Bio – Layer Pty. Limited

ABN 78 090 487 273

Special Purpose

Financial Report

For the year ended

30th June 2005

Bio-Layer Pty Ltd
Abridged Statement of Financial Performance
For the Year Ended 30th June, 2005

	2005 $	2004 $
Operating Income		
Development Fees	94,650	72,537
Grants Received	830,006	1,189,845
Licence Fees	1,955	
Total Income	**926,611**	**1,262,382**
Direct Research and Development Expenditure	**932,100**	**871,838**
Net Research & Development Operations	**(5,489)**	**390,544**
Operating Expenses	1,375,636	1,101,959
Non Operating Income	77,432	118,259
Other Expenses	502,469	2,794
Net Profit or Loss	(1,806,163)	(595,950)

Bio-Layer Pty Ltd
Statement of Financial Position
as at 30th June 2005

	Note	2005 $	2004 $
Current Assets			
Cash	2	147,069	144,203
Other Assets	3	23,010	-
Receivables	4	-	11,337
Total Current Assets		170,079	155,540
Non-Current Assets			
Intangible Assets	5	-	241,199
Property, Plant & Equipment	5	502,411	705,112
Total Non-Current Assets		502,411	946,311
Total Assets		**672,490**	**1,101,850**
Current Liabilities			
Payables	6	156,873	66,312
Total Current Liabilities		156,873	66,312
Non-Current Liabilities			
Borrowings	6		
Secured Loans		4,157,796	2,871,555
Total Non-Current Liabilities		4,157,796	2,871,555
Total Liabilities		**4,314,669**	**2,937,867**
Net Deficiency		**(3,642,180)**	**(1,836,017)**
Equity			
Contributed Capital	7	3,625,002	3,625,002
Retained Profits (Accumulated Losses)		(7,267,181)	(5,461,019)
Total Equity		**($3,642,180)**	**($1,836,017)**

The accompanying notes form part of these financial statements

Notes to the financial statements for the year ended 30th June 2005.

Note 1 - Statement of Significant Accounting Policies

The financial statements are a special purpose financial report prepared for use by directors and members of the company. The directors have determined that the company is not a reporting entity. The financial report has been prepared in accordance with the requirements of the following Australian Accounting Standards:

AAS 4 Depreciation

AAS 5 Materiality

AAS 8 Events Occurring After Reporting Date

No other Australian Accounting Standards, Urgent Issues Group Consensus Views or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

The principal accounting policies adopted in preparing the financial statements, are stated to assist in a general understanding of these financial statements.

(a) Basis of Accounting

The financial statements have been prepared on an accruals basis; they are based on historical costs and except where stated do not take into account current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets

(b) Intangible Assets

Until 30th June 2003 Patent Costs were capitalised as an intangible asset. From 1st July 2003 all patent expenditure is expensed in the year in which it is incurred. Prior Patent costs were fully amortised during the financial year.

(c) Income Tax

The company adopts the liability method of tax accounting, whereby income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

(d) Depreciation

The depreciable amount of all fixed assets are depreciated on a diminishing value basis over their useful lives to the company commencing from the time the asset is ready for use

(e) Deficiency in Net Assets

Notwithstanding the deficiency in net assets of $3,598,837, the financial report has been prepared on the going concern basis. This basis has been adopted as the company has received continued financial support from its investors

	2005 $	2004 $

Note 2 - Cash Assets

		2005 $	2004 $
Cheque Account		1,213	(3,239)
Cash on Hand		344	2,167
Cash in Transit		31,768	73,328
Business Cash Management		113,744	71,947
Total Cash Assets		**147,069**	**144,203**

Note 3 - Other Assets

		2005 $	2004 $
Prepayments		23,010	-

Note 4 - Receivables

		2005 $	2004 $
Current			
Future Interest Charges - Lease		-	260
Trade Debtors		-	11,077
Total Current Receivables		**-**	**11,337**

Note 5 - Fixed Assets

		2005 $	2004 $
Intangible Assets			
Patent Costs		259,333	259,333
Patents - Accumulated Amortisation		(259,333)	(18,134)
		-	241,199
Property, Plant & Equipment			
Computer Equip - At Cost		244,408	238,868
Computer Equip - Accumulated Depreciation		(224,871)	(216,001)
Office Equip at Cost		168,916	169,420
Office Equip - Accumulated Depreciation		(44,884)	(19,952)
Research Equipment - At Cost		618,535	613,489
Research Equipment - Accumulated Depreciation		(380,986)	(226,513)
Polymer Equipment - At Cost		37,003	37,003
Polymer Equipment - Accumulated Depreciation		(30,583)	(22,821)
Informatics Equipment - At Cost		68,469	61,711
Informatics Equipment - Accumulated Depreciation		(46,713)	(38,914)
Chemistry Equipment - At cost		161,468	130,791
Chemistry Equipment - Acc Depn		(68,351)	(21,971)
Carrying Value of Property Plant and Equipment		**502,411**	**705,112**

Note 6 - Payables & Borrowings

		2005 $	2004 $
Current			
Accounts Payable			
Trade Creditors		47,583	67,168
GST Paid		(14,835)	38
GST Collected		65,036	0
PAYG Withholding Tax		16,495	0
Annual Leave Entitlements		42,595	-
Superannuation Liability		-	(894)
Total Current Payables		**156,873**	**66,312**
Non-Current			
Secured Loans			
Esanda - Equipment		-	15,555
Convertible Notes	9	4,157,796	2,856,000
Total Non-Current Borrowings		**4,157,796**	**2,871,555**

Note 7 - Equity

Issued Capital		
1,900,000 Ordinary Shares	6	6
3,112,073 Preference Shares	3,624,996	3,624,996
Retained Earnings	(5,461,019)	(4,865,068)
Current Earnings	(1,806,163)	(595,950)
Total Equity	**(3,642,180)**	**(1,836,017)**

Note 8 - Lease Commitments

Non-cancellable operating lease commitments not capitalised in the financial statements		
Payable		
- not later than 1 year	276,116	276,116
- later than 1 year but not later than 5 years	943,396	1,219,512
	1,219,512	**1,495,628**

Note 9 - Contingent Liabilities

(a) At year end Convertible notes amounting to $4,157,796 were outstanding. If not converted these notes will have interest amounting to $1,953,898 payable upon maturity Maturity dates range from September 2005 to February 2007.

(b) In February 2004, the company received a letter from the solicitors acting for University of NSW/Unisearch advising that their client was owed $157,850 by the company. A statement of liquidated claim was filed by the solicitors for University of NSW/Unisearch in March 2005.

The directors are of the opinion that this action can be successfully defended and further that a counter claim can be made.

(c) First Cape Management Pty Ltd has provided $250,000 rental bond to Bio-Layer Pty Ltd as security for the lease of 26 Brandl Street, Eight Mile Plains, "Brisbane Technology Park".

A separate agreement between First Cape Management Pty Ltd and Bio-Layer Pty Ltd is in place for the bond of $250,000.

Note 10 - Events Subsequent to Balance Date

On 1 July 2005, SSH Medical Limited announced that it had agreed terms for the acquisition of 100% of the share capital of Bio-Layer Pty Ltd. Consideration will comprise an issue of ordinary shares in SSH Medical Limited to the shareholders of Bio-Layer Pty Ltd

Bio-Layer Pty Limited
ABN 78 090 487 273

DIRECTORS' DECLARATION

The directors have determined that the company is not a reporting entity. The directors have determined that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The directors of the company declare that:

1. the financial statements and notes, as set out in the Balance Sheet, Profit & Loss Statement and Notes to and Forming Part of the Financial Statements, presents fairly the company's financial position as at 30 June 2005 and it's performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements;

2. based on the continued support of share and noteholders, it is the directors opinion that there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director ....

Dated at Sydney this 15 day of August 2005.

TROOD PRATT & CO
Chartered Accountants
Incorporating John Stafford and Partners

TPLH PTY LIMITED ABN 99 104 742 903
LEVEL 21 / 68 PITT ST SYDNEY 2000
GPO BOX 3437 SYDNEY NSW 2001
TEL (02) 8224 8000 FAX (02) 8224 8099
EMAIL enquiries@troodpratt.com.au

DIRECTORS: D A TROOD • I R PRATT • P LOCKYER • W J HILL
CONSULTANT: J E STAFFORD

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF BIO-LAYER PTY LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, profit and loss statement, accompanying notes to the financial statements, and the directors' declaration for Bio-Layer Pty Limited, for the year ended 30 June 2005.

The directors of the company are responsible for the preparation and the true and fair presentation of the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements which form part of the financial report are consistent with financial reporting requirements of the company's constitution and are appropriate to meet the needs of the members. This includes responsibility for the maintenance of adequate accounting records and internal control records that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the director's financial reporting requirements under the company's constitution. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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 accounting policies as described in Note 1, so as to present 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. These policies do not require the application of all Accounting Standards and other mandatory professional reporting requirements in Australia. No opinion is expressed as to whether the accounting policies used, and described in Note 1, are appropriate for the needs of the members.

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.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In our opinion, the financial report presents fairly in accordance with the accounting policies described in Note 1 to the financial statements the financial position of Bio-Layer Pty Limited as at 30 June 2005 and the results of its operations for the year then ended.

Inherent Uncertainty Regarding Continuation As A Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 (e), there is significant uncertainty as to whether the entity will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Trood Pratt

TROOD PRATT AUDIT AND ASSURANCE SERVICES

P LOCKYER
Partner

Dated at Sydney this 15th day of August 2005.

Bio-Layer Pty Ltd
Statement of Financial Performance
For the Year Ended 30th June, 2005

	2005 $	2004 $
Income		
Development Fees	94,650	72,537
Grants Received	830,006	1,189,845
Licence Fees	1,955	
Total Income	**926,611**	**1,262,382**
Direct Research and Development Expenditure		
Chemistry		
Laboratory Consumables	15,901	87,986
Chemicals	12,030	32,602
External Equipment & Serv	-	3,577
Salary	215,607	185,253
Consultants	-	22,317
C Computer Software & Updates	-	4
Biology		
Laboratory consumables	35,437	18,987
Chemicals	12,311	19,221
External Equipment & Serv	-	830
Consultants	984	3,381
Salary	144,367	29,549
Analytical		
Laboratory consumables	300	285
Chemicals	-	431
External Equipment & Serv	-	68
Salary	26,673	8,566
Informatics		
I Laboratory Consumables	946	230
Computer Software & Updates	2,361	-
Salary	78,755	58,423
Intellectual Property		
Salary	99,358	54,593
Other Direct Reseach and Development Expenditure		
Computer Maintenance	1,063	-
Computer Software & Updates	15,888	11,644
Conference Expenses	2,446	7,340
Equipment Maintenance	2,484	3,068
External Equipment & Services	3,150	110
Freight	9,609	20,047
Laboratory Consumables	6,507	
Licence and Royalty Payments	54,245	-
Total Other Direct Research and Development Expenditure	740,423	568,515

Labour Expenses and Labour On-Costs		
Living Away Home Allowance	-	7,003
Salaries & Wages	112,710	261,368
Staff Relocation	-	2,212
Superannuation	62,253	44,889
Taxes Paid	(1,704)	(6,797)
Workcover	18,418	(5,352)
Total Labour Expenses and Labour On-Costs	191,677	303,323
Total Direct Research and Development Expenditure	**932,100**	**871,838**
Net Research & Development Operations	**(5,489)**	**390,544**
Expenses		
Administration & Management		
Accountancy Fees	-	7,250
Advertising and Recruiting	26,002	-
Amortisation on Patents	241,199	
Audit Fees	3,500	
Bank Charges	2,336	9,052
Bank Guarantee Fee	2,500	3,540
Bookkeeping	6,400	6,884
Cleaning	8,823	6,737
Consultants	222,733	280,397
Customs Duty	65	-
Depreciation Expense	250,216	251,724
Electricity	26,467	19,099
Entertainment	-	40
Foreign Exchange Differences	4,952	-
General Repairs & Maintenance	682	3,217
Insurance	3,685	(443)
Interest Expense - Hire Purchase	260	2,033
Legal - General	83,649	44,498
Legal - IP	102,093	98,816
Meals Staff	4,748	2,055
Membership/Subscriptions	586	3,446
Office Expenses	1,392	2,994
Other Expenses	1,793	5,092
Parking	925	271
Printing, Postage & Stationery	4,265	7,382
Rent	271,488	258,233
Search Costs	-	4,230
Staff Amenities	2,416	2,129
Stamp Duty	1,010	8,635
Telephone/Internet	9,616	9,141
Training	91	774
Travel	87,868	63,555
Waste Disposal	3,876	1,177
Total Administration & Management	1,375,636	1,101,959
Other Income		
Interest Received	5,892	25,510
Currency Gain/Loss		10,247
Rental Income	71,540	82,501
Total Other Income	77,432	118,259
Other Expenses		
Interest Expense	502,469	2,794
Total Other Expenses	502,469	2,794
Net Profit or Loss	(1,806,163)	(595,950)