Company raised \$5,201,400 under its initial public offering through the issue on 18 July 2005 of 26,007,000 shares at \$0.20 each. The Company commenced trading on the Australian Stock Exchange on 25 July 2005.

### (b) Sale and Leaseback of Land at 66 Bennett Avenue, Hamilton Hill

On 5 August 2005 the company entered into a contract for the sale of land and buildings at 66 Bennett Avenue, Hamilton Hill for \$2,600,000. Settlement is due on 7 November 2005. The transaction was subject to the Company entering into a lease agreement with the purchaser in respect of the land for a period of three years with the option of two further one year extensions. The directors have agreed to execute the lease agreement as outlined above. The book value of these land and buildings at 30 June 2005 is \$1,021,615, therefore resulting in an estimated profit before income tax of \$1,578,385. Future lease commitments in respect of the lease of the property will be approximately \$110,000 per annum net of GST for the initial three year period.

### (c) Options

In July 2005 the Company issued 3,000,000 options exercisable at 35 cents within 3 years of the date of issue to the non executive directors of the Company.

## 21 Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing for and managing the transition to Australian Equivalents of International Financial Reporting Standards (AIFRS) effective for financial reporting periods commencing on or after 1 January 2005. The adoption of AIFRS will be reflected in the company's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The company's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the company's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards", has been considered where applicable.

The directors are of the opinion that the key material differences in the company's accounting policies on conversion to AIFRS and the financial effect of these differences where known are as follows. The key differences in the entity's accounting policies that will arise from the adoption of IFRS in future are also included in the notes to the adoption of AIFRS standards.

Users of the financial statements should, however, note that the amounts disclosed could change if interpretation of the AIFRS requirements changes due to the continuing transition work of the directors, possible amendments to AIFRS Standards and Interpretations thereof, and developments in practice relating to the interpretation and application of those Standards and Interpretations.

### a) Reconciliation of equity as presented under AGAAP to that under AIFRS

|   | Notes | 30 June 05<br>\$ | 1 July 04<br>\$ |
|---|-------|------------------|-----------------|
| <b>Total equity under AGAAP</b>                       |       |                  |                 |
| <i>Adjustments to retained earnings (net of tax)</i>  |       |                  |                 |
| Recognition of share-based payment expense            | (i)   | -                | -               |
| Derecognition of capitalised research costs           | (ii)  | 122,497          | 769,042         |
| <b>Total adjustments to retained earnings</b>         |       | 122,497          | 769,042         |
| <br><i>Adjustments to other reserves (net of tax)</i> |       |                  |                 |
| reclassification of share-based payment expense       | (iii) | 201,250          | -               |
| <b>Total adjustments to other reserves</b>            |       |                  |                 |
| <br><b>Adjustments to Contributed Equity</b>          |       |                  |                 |
| Reclassification of share-based payment expense       | (iii) | (201,250)        | -               |
| <b>Total equity under AIFRS</b>                       |       | 122,497          | 769,042         |

### Notes explaining the impacts of adoption of AIFRS Standards

- (i) In accordance with AASB 2 "Share-based Payment", the company will be required to recognise the fair value of options or other equity instruments granted to employees and consultants as an expense on a time basis over the period from the grant date to the vesting date with a corresponding increase in equity. The current accounting policy does not require an expense to be recognised for employee equity participation schemes and payments.

Upon adoption of AIFRS, there will be no initial adjustment expected to result in a reduction in opening retained 1 July 2004 and 30 June 2005.

However, there is a classification adjustment relating to options issued to consultants for capital raising cost amounting to \$201,250 which was adjusted against contributed equity under AGAAP, under AIFRS this adjustment will be against options reserve until such time the options are exercised at which time the amount would be transferred to contributed equity.

- (ii) In accordance with AASB 138 "Intangible Assets", costs incurred in the research phase of the development of internally generated intangibles will be required to be expensed. AGAAP requires such costs to be capitalised where future recovery of the costs is believed to be beyond reasonable doubt.

Upon adoption of AIFRS, there will be adjustments expected to result in an increase in accumulated losses on 1 July 2004 of \$769,042 and an increase in loss of \$122,497 at 30 June 2005.

- (iii) In accordance with AASB 136 "Impairment of assets", the recoverable amount of an asset is deemed to be the higher of its fair value less costs to sell and its value in use, being the present value of the future cash flows derived from the assets.

The company's assets were tested for impairment at the date of transition to AIFRS and at each subsequent reporting date. AGAAP did not require such cash flows to be discounted when assessing recoverable amounts.

Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

- (iv) In accordance with AASB 112 "Income Taxes", deferred tax assets and liabilities will be recognised on the difference between the carrying values of assets and liabilities and their tax base. On this basis revaluations of assets above their historical cost carrying amount would give rise a deferred tax liability. AGAAP does not require recognition of deferred tax provisions in the case of revaluations of assets or for equity accounted investment value gains and losses.

Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

- (v) In accordance with AASB 116 "Property, Plant and Equipment", the company will be required to make an estimate of the cost of removing leasehold improvements at the end of the lease term, where this is required by the conditions of the lease, and include that cost in the amount of leasehold improvements capitalised upon acquisition. A liability for these costs must be recognised under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". AGAAP does not require recognition of these costs.

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Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

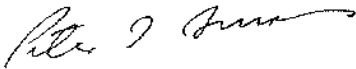
- (vi) In accordance with AASB 117 "Leases", operating lease rental income or expense must be recognised on a straight line basis over the term of the lease. Where a lease has fixed annual increases, the impact of such increases is spread on a straight line basis over the whole of the lease term. Under AGAAP such increases are recognised in the year of increase and subsequent years.

Upon adoption of AIFRS, there will be no material impact on the entity's financial statements as at 1 July 2004 and 30 June 2005.

- (vii) In accordance with AASB 1 "First-time adoption of Australian Equivalent to International Financial Reporting Standards", management has decided to apply exemption provided in this standard not to apply the requirements of AAS 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. The standard will be applied from 1 July 2005.

## 22. Audit

This report is based on accounts, which are in the process of being audited.



Sign here:  
(Director)

Date: 13 September 2005

Print name: P J Burns  
By Order of the Board