The Living Cell

A quarterly newsletter from Living Cell Technologies — May issue 2006

Chairman's Letter

Dear Shareholder

Diabetes is an epidemic. In New South Wales alone there has been a 300 per cent increase in the number of people with the disease in the past 10 years. Governments are now starting to take notice.

On 30 March, the Australian Federal Government announced funding of $30million over 4 years towards the development of an Islet Transplantation Program.

The funding is significant and a positive contribution by the Government to tackle the disease. However, the solution is not so simple.

In 2006 – approximately 50 patients will be transplanted with human islets under the program.

There are also 140,000 Australian type 1 diabetic sufferers. Yet only 204 donated organs become available per year (up to 3 pancreases are needed per islet cell transplant).

Additional future therapies, such as the use of animal cells, will help meet the large numbers of patients awaiting transplants.

LCT's DiabeCell therapy uses pig pancreatic islet cells, which are almost identical to human islets.

The treatment doesn't require the use of immunosuppression – which the current transplant program does.

A recent study in the journal Diabetes reviewed islet transplantation after 5 years using the Edmonton protocol, or human islet transplantation with the use of immunosuppression. The paper clearly states: "Complications of immunosuppressive therapy included mouth ulcers, diarrhea, anemia, and ovarian cysts … after 5 years, only 10 per cent of patients remain off insulin treatment." [1]

"The results still point to the need for further progress in the availability of transplantable islets…and reducing toxic immunosuppression." [1]

LCT is in a significant market position based on this information.

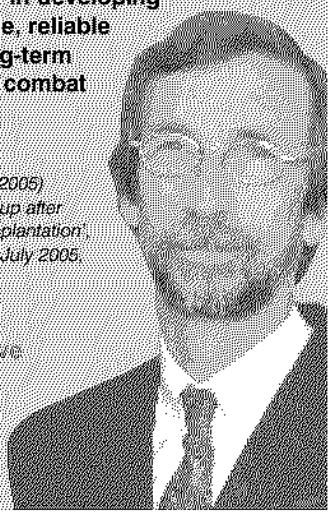
The technology of islet transplantation is known to work through existing cases. The hurdles to access suitable cells and stop rejection of the tissues, have been overcome by LCT. The company is in a solid position amongst its competitors globally.

From an investment perspective, the market is ready for the introduction of a new therapy and the waiting lists are expanding. Support in the local market will assist the company get there faster.

LCT is excited by the opportunity to lead the way in developing an accessible, reliable and safe long-term treatment to combat this growing epidemic.

[1] *Ryan, E. et al. (2005) 'Five-year follow-up after clinical islet transplantation', Diabetes Vol 54, July 2005, pp 2060 – 2069.*

Mick Yates,
Non-Executive
Chairman



Investor Highlights – in Brief

16 February

Discussions with the NZ regulator

LCT representatives met with the New Zealand regulator MedSafe to discuss the resumption of the phase I clinical trial for its DiabeCell product. In 1996, the phase I study was suspended due to concerns over the potential for pig virus transfer.

Considerable evidence gathered since then suggests those concerns were unfounded.

"LCT has filed a letter of intent with MedSafe to apply for a resumption of the phase I trial," said LCT Managing Director NZ, Paul Tan. "Ongoing discussion with the regulatory authorities is a crucial element in determining the safety and performance criteria for our new products."

21 February

International journal publishes review of LCT's biocapsule

The international journal Biomaterials accepted a scientific paper reviewing the LCT's biocapsule technology. The work details the characterisation and purification of the alginate supply into a highly specialised method of encapsulation. The encapsulation process has been scaled for manufacture within LCT's accredited GMP (good manufacturing practice) facility. A new patent has been filed to protect the novelty of this alginate technology.

24 February

Charles Macek appointed to the Board

Mr Charles Macek was appointed to the Board as an independent director, effective 16 March 2006. He is currently Chairman of both the Financial Reporting Council (FRC) and Sustainable Investment Research Institute (SiRIS) and a director of Telstra Corporation Limited and Wesfarmers Limited.

"Mr Macek brings more than 30 years of experience in financial services in Australia, New Zealand, Japan, UK and the US to LCT," said LCT Chairman Mr Mick Yates. "The appointment is particularly significant as the company looks to further its international investment ties and market opportunities and progress our products into the clinic."

7 March

Collaboration with the Bionic Ear Institute

LCT's collaborative agreement with the Bionic Ear Institute seeks to improve the hearing outcomes for cochlear implant patients through rehabilitation of the auditory nerve. It combines the platform

technologies of LCT with world-leading expertise in models of deafness and cochlear implant technology.

LCT has the option to acquire an exclusive licence to commercialise the results of the collaboration.

The World Health Organisation estimates 250 million people currently suffer from a disabling hearing impairment and this collaboration will target the large markets for both existing and potential cochlear implant users.

16 March

LCT Year End Financial Report released

LCT released its year end financial results on March 16. The results showed the successful outcome to capital raisings during the period with $4,911,587 raised from both institutional and high net worth investors in Australia, New Zealand, Europe and the United States.

There was also significant investment and roadshow activity to institutional investors in the US and Europe which will lead to further capital raising in the subsequent financial period. Expanding the base of shareholders in the US is an important step as LCT moves closer towards the US market and product commercialisation.

Conferences & Presentations

BIO 2006

Meetings held with companies, investors and journalists.

Diabetes Vaccine Development Centre - Research Symposium 2006

Invited to outline LCT's DiabeCell progress to the international scientific advisory committee of DVDC.

Transplantation Society of Australia and New Zealand - 24th Annual Scientific Meeting

LCT presented updates on virology and diabetes program development.

Show Your Support for Cell Therapy

If you would like to receive a complimentary DVD or wristband promoting LCT's unique approach to cell therapy, please email Peter De Luca – **pdeluca@lctglobal.com** with your postal address.

The DVD animation will be made available to members of the investment and media sectors to assist in their understanding of the role cell therapy can play in treating human disease.

To raise awareness of LCT's cell therapy program at the international BIO 2006 conference, LCT has produced a series of colourful wristbands with the message, 'Cure Disease – Support Cell Therapy'.

NZBIO - Biotech Without Borders

LCT's Managing Director was invited as a keynote speaker to present in the endocrinology session, as well as the investment forum.

Talking with a leader ...

Introducing Dr Olga Garkavenko, head of LCT's virology department and world leader in the area of pig viruses.

Dr Garkavenko holds a master of science MS (honours) in biochemistry from Kiev State University and has a PhD from the Ukrainian Academy of Science at the Institute of Oncology (Kiev, Ukraine).

How is LCT playing a lead role in the recent advancement of pig virus testing?

We are one of very few laboratories that have the whole range of tests recommended by the FDA from pig endogenous retrovirus (PERV) infectivity to all exogenous viruses of xeno interest.

Are there any new screening procedures in development at the moment?

We constantly develop new diagnostic and donor characterisation tests to comply with new research findings. The newest development is to identify pigs for selective breeding - pigs with blood group 0 and low PERV pro-viral copy number. These pigs will be favorable for xenotransplantation in terms of immune compatibility and the very low risk of infection.

How will patients be monitored after they receive pig tissue in the human clinical trial phase?

According to FDA recommendations, patients will be periodically tested for all pig viruses that are on the FDA list including PERV. This monitoring system includes a very strict system of record-keeping and clinical follow-up of patients.

What they said ...

"In the future there are all sorts of other possible therapies like this, for example using insulin-producing cells from animals or stem cells."

Professor Tom Kay, Director of St Vincent's Institute, referred to the potential use of other sources of cells for the treatment of diabetes at the launch of the National Islet Transplantation Program in Australia on March 30.

Development Portfolio

Disease Indication	Discovery	Preclinical	IND	Phase I/II	Pivotal	Market
Huntington's, Neurodegenerative diseases **NeurotrophinCell (NtCell)**				*Possible orphan drug & compassionate use status*		
Type 1 Diabetes **DiabeCell®**				*Submitted letter of intent to MedSafe to resume clinical trial*		
Haemophilia **FacCell**						

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