BioLayer Corporation Limited

30 October 2006

Company Announcements Office
Australian Stock Exchange
Level 6, 20 Bridge Street
SYDNEY NSW 2000

For release to the market

ANNUAL REPORT AND ACCOUNTS

Please find enclosed the Annual Report and Accounts for BioLayer Corporation Limited for the year ended 30 June 2006.

Yours faithfully

David Beins, BSc (Hons), MBA
Managing Director and CEO

BioLayer Corporation Limited **ABN 75 070 028 625**
Unit 4, 26 Brandl Street, Eight Mile Plains QLD 4113
Phone 07 3219 0085 Fax 07 3219 0553 Email contact@biolayercorp.com
Web www.biolayercorp.com

06

BioLayer

Corporation Limited

Annual Report 2006

Contents

Corporate Directory

Directors

Bruce Rathie	Chairman, Non-Executive Director
Stephen Erichsen	Non-Executive Director
Dr Carmel Hillyard	Non-Executive Director
Richard Martin	Non-Executive Director
Peter Rayner	Non-Executive Director
Tony Evans	Non-Executive Director
David Beins	Managing Director and CEO

Company Secretary

Megan Portas

Chief Financial Officer

Megan Portas

Registered office	4/26 Brandl Street, Eight Mile Plains QLD 4113
Mailing address	4/26 Brandl Street, Eight Mile Plains QLD 4113
E-mail	contact@biolayercorp.com
Website	www.biolayercorp.com
Legal advisors	Corrs Chambers Westgarth 1 Eagle Street, Brisbane QLD 4000
Auditors	Grant Thornton Queensland Partnership 102 Adelaide Street, Brisbane QLD 4000
Patent attorneys	Davies Collison Cave 1 Nicholson Street, Melbourne Victoria 3000
Share registry	Registries Limited Level 2, 28 Margaret Street, Sydney NSW 2000
Insurance advisors	Marsh Pty Limited 123 Eagle Street, Brisbane QLD 4000
Bankers	Australia and New Zealand Banking Group Limited 3 Sherwood Road, Toowong QLD 4066

"BioLayer innovates materials science to create superior and unique surfaces for applications that benefit human health"

Chairman's Report

Dear Shareholders,

On behalf of your Board of Directors, I present the financial report for the year ended 30 June 2006.

Review of the year

The year has been one of re-structuring and consolidation during which the Company has established a solid platform for growth.

Foreshadowed in last year's annual report the integration of Bio-Layer Pty Limited into the SSH Medical Limited business was a key priority. This progressed smoothly throughout the year, culminating in a reconstitution of the Board at the beginning of the 2006/07 financial year in order to bring in skills that better reflect the requirements of the new business.

The fully merged entity, now called BioLayer Corporation Limited, is focussed on its key competencies in materials science technologies. These technologies have wide application in human health, such as diagnostic testing for critical diseases like cancer, heart disease and viral infections, as well as in pharmaceutical research and manufacturing.

In April 2006 a new CEO commenced who has re-energised the business and is driving the commercialisation of the first of the Company's proprietary products with particular application in diagnostics, also known as in-vitro diagnostics (IVD). The targeted immunoassay segment is a $US 6.0 billion global business that the Company is now aggressively tapping into.

This has led BioLayer into detailed discussions with a number of large multinational IVD and life science manufacturers with a view to joint development projects, the first step on the way to downstream licensing and royalty agreements. The Company anticipates several contracts being entered into as these discussions progress to commercial fruition over the coming 12 months.

In January 2006, the Company entered into the first of such an agreement with a US life science company with a market capitalisation of approximately $US 1 billion. This development and marketing agreement allows BioLayer to incorporate its technology into biological research products currently on the market. The agreement is milestone based and BioLayer successfully completed the first milestone in May 2006. The milestone was completed on time and on budget.

On the science front BioLayer is continuing to direct its research towards functionalising the surfaces of materials to confer useful properties on them, such as the ability to bind and release medically important proteins. During the year BioLayer further developed its antibody surface coating technology and completed the characterisation of its branded Mix&Go™ product designed to bind antibodies with the xMAP range of immunoassays operated by US life science specialist, Luminex Corp. This is a rapidly growing $US 132 million niche market utilising multiplexing technologies with application in pharmaceutical research and biomarker discovery.

In April 2006, the Company was awarded an $800,000 Research-Industry Partnership grant with the Institute for Molecular Bioscience (IMB) based at the University of Queensland. The partnership between BioLayer and the IMB will leverage the Company's know-how and extend its reach into the diagnostics market by extending the Company's product line to create new commercialisation opportunities in the detection and treatment of human disease.

Future Direction

On 1st July 2006 BioLayer embarked on an ambitious 3-year plan to build and establish a robust business, generating a reliable income stream, with cash flow break even targeted for late 2008.

The plan requires an injection of new funds in order to complete the necessary product development projects and to build a Business Development capability for rapid penetration into the lucrative United States IVD market. The Company has been working hard on its ongoing capital needs and recently announced that:

1. It has been awarded (subject to documentation) a government grant totalling $2.67 million over 2 years; and

2. It has been in discussion with major shareholders seeking funding to supplement its operational requirements both in the short and medium term. As a result of these discussions, the company has been offered and is currently reviewing and considering the terms of a potential private placement. An announcement will be made as and when the Board determines to proceed and the terms have been agreed. Such terms will be submitted to shareholders for approval as may be necessary.

With an appropriate capital plan in place your directors are confident of the ability of the Company and its management team to capture the value inherent in the business and to create the returns envisaged in the new 3-year plan.

At the same time as executing the 3 year plan BioLayer will also, over the next 12 months, be examining various possibilities for accelerating growth over the longer term.

Options to be investigated lie within areas of human health that are enabled by the use of fully synthetic bio-active surface components that combine to create robust, consistent and cost effective materials with important medical applications.

The Company has termed this "abiotics" and a research program is already underway to investigate and exploit this exciting new paradigm in materials science.

"The year has been one of restructuring and consolidation during which the Company has established a solid platform for growth."

Potential applications for abiotics include:

- *Bioseparations*, a $US 10 billion market encompassing products used in pharmaceutical research, bio-therapeutics manufacture, and for removing infectious agents and other impurities from blood.
- *Biomarker discovery* to identify targets correlating to human disease. When medically validated biomarkers are used to aid in diagnosis and to monitor patients to determine their response to therapy.
- *In Vivo applications*, a $US 20 billion market encompassing implantable medical devices with specialized surfaces that bind and release drugs, in-dwelling biosensors such as glucose monitors for diabetics, biocompatible materials, encapsulated tissue grafting technologies and biodegradable coatings.

The new CEO

In April 2006 the Company appointed David Beins as CEO and Managing Director of BioLayer. David brings more than 20 years international commercial management experience in the medical devices, diagnostics and biotechnology industries. He has held Business Development and General Management roles in Australia, New Zealand, Singapore and Indonesia.

Prior to joining BioLayer David was Senior Business Development Manager for Roche Diagnostics Asia Pacific, the IVD market leader in the Asia Pacific region. At Roche David successfully developed and implemented regional strategies for key diagnostic products across 14 Asia Pacific countries.

David has been instrumental in reinvigorating the BioLayer business and, as the architect of the new 3-year plan, has my full support and that of your Board.

Under David's capable leadership and guided by its new Mission Statement BioLayer is poised to achieve its financial, operational and scientific objectives and thereby return considerable value to shareholders both in the short and longer term.

"BioLayer innovates materials science to create superior and unique surfaces for applications that benefit human health"

Result for the year to 30 June 2006

During the year, the Company was engaged in a reverse acquisition with Brisbane based Bio-Layer Pty Limited. As a result of this transaction and the application of the new accounting standard AASB3 Business Combinations, the consolidated accounts now represent a continuation of the accounts of Bio-Layer Pty Limited rather than a continuation of the accounts of BioLayer Corporation Limited (previously SSH Medical Limited).

Because these accounts represent a continuation of the accounts of Bio-Layer Pty Limited, users of this financial report must be aware that the comparative 'economic entity' numbers are those of Bio-Layer Pty Limited, and in no way compare to the consolidated financial results of BioLayer Corporation Limited (formerly SSH Medical Limited) published in prior financial reporting periods.

The net consolidated operating loss of the economic entity for the financial year, after providing for income tax, amounted to $6,245,124 compared with a loss for the 2005 year of $2,231,377.

Of the reported loss, $3.6 million related to the transition to A-IFRS and the business combination undertaken during the year, including the impairment of the investment in Cosmedics Australia Limited. Hence, excluding these one-time adjustments, the operating loss was $2.6 million.

As at 30 June 2006, the Company maintained cash reserves of $1.294 million which will be used in the further development and commercialisation of Bio-Layer Pty Limited's proprietary technology.

Board of Directors

In July 2006, the Company announced that it had restructured its Board in order to ensure greater independence and enhanced access at Board level to a wealth of specialist skills including financial, legal, operational and scientific expertise in preparation for the commercialisation phase of growth for the Company.

The changes included the appointment of:

- Myself (Mr Bruce Rathie) as non-executive director and Chairman
- Mr Peter Rayner as non-executive director
- Dr Tony Evans as non-executive director
- Mr David Beins as executive director

Mr Kim McGrath and Dr Jason Armstrong, the former CEO of the Company, both resigned from the Board having contributed strongly to the growth and development of the Company.

Details of the current Board members can be found on page 16.

I would like to thank all shareholders for their support over the past year, during which the Company has positioned itself for the growth phase which it is now entering.

Yours sincerely

Bruce Rathie
Chairman
27th September 2006

"In January 2006, the Company entered into the first of such an agreement with a US life science company with a market capitalisation of approximately $US 1 billion."

CEO's Report

Dear Shareholders

BioLayer is a small company with big ideas. From modest beginnings in 2000 (built along combinatorial chemistry lines the company realised revenue for the first time only last year) we have nonetheless come a long way in a relatively short time.

As eventful as the last 6 years have been however, the defining period in our history is undoubtedly ahead of us.

Over the next 3 years BioLayer will deliver on the promise of our technology. We will use our considerable repository of scientific knowhow and combine it with operational and business development capabilities to create value for our customers, stakeholders and finally our shareholders.

This will be achieved by creating new customers for our existing products and entering new product/technology development agreements with customers from new areas like the *in vitro* Diagnostics, also known as IVD, sector.

To secure our future business we will discover materials to be used in novel applications for new markets with unmet needs.

Background

BioLayer is a materials science company specializing in the design and assembly of multi-component coatings currently targeted to the immunoassay market. This market develops products for immunology research or assays used for diagnosing vital human diseases such as cardiac dysfunction, cancer and virus infections like hepatitis and HIV.

BioLayer's proprietary coatings bind, orient and protect antibodies employed in immunoassays in specific ways that enhance functionality.

The company works with many types of immunoassay formats used by the major IVD companies, like paramagnetic particles, membranes and microtitre plates, and has already licensed our technology on beads non-exclusively to a Life Science manufacturer who has successfully incorporated it into research products currently on the market.

What have we achieved?

By the systematic application of our materials science expertise the company has recently developed a suite of products under the trade name Mix&Go™ specifically for immunoassays.

Mix&Go™ has been shown to dramatically shorten immunoassay reaction times, increase sensitivity, and produce significant cost savings by improving batch-to-batch reproducibility and enhancing antibody binding yields.

Fundamentally Mix&Go™ makes immunoassays work better and at lower cost, which is the reason several global manufacturers in this $US 6 billion sector are conducting feasibility studies and entering development agreements with BioLayer. This is expected to lead to licensing and royalty arrangements in the not too distant future.

Over our lifetime BioLayer is grateful to have received substantial support from the Queensland and Commonwealth governments in the form of financial subsidies and grants. In September 2006 the company was awarded the third in a series of AusIndustry grants worth $ 2.67m to supplement the company's technology development and commercialisation activities.

At the same time we are working with the University of Queensland through its Institute of Molecular Biology to extend BioLayer's core technology through an $800,000 'Smart State' sponsored project grant.

Since its inception the company has assembled a number of patents and 'provisionals' that capture and protect our inventions and intellectual property. Going forward this will be fortified and extended as required to ensure the security of this important company asset.

What will we do now?

In July 2006 BioLayer started to implement a 3-year plan with clear scientific, operational and financial goals that will lead to cash neutrality in the short to medium term and a sustainable, secure business in the longer term.

The plan is built around a licensing and royalty business model targeting Tier 1 Life Science and IVD immunoassay companies with a combination of Mix&Go™ and newly developed products.

"Over the next 3 years BioLayer will deliver on the promise of our technology. We will use our considerable repository of scientific knowhow and combine it with operational & business development capabilities to create value for our customers"

Intense business development activity over the last 6 months has proved the veracity of this concept as BioLayer has entered into late-stage negotiations with 3 of the world's 8 largest IVD companies. Favorable outcomes are expected from these discussions and will be announced as soon as permitted under the confidentiality agreements we have signed with these companies.

The momentum gained will enable the company to hire 2 new business development/project management specialists to be based close to the customers within the US and Europe. They will drive the projects that may already be underway and feed the pipeline with new projects most likely coming from existing customers plus any newly identified customer projects that could benefit from our technology.

The Staff and the Science

Of a total of 16 staff BioLayer's 13 scientists are passionately dedicated to the company's scientific program. Our unwavering commitment to the technology that underpins the company is evident in the dedication with which BioLayer has conducted its R&D in the past.

This commitment has now been harnessed and channeled into value creating scientific activities that will bring short, medium and long term returns to the company.

In July the scientific team was restructured into 2 separate but interlinking groups: Research & Discovery (RD), and Product Development (PD). This distinction will allow those groups to gain their own momentum and focus in those areas that create the greatest value: PD will bring new products to market and work on customer related projects. RD will design new surfaces that support PD and facilitate our entry into the market of the future.

In order to gain efficiencies in our laboratories the company has embraced a quality assurance approach that ensures systematic, reproducible and robust data generation and recording. Before the end of 2007 BioLayer will submit to a quality inspection from an accredited agency to check our compliance to a rigorous and reliable quality system.

In Conclusion

In summary all our activities over the next 12 months will be directed towards turning BioLayer into a successful enterprise. Overwhelmingly this will be determined by the strength of our science, the attitude of our staff and supported by the backing of our shareholders.

My staff and I are ready to deliver on our commitments and we look forward to the year ahead with confidence and eager anticipation.

Yours sincerely

David Beins
CEO and Managing Director
October 2006

Corporate Governance Statement

The Board of BioLayer Corporation Limited aims for best practice in the area of corporate governance and supports the governance practices contained in the ASX Corporate Governance Council ("ASX CGC") recommendations.

The statement below indicates the degree of conformance to the ASX CGC recommendations as at the date of this report.

Structure of the Board

The Board of Directors should comprise a majority of Independent Directors.

When determining whether a Non-Executive Director is independent the Director must not fail any of the following materiality thresholds:

- Less than 10% of company shares are held by the Director and any entity or individual directly or indirectly associated with the Director
- Has not held an executive position within the Company within the last three years
- Has not held a position as a principal in any firm providing material professional advice to the Company within the last three years
- Has no material contractual relationship with the Company or Group other than being a Director
- Is free from any interest or other relationship which could be perceived to materially interfere with the Director's ability to act in the best interests of the Company.

The table on page 11 indicates the conformance of BioLayer Corporation Limited to ASX CGC Principle 2.

Directors may access or request such information as they consider necessary to diligently fulfil their responsibilities. Independent professional advice may be sought on Company related matters, at the Company's expense, subject to prior approval by the Chairman.

Directors are required to comply with their legal, statutory and other duties and obligations when acting in their capacity as Directors of the economic entity, including acting in good faith and with due diligence and care. Directors are required to avoid conflict of interests with the companies within the economic entity. Any actual or potential conflict of interest is required to be disclosed immediately to the Board.

Ethical standards and corporate code of conduct

The Board has adopted a corporate code of conduct to ensure that each of its members and all employees are aware of the requirement to adhere to best principles of ethical standards which encompass:

- The management of conflicts of interest to ensure that Directors and executives act in the best interests of all stakeholders in the business
- Compliance with all laws and regulatory requirements
- Adoption of acceptable standards of custodianship and use of Company assets
- Ensuring that all company information remains confidential except where disclosure is either authorised by the Board or legally mandated
- Enforcement of accountabilities and the fostering of an environment in which all officers and employees can identify and bring to the attention of Directors any unlawful or unethical behaviour

The following table indicates the conformance of BioLayer Corporation Limited to ASX CGC Principle 2:

Rec.No	Description	Conform	Comments
2.1	Majority of Independent Directors	No	*Independent Directors:* Mr Bruce Rathie Mr Peter Rayner Mr Tony Evans *Non-Independent Directors:* Mr David Beins Mr Stephen Erichsen Mr Richard Martin Dr Carmel (Carrie) Hillyard It is the opinion of the Board that the composition of the Board reflects the skill sets needed to protect shareholder interests and achieve the objectives of the Company
2.2	Chairperson to be an Independent Director	Yes	Chairperson: Mr Bruce Rathie
2.3	Chairperson and CEO not to be same individual	Yes	Chairperson: Mr Bruce Rathie CEO: Mr David Beins
2.4	Board should establish a Nomination Committee	Yes	The Board has established a Remuneration & Nomination Committee.

"The Board of BioLayer Corporation Limited aims for best practice in the area of corporate governance"

Audit & Risk Committee

The Company has a formally constituted Audit & Risk Committee comprising only Non-Executive Directors. The Audit & Risk Committee must meet at least twice each reporting year. Other Directors and executives may be invited to attend meetings at the discretion of the Chairman of the Committee.

The number of meetings of the Audit & Risk Committee and attendance by its members can be found in the Directors' Report.

The Company requests the external auditor to attend the Annual General Meeting and to be available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report.

The composition of the Audit & Risk Committee and its conformance to ASX CGC Principle 4 is as below:

Continuous Disclosure

The Company's shares are traded on the ASX and the Company is subject to the ASX Listing Rules.

The responsibility for ensuring that the continuous disclosure requirements of ASX Listing Rule 3.1 are complied with is vested in the Board and the Company Secretary.

All meetings of the Board incorporate a standing agenda item advising the Directors of any disclosure that is required prior to the next scheduled meeting. Confirmation is provided of the release of any items since the previous meeting.

In addition the Directors are asked to consider whether they have become aware of information concerning the Company that could be expected to have an impact on the price or value of the Company's securities.

This includes new information that has arisen or, if necessary, amendments to information previously disclosed to the market.

The responsibility for deciding what information is disclosed to the market rests with the Chairman of the Board. Where appropriate all disclosure articles are approved by the Board of Directors prior to release to the market.

All Directors and executives have been made aware of their obligations to ensure that the Company complies at all times with the ASX Listing Rules.

Business Risk Management

The Board has adopted a formal risk management policy.

The identification and management of risk inherent to the operation of the economic entity is managed by the Directors on a day-to-day basis. Where necessary individual Directors do, through the forum of regular Board meetings, bring matters before the Board collectively who will review, evaluate and deal with any matters arising in a manner that serves the best interests of the Company and its shareholders.

Rec.No	Description	Conform	Comments
4.1	The CEO and CFO state in writing that financial reports represent a true and fair view and are in accordance with accounting standards	Yes	
4.2	The Board should establish an Audit Committee	Yes	
4.3	Audit committee should comprise:		
	Only Non-Executive Directors	Yes	Mr Peter Rayner – Independent Mr Richard Martin – Non-Independent
	A Majority of Independent Directors	No	The Audit & Risk committee is comprised of equal proportions of independent and non-independent directors. It is the Board's view that the members of the audit & risk committee have the correct skill sets to perform the duties required by the audit & risk committee.
	An independent chairperson, who is not chairperson of the board	Yes	
	At least three members	No	The audit & risk committee only has two members. It is the Board's view that two members are adequate to perform the duties required by the audit & risk committee.
4.4	Audit Committee to have formal charter	Yes	

Shareholder Communication

The Company communicates with shareholders through the following media:

- All announcements that may affect the price of the Company's securities are released to the market through the ASX
- Following this all announcements are placed onto the Company's website: www.biolayercorp.com
- Any press releases are also placed on the Company's website
- It is Company policy that updates are posted to all shareholders at regular intervals.

Trading in Company Shares

The Company's policy regarding Directors, officers and employees trading in its securities, is set by the Board of Directors. The policy restricts Directors, officers and employees from acting on material information until it has been released to the market.

The period in which Directors, officers and employees can deal in the Company's securities is not sooner than two days, or later than 30 days, after the yearly or half yearly profit announcement to the ASX.

Outside this period, in the current environment by which companies are required to maintain a continuously informed market, Directors, officers or employees may buy or sell subject to specific approval by the Chairman or by the Board.

Remuneration Committee

The Company's Constitution, which has been agreed to by shareholders and which binds shareholders and which is made available to shareholders, contains specific provisions for the remuneration of Non-Executive Directors. There has been no change to these specific provisions since the incorporation of the Company.

Remuneration Policies

The Company's policy for remuneration and performance evaluation of Directors and executives has been stated in the Directors' Report where disclosure of remuneration paid during the year is reported.

Arrangements for the remuneration of Non-Executive Directors provide for a base fee, options and statutory superannuation only.

Other Information

The Company's corporate governance practices and policies are publicly available at the Company's registered office. These policies have also been posted on the Company's website.

The Company has a formally constituted Remuneration & Nomination Committee comprising only Non-Executive Directors. The Remuneration & Nomination Committee meets as required during the year. Other Directors and executives may be invited to attend meetings at the discretion of the Chairman of the Committee. The composition of the Remuneration & Nomination Committee and its conformance to ASX CGC Principle 9.2 is as below:

Rec.No	Description	Conform	Comments
9.2	Remuneration Committee should comprise:		
	A minimum of three members	No	The Remuneration & Nomination committee only has two members. It is the Board's view that two members are adequate to perform the duties required by the Remuneration & Nomination committee.
	A majority of independent directors	No	Remuneration & Nomination Committee members: Mr Bruce Rathie – Independent Mr Stephen Erichsen – Non-Independent The Remuneration & Nomination committee is comprised of equal proportions of independent and non-independent directors. It is the Board's view that the members of the Remuneration & Nomination committee have the correct skill sets to perform the duties required by the committee.
	A chairperson who is an independent director	Yes	Chairperson: Mr Bruce Rathie

Directors' Report

Your Directors present their report on the Company and its controlled entity ("the Group" or "economic entity") for the financial year ended 30 June 2006.

Directors

Persons holding the position of Directors at any time during or since the end of the year are:

Mr Kim McGrath	(resigned 30 June 2006)
Mr Stephen Erichsen	
Dr Jason Armstrong	(appointed 23 September 2005 and resigned 3 July 2006)
Dr Carmel (Carrie) Hillyard	(appointed 23 September 2005)
Mr Richard Martin	(appointed 23 September 2005)
Mr Bruce Rathie	(appointed 1 July 2006)
Mr Peter Rayner	(appointed 1 July 2006)
Dr Tony Evans	(appointed 1 July 2006)
Mr David Beins	(appointed 3 July 2006)
Dr Henry Stenning	(resigned 23 September 2005)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Details of each Director's experience is included later in this report.

Company Secretary

The position of Company Secretary has been held by Ms Megan Portas since 16 January 2006. Details of Ms Portas' experience are included later in this report. The position of Company Secretary was held by Mr David Ward up until 14 December 2005 and was held by Mr Richard Martin from 15 December 2005 to 15 January 2006.

Principal Activities

The principal activities of the economic entity in the course of the year were the development and commercialisation of specialised surfaces used in the development and manufacture of immunoassays.

During the year, the Company completed the following transactions, which were important for the future strategic direction of the business:

1. The acquisition of Bio-Layer Pty Limited. This acquisition was completed on 28 October 2005. Subsequent to this acquisition, SSH Medical Limited has changed its name to BioLayer Corporation Limited and the new name was formally registered as such by ASIC on 10 January 2006.
2. The sale of SSH Medical Workstation Pty Limited to Cosmedics Australia Limited. This transaction was settled on 29 November 2005.
3. The sale of the VedaScope® business to Di-Spec Pty Limited, a company associated with Mr Clemens Van Der Weegen, the inventor of the VedaScope®. This transaction was contracted for in December 2005 and was finalised in March 2006.

There were no other significant changes in the nature of the economic entity's principal activities during or after the end of the financial year.

Consolidated Operating Result

During the year, the Company was engaged in a reverse acquisition with Brisbane based Bio-Layer Pty Limited. As a result of this transaction and the application of the new accounting standard AASB3 Business Combinations, the consolidated accounts now represent a continuation of the accounts of Bio-Layer Pty Limited rather than a continuation of the accounts of BioLayer Corporation Limited (previously SSH Medical Limited).

Because these accounts represent a continuation of the accounts of Bio-Layer Pty Limited, users of this financial report must be aware that the comparative 'economic entity' numbers are those of Bio-Layer Pty Limited, and in no way compare to the consolidated financial results of BioLayer Corporation Limited (formerly SSH Medical Limited) published in prior financial reporting periods.

The net consolidated operating loss of the economic entity for the financial year, after providing for income tax, amounted to $6,245,124 compared with a loss for the 2005 year of $2,231,377.

Of the reported loss, $3.6 million related to the transition to A-IFRS and the business combination undertaken during the year, including the impairment of the investment in Cosmedics Australia Limited to nil. Hence, excluding these one-time adjustments, the operating loss was $2.6 million.

As at 30 June 2006, the Company maintained cash reserves of $1.294 million which will be used in the further development and commercialisation of Bio-Layer Pty Limited's proprietary technology.

Dividends Paid or Recommended

No dividend has been paid during the year and the Directors do not recommend payment of a dividend.

Review of Operations

A review of operations of the economic entity during the financial year is set out in the Chairman's report.

After Balance Date Events

Since balance date, the Company has engaged in capital raising activities in order to ensure that the Company has sufficient capital reserves to commercialise its technology. Such activities include those set out in the Chairman's report. The Company has put in place a facility for up to $300,000 which it can access, subject to formal documentation of the grant, for the purposes of meeting any obligations under the terms of the grant.

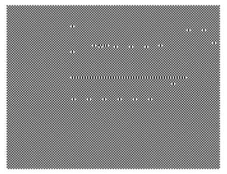
Environmental Issues

BioLayer is licensed under the Queensland Health (Drugs and Poisons) Regulations 1996 for the use and storage of sodium cyanide.

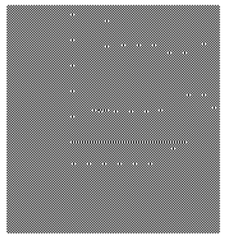
Information on Directors and Secretary

The Directors of the Company at the date of this report are set out below, together with details of their qualifications, experience and shareholdings.

Mr Bruce Rathie	**Chairman - Independent, Non-Executive Director**
Qualifications:	B.Comm, LLB, MBA, Grad Dip CSP, FAICD, FAIM
Experience:	Appointed 1 July 2006
Other Directorships of listed entities:	Director of Compumedics Ltd
Interest in securities:	Nil
Special Responsibilities:	Chairman of the Board and Chairman of the Remuneration and Nomination Committee
Mr Peter Rayner	**Independent, Non-Executive Director**
Qualifications:	B.Bus, CPA
Experience:	Appointed 1 July 2006
Other Directorships of listed entities:	Nil
Interest in securities:	Nil
Special Responsibilities:	Chairman of the Audit & Risk Committee
Dr Tony Evans	**Independent, Non-Executive Director**
Qualifications:	PhD, BSc
Experience:	Appointed 1 July 2006
Other Directorships of listed entities:	Nil
Interest in securities:	Nil
Special Responsibilities:	Chairman of the Science & Ethics Committee
Mr Stephen Erichsen	**Non-Executive Director**
Qualifications:	Master of Management, Associate Fellow of the Australian Institute of Management
Experience:	Board member since September 2004
Other Directorships of listed entities:	Nil
Interest in securities:	870,000 ordinary shares, 1,302,500 options to subscribe for ordinary shares
Dr Carmel (Carrie) Hillyard	**Non-Executive Director**
Qualifications:	Ph.D. in Medicine
Experience:	Appointed 23 September 2005
Other Directorships of listed entities:	CathRx Limited Pharmaxis Limited (August 2002 to April 2006)
Interest in securities:	500,000 options to subscribe for ordinary shares



Mr Richard Martin	**Non-Executive Director**
Qualifications:	Bachelor of Business
Experience:	Appointed 23 September 2005
Other Directorships of listed entities:	Nil
Interest in securities:	500,000 options to subscribe for ordinary shares



Mr David Beins	**Managing Director & Chief Executive Officer**
Qualifications:	MBA, BSc
Experience:	Appointed to the Board on 3 July 2006. Appointed as CEO on 12 April 2006.
Other Directorships of listed entities:	Nil
Interest in securities:	2,000,000 options to acquire ordinary shares
Special Responsibilities:	Mr Beins is Chief Executive Officer of the Company
Ms Megan Portas	**Company Secretary**
Qualifications:	CA, ACIS, B.Bus (Acctg)
Experience:	Appointed CFO & Company Secretary 16 January 2006
Interest in securities	1,000,000 options to acquire ordinary shares
Special Responsibilities:	Ms Portas is Chief Financial Officer of the Company

Remuneration Report

This report details the nature and amount of remuneration for each Director of BioLayer Corporation Limited, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of BioLayer Corporation Limited has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long term incentives based on key performance areas affecting the economic entity's financial results. The Board of BioLayer Corporation Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and Directors to run and manage the economic entity, as well as create goal congruence between Directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the economic entity is as follows:

The remuneration policy, setting the terms and conditions for the executive Directors and other senior executives, was developed by the remuneration & nomination committee, and approved by resolution of the Board. All executives receive a base salary and superannuation with the possibility of options and performance incentives. The Board of Directors review executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can award such outside the published remuneration policy if the awards can be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long term growth in shareholder wealth.

Executives are also entitled to participate in the employee share option scheme. Details of which are included in note 5 to the accounts.

Directors and executives receive a superannuation guarantee contribution required by the Government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Shares given to Directors and executives are valued as the difference between the market price of those shares and the amount paid by the Director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate Non-Executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration & nomination committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. Any changes to the maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to performance of the economic entity. However to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in the employee share option plan.

Performance Based Remuneration

As part of each Executive-Director and executives remuneration package there is a performance based component, consisting of key performance indicators ("KPIs"). The intention of this programme is to facilitate goal congruence between Directors and executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with Directors and executives to ensure "buy-in". The measures are particularly tailored to the areas each Director or executive is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, the Board bases the assessment on audited figures, however where the KPI involves comparison of the Group or a division within the Group to the market, independent reports are obtained from organisations such as Standard and Poors.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and Directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on KPIs, the second being the issue of options to the majority of Directors and executives to encourage the alignment of personal and shareholder interests.

Details of Directors' Remuneration for the Year Ended 30 June 2006

	Note	Base Fee / Salary	Bonus	Post Employment Super-annuation	Termination and Similar Payments	Share Based Options	Other	Total
2006								
J Armstrong	1	12,878	-	1,159	-	-	178,901	192,938
K McGrath	2	62,917	-	5,663	-	17,410	-	85,990
S Erichsen	3	28,854	-	4,479	-	17,410	20,917	71,660
C Hillyard	4	29,583	-	-	-	17,410	-	46,993
R Martin	5	26,250	-	2,363	-	17,410	-	46,023
H Stenning	6	10,000	-	900	-	-	-	10,900
Total		**170,482**	**-**	**14,564**	**-**	**69,640**	**199,818**	**454,504**

Emoluments of the specified executive officers of the group

	Note	Base Fee/ Salary	Payments	Post Employment Super-annuation	Termination and similar payments	Share based options	Other	Total
2006								
J Maeji	7	138,000	-	12,420	-	-	-	150,420
D Gorse	8	129,000	-	11,610	-	-	-	140,610
D Beins	9	47,667	-	4,290	-	42,889	-	94,846
M Portas	10	64,795	-	5,832	-	17,094	-	87,721
D Ward	11	66,012	-	5,941	-	-	-	71,953
Total		**445,474**	**-**	**40,093**	**-**	**59,983**	**-**	**545,550**

A detailed list of Directors including their skills and experience can be found on page 16.

Notes regarding Directors and executive emoluments:

(1) The Company paid BioPropery Pty Limited an amount of $178,901 for the services of Dr Armstrong in the capacity of CEO. Dr Armstrong was appointed to the Board on 23 September 2005 and resigned on 3 July 2006.
(2) Mr McGrath was a director for the full year.
(3) Mr Erichsen was paid salary of $20,917 for services during a period when he was an executive director.
(4) Dr Hillyard was appointed to the Board on 23 September 2005.
(5) Mr Martin was appointed to the Board on 23 September 2005.
(6) Dr Stenning resigned from the Board on 23 September 2005.
(7) Dr Maeji is the Chief Scientific Officer and held this role for the full year.
(8) Dr Gorse is the Chief Technology Officer and held this role for the full year.
(9) Mr Beins is the Chief Executive Officer and was appointed to this role on 12 April 2006.
(10) Ms Portas is the Chief Financial Officer and Company Secretary and was appointed to this role on 16 January 2006.
(11) Mr Ward was the Chief Financial Officer and Company Secretary and resigned from this role on 14 December 2005.

Performance Income as a Proportion of Total Remuneration

Executive Directors and executives are paid performance based bonuses based on set monetary figures, rather than as proportions of their salary. This will lead to the proportions of remuneration related to performance varying between individuals. The remuneration & nomination committee sets these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The Board will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit to ensure use of the most cost effective and efficient methods.

Options Issued as Part of Remuneration for the Year Ended 30 June 2006

Options maybe issued to Directors and executives as part of their remuneration. The options are not necessarily issued based on performance criteria, but are issued to Directors and executives of the Company and its subsidiaries to increase goal congruence between Directors, executives and shareholders.

	Granted No.	Part of Remuneration $	Total Remuneration Represented by Options %	Options Exercised $	Options Lapsed ($)	Total $
Mr K McGrath	500,000	17,410	20	-	-	17,410
Mr S Erichsen	500,000	17,410	24	-	-	17,410
Mr R Martin	500,000	17,410	38	-	-	17,410
Dr C Hillyard	500,000	17,410	37	-	-	17,410
Mr D Beins	2,000,000	42,889	45	-	-	42,889
Ms M Portas	1,000,000	17,094	19	-	-	17,094
	5,000,000	**129,623**		**-**	**-**	**129,623**

Meetings Of Directors

During the financial year, 10 meetings of Directors, 2 meetings of the Audit & Risk Committee and 2 meetings of the Remuneration & Nomination Committee were held. Attendances were as follows:

	Directors' Meetings		Audit & Risk Committee		Remuneration & Nomination Committee	
Director	**Number eligible to attend**	**Number Attended**	**Number eligible to attend**	**Number Attended**	**Number eligible to attend**	**Number Attended**
K McGrath	10	10	2	2	2	2
S Erichsen	10	10	2	2	2	2
H Stenning	2	1	0	0	0	0
C Hillyard	8	8	0	0	2	2
R Martin	8	8	2	2	0	0
J Armstrong	8	7	0	0	0	0

Indemnifying Officers

The Company's Constitution provides that the Company will indemnify officers of the Company against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or officer of the Company other than conduct involving a wilful breach of duty in relation to the Company.

The Company did not pay premiums to insure the Directors and officers against any such liabilities that may arise during the financial year.

Share Options

At the date of this report, the un-issued ordinary shares of BioLayer Corporation Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price (Post consolidation value)	Number under Option (Post consolidation number)
30 November 2004	30 June 2007	$0.40	900,000
30 September 2005	30 September 2007	$0.35	3,890,280
30 September 2005	18 December 2010	$0.521	23,036
30 September 2005	22 January 2011	$0.521	8,398
30 September 2005	1 April 2011	$0.521	49,191
30 September 2005	7 May 2011	$0.521	28,795
30 September 2005	31 July 2011	$0.521	4,799
30 September 2005	13 September 2011	$0.651	9,598
30 September 2005	19 October 2011	$0.521	16,479
30 September 2005	1 January 2012	$0.651	73,459
30 September 2005	2 January 2012	$0.651	9,215
30 September 2005	1 March 2012	$0.651	9,598
30 September 2005	1 April 2012	$0.651	72,152
30 September 2005	25 April 2012	$0.651	3,840
30 September 2005	31 October 2012	$0.651	4,800
30 September 2005	1 September 2013	$0.156	76,786
30 September 2005	18 December 2013	$0.156	7,335,545
30 September 2005	24 May 2014	$0.156	71,643
30 September 2005	19 July 2014	$0.156	287,948
30 September 2005	1 October 2014	$0.156	148,773
30 September 2005	20 December 2014	$0.156	3,087,902
30 September 2005	20 January 2015	$0.156	105,865
30 September 2005	20 February 2015	$0.156	58,166
30 September 2005	3 April 2015	$0.156	116,331
26 October 2005	26 October 2007	$0.35	9,599,999
16 January 2006	16 January 2016	$0.284	1,000,000
12 April 2006	12 April 2016	$0.284	2,000,000
			28,992,598

Proceedings On Behalf Of The Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Non-audit Services

The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit & Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of services provided do not compromise the general principles relating to auditor independence as set out in the Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence

The following fees for non-audit services were paid or payable to an associated firm of the external auditors during the year ended 30 June 2006.

	$
Taxation Services	5,500
Other Services due diligence for capital raising	69,799

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 55 which forms part of this report.

Signed in accordance with a resolution of the Board of Directors

Mr Bruce Rathie
Chairman
Dated this 27th day of September 2006

Consolidated Income Statement

for the year ended 30 June 2006

		Economic Entity		Parent Entity	
		2006	2005	2006	2005
	note	$	$	$	$
Sales revenue	2	154,794	94,650		4,320
Cost of sales			-		(222,951)
Gross profit		154,794	**94,650**	-	**(218,631)**
Other revenue from ordinary activities	2	743,207	909,393	203,526	20,799
Other revenue – gain on disposal of subsidiary undertaking		-	-	1,342,083	-
Selling and distribution expenses		(570,416)	(310,601)	(16,330)	-
Occupancy expenses		(349,883)	(306,778)	(31,779)	(34,967)
Administrative expenses – Provision against subsidiary indebtedness			-		386,383
Administrative expenses – Loss on disposal of subsidiary entity			-		(383,477)
Administrative expenses – Other		(930,756)	(365,637)	(602,634)	(476,424)
Borrowing costs	3	(243,288)	(927,944)	(4,017)	(12,745)
Research and development expenses		(1,468,022)	(1,077,210)	-	(145,517)
Impairment of financial assets		(2,184,876)	-	(2,184,876)	-
Impairment of goodwill		(1,158,589)	-	-	-
Other expenses from ordinary activities		(237,295)	(247,250)	(253,101)	(217,751)
Loss from ordinary activities before income tax benefit	**3**	(6,245,124)	**(2,231,377)**	(1,547,128)	**(1,082,330)**
Income tax benefit relating to ordinary activities	4		-		56,548
Loss from ordinary activities after income tax benefit	**19**	(6,245,124)	**(2,231,377)**	(1,547,128)	**(1,025,782)**
Total changes in equity other than those resulting from transactions with owners as owners		(6,245,124)	**(2,231,377)**	(1,547,128)	**(1,025,782)**
Basic loss per share (cents)	7	(9.7)	(4.7)		
Diluted loss per share (cents)	7	(9.6)	(4.7)		

The financial statements should be read in conjunction with the accompanying notes.

Consolidated balance sheet

as at 30 June 2006

		Economic Entity		Parent Entity	
		2006	2005	2006	2005
	note	$	$	$	$
Current assets					
Cash assets	8	1,293,823	147,069	1,272,928	296,830
Receivables	9	127,693	14,835	1,984,829	759,568
Inventories	10	-	-		85,135
Other	11	6,150	23,010		8,608
Total current assets		**1,427,666**	**184,914**	3,257,757	**1,150,141**
Non-current assets					
Property, plant and equipment	12	480,951	502,411	4,672	93,161
Intangible assets	13		-	-	67,000
Other financial assets	14		-	15,187,505	100
Total non-current assets		480,951	**502,411**	15,192,177	**160,261**
Total assets		1,908,617	**687,325**	18,449,934	**1,310,402**
Current liabilities					
Payables	15	245,497	129,113	57,024	148,201
Interest bearing liabilities	16	-	-		37,456
Provisions	17	71,363	42,595		11,570
Total current liabilities		316,860	**171,708**	57,024	**197,227**
Non-current liabilities					
Interest bearing liabilities	16		5,759,512		-
Total non-current liabilities		-	**5,759,512**	-	**-**
Total liabilities		316,860	**5,931,220**	57,024	**197,227**
Net assets		1,591,757	**(5,243,895)**	18,392,910	**1,113,175**
Equity					
Contributed equity	18	16,745,732	3,625,002	38,047,160	19,158,333
Accumulated losses	19	(15,153,975)	(8,868,897)	(19,654,250)	(18,045,158)
Total equity		1,591,757	**(5,243,895)**	18,392,910	**1,113,175**

The financial statements should be read in conjunction with the accompanying notes

Statement of changes in equity

for the year ended 30 June 2006

	Ordinary Shares $	Options $	Accumulated Losses $	Total $
Balance at 1 July 2004	**3,625,002**	**-**	**(6,637,520)**	**(3,012,518)**
Losses attributable to members of the parent entity	-	-	(2,231,377)	(2,231,377)
Balance at 30 June 2005	**3,625,002**	**-**	**(8,868,897)**	**(5,243,895)**
Balance at 1 July 2005	**3,625,002**	**-**	**(8,868,897)**	**(5,243,895)**
Issued during the year	4,256,000	186,418	-	4,442,418
Capital raising costs	(329,757)	-	-	(329,757)
Conversion of convertible notes	6,000,911	-	-	6,000,911
Cost of business combination	3,072,282	-	-	3,072,282
Losses attributable to members of the parent entity	-	-	(6,245,124)	(6,245,124)
In Specie distribution	(65,124)	-	-	(65,124)
Converting note distributions	-	-	(39,954)	(39,954)
Balance at 30 June 2006	**16,559,314**	**186,418**	**(15,153,975)**	**1,591,757**

The financial statements should be read in conjunction with the accompanying notes.

	Ordinary Shares $	Converting Notes $	Options $	Accumulated Losses $	Total $
Balance at 1 July 2004	**18,087,301**	**976,000**	**-**	**(16,955,303)**	**2,107,998**
Issued during the year	62,421	-	32,611	-	95,032
Losses attributable to members of the parent entity	-	-	-	(1,025,782)	(1,025,782)
Converting note distributions	-	-	-	(64,073)	(64,073)
Balance at 30 June 2005	**18,149,722**	**976,000**	**32,611**	**(18,045,158)**	**1,113,175**
Balance at 1 July 2005	**18,149,722**	**976,000**	**32,611**	**(18,045,158)**	**1,113,175**
Issued during the year	17,816,263	-	1,626,156	-	19,442,419
Capital raising costs	(488,468)	-	-	-	(488,468)
Losses attributable to members of the parent entity	-	-	-	(1,547,128)	(1,547,128)
In Specie distribution	(65,124)	-	-	-	(65,124)
Converting note distributions	-	-	-	(61,964)	(61,964)
Balance at 30 June 2006	**35,412,393**	**976,000**	**1,658,767**	**(19,654,250)**	**18,392,910**

The financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2006

	note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash Flows from Operating Activities:					
Receipts from customers and government grants		853,872	1,108,254	169,771	14,124
Payments to suppliers and employees		(3,348,285)	(1,862,832)	(749,354)	(604,109)
Borrowing costs		(807)	(933)		(12,745)
Interest received		86,384	5,892	79,553	15,085
R&D tax concession received			-		56,548
Net cash used in operating activities	**20 (i)**	(2,408,836)	**(749,619)**	(500,030)	**(531,097)**
Cash Flows From Investing Activities:					
Payment for patents			-		(13,375)
Disposal of subsidiary			-	-	1,070,000
Payment for investment in controlled entities		(165,919)	-	(187,505)	-
Proceeds from disposal of non-current assets			-		282
Proceeds from sale of business		61,000	-	61,000	-
Proceeds from sale of intellectual property		66,000	-	66,000	-
Payment for property, plant and equipment		(263,094)	(47,515)	-	(38,545)
Advances to controlled entity			-	(2,131,479)	(385,777)
Net cash provided by investing activities		(302,013)	**(47,515)**	(2,191,984)	**632,585**
Cash Flows From Financing Activities:					
Proceeds from share issues		4,256,000	-	4,256,000	-
Capital raising costs		(329,757)	-	(488,468)	-
Proceeds from issue of convertable notes			800,000	-	-
Converting note distributions		(39,954)	-	(61,964)	(64,073)
Repayment of borrowings		(28,686)	-	(37,456)	(44,984)
Net cash provided by (used in) financing activities		3,857,603	**800,000**	3,668,112	**(109,057)**
Net increase (decrease) in cash held		1,146,754	2,866	976,098	(7,569)
Cash at start of year		147,069	144,203	296,830	304,399
Cash at end of year	**8, 20 (ii)**	1,293,823	**147,069**	1,272,928	**296,830**

The financial statements should be read in conjunction with the accompanying notes

1. Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in note 27.

During the year, the Company was engaged in a reverse acquisition with Brisbane based Bio-Layer Pty Limited. As a result of this transaction and the application of the new accounting standard AASB3 Business Combinations, the consolidated accounts now represent a continuation of the accounts of Bio-Layer Pty Limited rather than a continuation of the accounts of BioLayer Corporation Limited (previously SSH Medical Limited).

Because these accounts represent a continuation of the accounts of Bio-Layer Pty Limited, users of this financial report must be aware that the comparative numbers are those of Bio-Layer Pty Limited, and in no way compare to the consolidated financial results of BioLayer Corporation Limited (formerly SSH Medical Limited) published in prior financial reporting periods.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 27), the consolidated entity's date of transition.

Going Concern

The Company has forecast that it will deplete its current cash reserves by November 2006 absent its capital raising and grant activities.

The Company has been working hard on its ongoing capital needs and recently announced the following two events. These two events are not included in the cash forecast referred to above.

1. It has been awarded (subject to documentation) a government grant totalling $2.67 million over 2 years (not included in the November 2006 projection above); and
2. It has been in discussion with major shareholders seeking funding to supplement its operational requirements both in the short and medium term. As a result of these discussions, the company has been offered and is currently reviewing and considering the terms of a potential private placement. An announcement will be made as and when the Board determines to proceed and the terms have been agreed. Such terms will be submitted to shareholders for approval as may be necessary.

As a consequence of these initiatives, the Directors believe the Company will be able to realise its assets and settle its liabilities and commitments in the normal course of business.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments with original maturities of three months or less.

(b) Comparatives

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Because these accounts represent a continuation of the accounts of Bio-Layer Pty Limited, users of this financial report must be aware that the comparative numbers are those of Bio-Layer Pty Limited, and in no way compare to the consolidated financial results of BioLayer Corporation Limited (formerly SSH Medical Limited) published in prior financial reporting periods.

(c) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of the services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(d) Financial assets

Financial investments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition, these investments are assessed at each reporting date to determine whether there is any evidence that an investment is impaired. Any such impairment is reported in the Income Statement.

(e) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in profit or loss in the period in which they arise.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables and payables.

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

(g) Goodwill

Pursuant to the adoption of AASB3 Business Combinations (reverse acquisitions), goodwill, representing the excess of the cost of combination to Bio-Layer Pty Limited over the fair value of the identifiable assets, liabilities and contingent liabilities acquired of BioLayer Corporation Limited (formerly SSH Medical Limited), is recognised as an asset and not amortised, but tested for impairment at each reporting date and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

notes to the financial statements
for the year ended 30 June 2006

(h) Government grants

Government grants are assistance by the government in the form of transfers or resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs.

(i) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill is tested for impairment at each reporting date and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment is treated as a revaluation increase.

(j) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilized. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probably that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realized or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

(k) Intangible assets

Patents, trademarks and licenses

Patents, trademarks and license costs are recognised as an expense in the period in which it is incurred.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(l) Payables

Trade payables and other accounts payable are recognised when the consolidated entity become obliged to make future payments resulting from the purchase of goods and services.

(m) Principles of consolidation

As stated in Note 1 – Basis of Preparation – the acquisition of Bio-Layer Pty Limited constitutes a reverse acquisition in accordance with AASB3. The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after assessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(n) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

notes to the financial statements
for the year ended 30 June 2006

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	10% - 50%
Plant and equipment	20% - 40%
Furniture and office equipment	20% - 40%
Leased plant and equipment	20%

(o) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(p) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

Revenue for a contract to provide services is recognised by reference to the stage of completion of the contract. Revenue is not recognised until each milestone has been successfully completed under the terms of the contract.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(q) Share-based payments

Share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black Scholes valuation model (a binomial model).

The fair value determined as at the grant date of the share-based payments is expensed on a straight line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

		Economic Entity		Parent Entity	
		2006	2005	2006	2005
	Note	$	$	$	$
2. Revenue					
Revenues from operating activities:					
Sale of goods and services		154,794	94,650		4,320
Government grants		487,265	830,006		-
Other operating revenues		47,545	73,495		-
Sale of non current assets		120,000	-	120,000	282
		809,604	**998,151**	120,000	**4,602**
Revenues from non-operating activities:					
Interest - other corporations		86,384	5,892	79,553	15,085
Gain on disposal of subsidiary undertaking			-	1,342,083	-
Other		2,013	-	3,973	5,432
		88,397	**5,892**	1,425,609	**20,517**
Total Revenue		898,001	**1,004,043**	1,545,609	**25,119**

3. Loss from ordinary activities

The loss from ordinary activities before income tax expense has been determined after:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Amortisation of non-current assets:				
Leasehold improvements	2,787	-	6,968	2,720
Leased plant and equipment	6,911	-	17,276	41,464
Patents and trademarks	67,000	241,199	67,000	9,511
Total amortisation of non-current assets	76,698	**241,199**	91,244	**53,695**
Depreciation of non-current assets:				
Plant and equipment	246,624	216,414	8,287	75,408
Furniture, office equipment and software	56,865	33,802	14,881	15,361
Total depreciation of non-current assets	303,489	**250,216**	23,168	**90,769**
Borrowing costs:				
Lease finance charges	563	260	3,429	3,084
Interest on convertible notes	241,399	927,011	-	-
Interest, other persons	1,326	673	588	9,661
	243,288	**927,944**	4,017	**12,745**
Movements in provisions:				
Doubtful debts		-	264	(2,400)
Employee benefits	28,768	42,595	(11,570)	11,570
Subsidiary Indebtedness		-		(2,561,997)
	28,768	**42,595**	(11,306)	**(2,552,827)**

notes to the financial statements
for the year ended 30 June 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
3. Loss from ordinary activities *(cont'd)*					
Significant / Notable items:					
Loss on disposal of subsidiary			-		383,478
Write down of patents to recoverable amount			-		67,988
Impairment of financial assets	14	2,184,876	-	2,184,876	-
Impairment of goodwill	13	1,158,589	-		-
Write down of plant and equipment to recoverable amount			-		47,258
Write down of inventory to recoverable amount			-		212,915
		3,343,465	**-**	2,184,876	**711,639**
Operating lease rentals		295,049	**-**	21,919	**37,750**

4. Income tax expense

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
(a) The prima facie income tax on the loss from ordinary income tax is reconciled as follows:				
Prima facie tax calculated at 30% on losses from ordinary activities	(1,876,537)	(669,413)	(464,138)	(324,699)
Add/(deduct) tax effect of :				
- interest on converting note	(11,986)	-	(18,589)	(19,222)
- non deductible items	(55,261)	(160,203)	(55,261)	2,846
- write downs to recoverable amounts	-	-	-	1,111,977
- impairment of financial assets	655,463	-	655,463	-
- impairment of goodwill	347,576	-		-
- gain on sale for accounting purposes	(402,625)	-	(402,625)	-
- options expensed for accounting purposes	55,926	-	55,926	9,783
- R&D tax concession additional deduction	(88,730)	(49,330)		-
Timing differences not brought to account to the extent of income tax losses	1,376,174	878,766	229,224	(780,685)
Tax credit through research and development clawback provisions		-		56,548
Income tax benefit attributable to ordinary activities	-	**-**	-	**56,548**
(b) Deferred Tax Assets arising from income tax losses not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(j) occur	3,038,868	**2,261,783**	4,221,762	**5,601,250**

5. Director's and Executives' Remuneration

(a) Names and positions held of parent entity Directors and specified executives in office at any time during the financial year are:

Parent Entity Directors

Mr Kim McGrath	(resigned 30 June 2006)
Mr Stephen Erichsen	
Dr Jason Armstrong	(appointed 23 September 2005 and resigned 3 July 2006)
Dr Carmel (Carrie) Hillyard	(appointed 23 September 2005)
Mr Richard Martin	(appointed 23 September 2005)
Mr Bruce Rathie	(appointed 1 July 2006)
Mr Peter Rayner	(appointed 1 July 2006)
Dr Tony Evans	(appointed 1 July 2006)
Mr David Beins	(appointed 3 July 2006)
Dr Henry Stenning	(resigned 23 September 2005)

Specified Executives – Economic Entity

Mr David Beins	Chief Executive Officer
Ms Megan Portas	Chief Financial Officer and Company Secretary
Dr Joe Maeji	Chief Scientific Officer
Dr Dominique Gorse	Chief Technology Officer

(b) Parent Entity Directors' Remuneration

	Primary Base Fee / Salary	Bonus	Post Employment Super-annuation	Termination and Similar Payments	Share Based Options	Other	Total
2006							
J Armstrong	12 878	-	1,159	-	-	178,901	192,938
K McGrath	62,917	-	5,663	-	17,410	-	85,990
S Erichsen	28,854	-	4,479	-	17,410	20,917	71,660
C Hillyard	29,583	-	-	-	17,410	-	46,993
R Martin	26,250	-	2,363	-	17,410	-	46,023
H Stenning	10,000	-	900	-	-	-	10,900
Total	**170,482**	**-**	**14,564**	**-**	**69,640**	**199,818**	**454,504**
2005							
K McGrath	45,000	-	4,050	-	10,710	-	59,760
S Erichsen	70,090	-	6,308	-	10,710	-	87,108
H Stenning	35,000	-	3,150	-	10,710	-	48,860
J Dunn	-	-	-	24,192	-	-	24,192
Total	**150,090**	**-**	**13,508**	**24,192**	**32,130**	**-**	**219,920**

notes to the financial statements
for the year ended 30 June 2006

5. Director's and Executives' Remuneration *(cont'd)*

(c) Specified Executives' Remuneration – Economic Entity

	Base Fee/ Salary	Payments	Post Employment Super-annuation	Termination and similar payments	Share based options	Other	Total
2006							
J Maeji	138,000	-	12,420	-	-	-	150,420
D Gorse	129,000	-	11,610	-	-	-	140,610
D Beins	47,667	-	4,290	-	42,889	-	94,846
M Portas	64,795	-	5,832	-	17,094	-	87,721
D Ward	66,012	-	5,941	-	-	-	71,953
Total	**445,474**	**-**	**40,093**	**-**	**59,983**	**-**	**545,550**
2005							
D Ward	120,000	10,000	10,800	-	-	-	140,800

(d) Remuneration Options

Options granted as remuneration during the year

	Grant No.	Grant date	Value per option at Grant date	Exercise Price	First Exercise Date	Last Exercise Date
Parent Entity Directors			$	$		
Mr K McGrath	500,000	26 Oct 2005	$0.0348	$0.35	26 Oct 2005	26 Oct 2007
Mr S Erichsen	500,000	26 Oct 2005	$0.0348	$0.35	26 Oct 2005	26 Oct 2007
Dr C Hillyard	500,000	26 Oct 2005	$0.0348	$0.35	26 Oct 2005	26 Oct 2007
Mr R Martin	500,000	26 Oct 2005	$0.0348	$0.35	26 Oct 2005	26 Oct 2007
Ms M Portas	1,000,000	16 Jan 2006	$0.1503	$0.284	16 Jan 2006	16 Jan 2016
Mr D Beins	2,000,000	12 Apr 2006	$0.0858	$0.284	12 Apr 2006	12 Apr 2016
	5,000,000					

(e) Shares issued on exercise of remuneration options

No shares were issued on the exercise of remuneration options during the year ended 30 June 2006.

5. Director's and Executives' Remuneration *(cont'd)*

(f) Options holdings

Number of options held by or at the nomination of Parent Entity Directors (who held office during the year).

	Balance 1 July 2005	Granted as Remuneration	Purchased Non-Remuneration	Net Change	Balance 30 June 2006	Total Vested 30 June 2006	Total Exercisable 30 June 2006
Parent Entity Directors							
K McGrath	300,000	500,000	125,000	625,000	925,000	925,000	925,000
S Erichsen	300,000	500,000	502,500	1,002,500	1,302,500	1,302,500	1,302,500
H Stenning	300,000	-	-	-	300,000	300,000	300,000
R Martin	-	500,000	-	500,000	500,000	500,000	500,000
C Hillyard	-	500,000	-	500,000	500,000	500,000	500,000
	900,000	**2,000,000**	**627,500**	**2,627,500**	**3,527,500**	**3,527,500**	**3,527,500**

Number of options held by or at the nomination of Specified Executives (who held office during the year):

	Balance 1 July 2005	Granted as Remuneration	Net Change	Balance 30 June 2006	Total Vested 30 June 2006	Total Exercisable 30 June 2006	Total Unexercisable 30 June 2006
Economic Entity Executives							
D Beins	-	2,000,000	2,000,000	2,000,000	500,000	500,000	1,500,000
M Portas	-	1,000,000	1,000,000	1,000,000	250,000	250,000	750,000
	-	**3,000,000**	**3,000,000**	**3,000,000**	**750,000**	**750,000**	**2,250,000**

(g) Shareholdings

Number of shares held by or at the nomination of Parent Entity Directors and specified executives:

	Balance 1 July 2005	Received as Remuneration	Purchased non-Remuneration	Options Exercised	Net Change	Balance 30 June 2006
Parent Entity Directors						
K W McGrath	-	-	250,000	-	250,000	250,000
S J Erichsen	200,000	-	670,000	-	670,000	870,000
C Hillyard	-	-	15,000	-	15,000	15,000
H M Stenning	206,122	-	-	-	-	206,122
Specified Executives						
D W Ward	50,000	-	-	-	-	50,000
	456,122	**-**	**935,000**	**-**	**935,000**	**1,391,122**

5. Director's and Executives' Remuneration *(cont'd)*

(h) Remuneration practices

The Company's policy for determining the nature and amount of emoluments of Board members and senior executives of the Company is as follows:

The remuneration structure for executive officers, including executive Directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and specified Directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement Directors and executives are paid employee benefit entitlements accrued up to date of retirement. The Company may terminate the contracts without cause by providing one month's written notice or making pay in lieu of notice based on the individual's annual salary component together with a redundancy payment calculated by reference to length of service. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The Group seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically the incorporation of incentive payments based on the key performance indicators appertaining to each specific employee. The objective of the reward schemes is to both reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
6. Auditors' Remuneration				
Remuneration of the auditors of the company for:				
- Auditing or reviewing financial report	41,910	-	41,910	38,659
- Other audit related work		-		-
	41,910	-	41,910	**38,659**
- Taxation compliance		-	5,500	19,836
- Due diligence procedures		-	69,799	-
- Other		-		500
	41,910	**-**	117,209	**58,995**

7. Earnings Per Share (EPS)

	2006	2005
(a) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	64,257,928	**47,778,874**
(b) Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS	65,076,833	**47,778,874**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
8. Cash Assets				
Cash on hand	446	344		143
Cash at bank	6,921	146,725	-	22,600
Deposits at call	1,286,456	-	1,272,928	274,087
	1,293,823	**147,069**	1,272,928	**296,830**
9. Receivables				
Current				
Trade debtors	71,928	-	264	528
Provision for doubtful debts	(264)	-	(264)	-
	71,664	**-**	-	**528**
Receivable from controlled entities	-	-	1,982,342	758,680
Other debtors	56,029	14,835	2,487	360
	127,693	**14,835**	1,984,829	**759,568**
10. Inventories				
Current				
Raw materials at recoverable amount		-		19,789
Finished goods at recoverable amount		-		65,346
	-	**-**	-	**85,135**
11. Other Assets				
Current				
Prepayments	5,750	23,010		8,608
Deposits	400	-		-
	6,150	**23,010**	-	**8,608**
12. Property, Plant and Equipment				
Leasehold improvements, at cost		-		11,082
Accumulated amortisation		-		(2,720)
	-	**-**	-	**8,362**
Plant and equipment, at cost	1,038,704	885,475		504,015
Accumulated depreciation	(770,467)	(526,633)		(426,531)
Write down to recoverable amount		-		(47,258)
	268,237	**358,842**	-	**30,226**
Furniture and fittings, office equipment, and software, at cost	571,145	413,324	47,957	80,350
Accumulated depreciation	(358,431)	(269,755)	(43,285)	(59,235)
	212,714	**143,569**	4,672	**21,115**
Leased plant and equipment		-		245,211
Accumulated amortisation		-		(211,753)
	-	**-**	-	**33,458**
Total Property, Plant and Equipment	480,951	**502,411**	4,672	**93,161**

12. Property, Plant and Equipment *(cont'd)*

Movements in carrying amounts

Movement in carrying amounts for each class of property, plant and equipment between the beginning and end of the financial year is as follows:

	Leasehold Improvements	Furniture and Software Office Equipment	Plant and Equipment	Leased Plant and Equipment	Total
	$	$	$	$	$
Economic Entity					
2006					
Carrying amount at start of year	-	143,569	358,842	-	502,411
Additions	2,787	128,800	153,229	6,911	291,727
Disposals	-	-	-	-	-
Write down to recoverable amount	-	-	-	-	-
Depreciation / amortisation	(2,787)	(59,655)	(243,834)	(6,911)	(313,187)
Carrying amount at end of year	**-**	**212,714**	**268,237**	**-**	**480,951**
Parent Entity					
2006					
Carrying amount at start of year	8,362	21,115	30,226	33,458	93,161
Additions					
Disposals	(6,968)	(1,562)	(21,939)	(16,182)	(46,651)
Write down to recoverable amount	-	-	-	-	-
Depreciation / amortisation	(1,394)	(14,881)	(8,287)	(17,276)	(41,838)
Carrying amount at end of year	**-**	**4,672**	**-**	**-**	**4,672**

	note	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
		$	$	$	$
13. Intangible Assets					
Patents and trademarks, at cost		259,333	259,333	776,267	776,267
Accumulated amortisation		(259,333)	(259,333)	(286,836)	(219,836)
			-	489,431	556,431
Impairment losses			-	(489,431)	(489,431)
		-	**-**	-	**67,000**
Goodwill		1,158,589	-		-
Accumulated impairment losses		(1,158,589)	-		-
		-	**-**	-	**-**
14. Other Financial Assets					
Investment in financial assets					
Bio-Layer Pty Ltd		-	-	15,187,505	-
Cosmedics Australia Ltd		2,184,876	-		-
Less provision for impairment		(2,184,876)	-		-
Share Capital S.S.H. Medical (Aust.) Pty Ltd			-		-
Share Capital S.S.H. Medical Workstation Pty Ltd			-		100
		-	**-**	15,187,505	**100**
15. Payables					
Trade creditors		70,498	112,618	17,785	53,571
Sundry creditors and accrued expenses		174,999	16,495	39,239	94,630
		245,497	**129,113**	57,024	**148,201**
16. Interest Bearing Liabilities					
Current					
Lease liability	24(c)	-	-	-	37,456
Non Current					
Convertible Notes		-	5,759,512	-	-
17. Provisions					
Current					
Employee benefits	17(a)	71,363	42,595	-	11,570
Provision for product warranty			-		-
		71,363	42,595		11,570
(a) Aggregate employee benefits		71,363	42,595		11,570
(b) Number of employees at year end		17	10	-	4
18. Contributed Equity					
Closing balance contributed equity		16,745,732	3,625,002	38,047,160	19,158,333
Balance at beginning of year:					
Opening balance contributed equity		3,625,002	3,625,002	19,158,333	19,063,301
Shares issued during the year:					
Issue of shares		4,256,000	-	17,816,263	62,421
Issue of shares on the conversion of convertible notes		6,000,911	-		-
Cost of the business combination with Bio-Layer Pty Ltd per AASB3		3,072,262	-	-	-
Issue of options		186,418	-	1,626,156	32,611
In specie distribution		(65,124)	-	(65,124)	
Costs associated with share issues		(329,757)	-	(488,468)	-
Balance at the end of year					
Closing balance contributed equity		16,745,732	3,625,002	38,047,160	19,158,333

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders 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.

notes to the financial statements
for the year ended 30 June 2006

	note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $

19. Accumulated Losses

Accumulated losses at beginning of the financial year	(8,868,897)	(6,637,520)	(18,045,158)	(16,955,303)
Net loss for the year	(6,245,124)	(2,231,377)	(1,547,128)	(1,025,782)
Converting note distributions	(39,954)	-	(61,964)	(64,073)
Accumulated losses at end of the financial year	(15,153,975)	(8,868,897)	(19,654,250)	(18,045,158)

20. Statement of Cash Flows

i. Reconciliation of net loss after tax to net cash flows from operations:

Net loss	(6,245,124)	(2,231,377)	(1,547,128)	(1,025,782)
Non-cash items:				
Amortisation	76,698	241,199	67,000	12,231
Depreciation	303,489	250,216	47,412	132,232
(Profit) / Loss on disposal of non current assets	66,178	-	(1,275,871)	14,201
Profit on sale of intellectual property	(60,000)		(60,000)	
Loss on disposal of subsidiary	-	-	-	383,478
Write down of patents to recoverable amount	-	-	-	67,988
Write down of plant and equipment to recoverable amount	-	-	-	47,258
Write down of inventory to recoverable amount	-	-	-	212,915
Doubtful debts	264	-	264	(2,400)
Interest on convertible notes	241,399	927,011	-	-
Decrease / (Increase) in provision against inter-company indebtedness	-	-	-	(386,383)
Impairment of goodwill	1,158,589	-	-	-
Impairment of financial assets	2,184,876	-	2,184,876	-
Options issued	186,419	-	186,419	32,611
Bonus paid through issue of shares	-	-	-	10,000
Annual Leave paid through issue of shares	-	-	-	52,421
Changes in assets and liabilities:				
Decrease / (increase) in receivables	(142,264)	(3,498)	1,147	2,073
Decrease in other debtors and short term deposits	-	-	-	5,143
(Increase) / decrease in inventories before transfer of prototype expenditure	-	-	-	270
Decrease / (increase) in other current assets	40,160	(23,010)	8,608	40,792
(Decrease) / increase in creditors & accruals	(284,933)	47,345	(101,912)	(101,755)
Increase / (decrease) in other current liabilities	65,413	42,495	(10,845)	(28,390)
Net cash flows from operations	**(2,408,836)**	**(749,619)**	**(500,030)**	**(531,097)**

ii. For the purpose of this statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts, as shown in note 8.

20. Statement of Cash Flows *(cont'd)*

Disposal of subsidiary undertaking

During the reporting period, the Company disposed of its investment in SSH Medical Workstation Pty Limited. The subsidiary was sold to Cosmedics Australia Limited, with a settlement date of 29 November 2005.

The disposal consideration comprised 12,500,000 shares in Cosmedics Australia Limited which were initially valued at $2,250,000. The Company held 11,897,000 of these shares at 30 June 2006 after an in-specie distribution of the remainder to its members. The Directors have valued the shares held at $NIL as at 30 June 2006. In valuing this investment, the Directors considered recent market trading prices in the securities and the net asset position of the entity.

The financial information relating to the subsidiary for the period to date of disposal is set out below.

	Economic Entity	
The financial performance of the sold subsidiary to the date of sale which has been incorporated into the statement of financial performance is as follows:	30 June 2006 (1 month) $	30 June 2005 $
Revenue from ordinary activities		-
Expenses from ordinary activities	(17,275)	-
(Loss) from ordinary activities attributable to members of the parent entity	(17,275)	-
The carrying amounts of assets and liabilities of the sold subsidiary at the date of sale were:	29 November 2005 $	30 June 2005 $
Total Assets	230,442	-
Total Liabilities	(908,029)	-
Net Assets	(677,587)	-

Included in liabilities above are intercompany loans from BioLayer Corporation Limited of $907,817 on 29 November 2005. These loans were forgiven upon disposal of the subsidiary.

	Economic Entity	
The net cash flows of the sold subsidiary which have been incorporated into the statement of cash flows are as follows:	30 June 2006 (1 month) $	30 June 2005 $
Net cash inflow / (outflow) from ordinary activities	(80,568)	-
Net cash inflow / (outflow) from investing activities		-
Net cash inflow / (outflow) from financing activities		-
	(80,568)	-
Details of the sale of the subsidiary which has been incorporated into the current year's result are as follows: 30 June 2006	30 June 2006 (1 month) $	30 June 2005 $
Proceeds from sale of interests	2,250,000	-
Carrying amount of net assets sold	(230,230)	-
Allocation of goodwill on consolidation	(2,019,770)	-
Gain on sale		-

notes to the financial statements
for the year ended 30 June 2006

20. Statement of Cash Flows *(cont'd)*

Acquisition of subsidiary undertaking

During the reporting period, BioLayer Corporation Limited acquired 100% of the share capital in Bio-Layer Pty Limited. The settlement date of the acquisition was 28 October 2005. After this transaction, the shareholders of Bio-Layer Pty Limited owned 83% of BioLayer Corporation Limited, making this transaction a "reverse acquisition" as defined in AASB3 Business Combinations.

Hence, for accounting purposes, the parent company is Bio-Layer Pty Limited and the subsidiary company is BioLayer Corporation Limited.

The agreed purchase consideration paid by BioLayer Corporation Limited comprised $13,560,263 in shares in BioLayer Corporation Limited (47,778,874 shares), $1,439,737 in options in BioLayer Corporation Limited (16,186,572 options), due diligence costs of $181,865, less opening cash balance of $50,631.

The cost of the business combination, as calculated under AASB3 was $3,072,282. The financial information relating to the acquired subsidiary for accounting purposes (BioLayer Corporation Limited) for the period is set out below.

The financial performance of the acquired subsidiary (for accounting purposes) from the date of acquisition which has been incorporated into the statement of financial performance is as follows:	30 June 2006 (8 months) $
Revenue from ordinary activities	1,541,761
Expenses from ordinary activities	(2,898,274)
(Loss) from ordinary activities attributable to members of the parent entity	(1,356,513)

The carrying amounts of assets and liabilities of the acquired subsidiary (for accounting purposes) at the date of acquisition were:	28 October 2005
Total Assets	5,371,810
Total Liabilities	(4,629,971)
Net Assets	741,839

The net cash flows of the acquired subsidiary (for accounting purposes) which have been incorporated into the statement of cash flows are as follows:	30 June 2006 (8 months) $
Net cash inflow / (outflow) from ordinary activities	(482,846)
Net cash inflow / (outflow) from investing activities	(60,505)
Net cash inflow / (outflow) from financing activities	1,794,693
	1,251,342

iii. Credit Facilities
The economic entity has no unused credit facilities with Banks or other financial institutions.

21. Segment Reporting

Following the disposal of SSH Medical Workstation Pty Limited and the acquisition of Bio-Layer Pty Limited, the economic entity's continuing operation is in the materials science sector. The discontinued operation's activities were in the medical device sector.

The financial information by business segments up to the date of sale is as follows:

	Continuing Operations Materials Science		Discontinued Operations Medical Devices		Economic Entity	
	2006	**2005**	2006	**2005**	2006	**2005**
	$	**$**	$	**$**	$	**$**
Revenue						
External sales	154,794	94,650		-	154,794	94,650
Total revenue from segment and ordinary activities	775,998	1,004,043	122,013	-	898,001	1,004,043
Result						
Segment result	(5,869,336)	(2,231,377)	(375,788)	-	(6,245,124)	(2,231,377)
Loss from ordinary activities before income tax expense					(6,245,124)	(2,231,377)
Income tax benefit						-
Net loss					(6,245,124)	**(2,231,377)**
Assets						
Segment assets	1,908,617	687,325		-	1,908,617	687,325
Total assets	1,908,617	**687,325**	-	**-**	1,908,617	**687,325**
Liabilities						
Segment liabilities	316,860	5,931,220		-	316,860	5,931,220
Total liabilities	316,860	**5,931,220**	-	**-**	316,860	**5,931,220**
Other segment information						
Amortisation	-	-	76,698	-	76,698	-
Depreciation	289,225	250,216	14,264	-	303,489	250,216

Secondary segment – geographical segments
The economic entity operated primarily within Australia during the financial year. As a result, the Directors have not provided analysis of the secondary geographical segments.

notes to the financial statements
for the year ended 30 June 2006

22. Related Party Transactions

Other than approved share transactions performed by Directors the Company is not engaged in any transactions with any related parties.

Share Transactions of Directors

Directors and Director-related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in the parent entity:

	Parent Entity 2006 $	Parent Entity 2005 $
Ordinary shares	1,135,000	200,000
Options over ordinary shares	5,227,500	600,000
Converting Notes		-

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
23. Contingent Liabilities				
Guarantee on property lease rental	-	-	-	12,086

24. Capital and Leasing Commitments

(a) Capital expenditure commitments

No capital expenditure is contracted or committed for at 30 June 2006 (2004: $nil).

(b) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial report

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Payable:				
Not later than one year	291,651	285,308		21,918
Later than one year and not later than five years	728,391	1,020,042		-
	1,020,042	**1,305,350**	-	**21,918**

(c) Finance lease commitments

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Payable:				
Not later than one year		-		39,383
Later than one year but not later than five years	-	-		-
Total minimum lease payments		-		39,383
Less future finance charges		-		(1,927)
Total lease liability	-	**-**	-	**37,456**
Current portion		-		37,456
Non-current portion		-		-
	-	**-**	-	**37,456**

25. Financial Instruments

(a) Foreign exchange

The consolidated entity is not exposed to significant financial risks from movements in foreign exchange rates as there are no material financial assets and liabilities denominated in foreign currencies. This is inclusive of both on and off balance sheet financial instruments. The company does not participate in any type of hedging transaction or derivatives.

(b) Accounting policies and methods adopted

The accounting policies and methods adopted in relation to each material class of financial asset and liability are disclosed in Note 1.

(c) Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on those financial assets and liabilities, is disclosed in the table below.

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate maturing Within a year		Fixed interest rate maturing 1 to 5 years		Total	
	2006 %	2005 %	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $
Cash	5.4%	**5.1%**	1,043,823	**147,069**	250,000	**-**	-	**-**	1,293,823	**147,069**

Receivables, payables and cash on hand at 30 June 2006 and 30 June 2005 are non-interest bearing.

(d) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount as disclosed in the balance sheet and notes to the financial statements.

(e) Net fair values

For all other financial assets and liabilities the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

26. Controlled Entities

		2006	2005
Parent entity:			
• BioLayer Corporation Limited	Aust		
Subsidiaries:			
• S.S.H. Medical Workstation Pty Limited	Aust	-	100%
• Bio-Layer Pty Limited	Aust	100%	-

notes to the financial statements
for the year ended 30 June 2006

27. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Effect of A-IFRS on the balance sheet as at 1 July 2004

	Economic Entity		
	30 June 2004 Superseded Policies	Effect of transition to A-IFRS	30 June 2004 Restated under A-IFRS
Current Assets			
Cash assets	144,203	-	144,203
Receivables	11,336	-	11,337
Total Current Assets	**155,539**	**-**	**155,540**
Non-current Assets			
Property, plant and equipment	705,112	-	705,112
Intangible assets	241,199	-	241,199
Total Non-current Assets	**946,311**	**-**	**946,311**
Total Assets	**1,101,850**	**-**	**1,101,851**
Current Liabilities			
Payables	66,312	-	66,313
Total Current Liabilities	**66,312**	**-**	**66,313**
Non-current Liabilities			
Interest bearing liabilities	2,871,555	1,176,501	4,048,056
Total Non-current Liabilities	**2,871,555**	**1,176,501**	**4,048,056**
Total Liabilities	**2,937,867**	**1,176,501**	**4,114,369**
Net Assets	**(1,836,017)**	**(1,176,501)**	**(3,012,518)**
Equity			
Contributed equity	3,625,002	-	3,625,002
Accumulated losses	(5,461,019)	(1,176,501)	(6,637,520)
Total Equity	**(1,836,017)**	**(1,176,501)**	**(3,012,518)**

27. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards *(cont'd)*

Effect of A-IFRS on the balance sheet as at 1 July 2004

	Parent Entity		
	30 June 2004 Superseded Policies	Effect of transition to A-IFRS	30 June 2004 Restated under A-IFRS
Current Assets			
Cash assets	304,399	-	304,399
Receivables	1,445,700	-	1,445,700
Inventory	298,320	-	298,320
Other	44,509	-	44,509
Total Current Assets	**2,092,928**	**-**	**2,092,928**
Non-current Assets			
Property, plant and equipment	251,310	-	251,310
Intangible assets	131,124	-	131,124
Other financial assets	101	-	101
Total Non-current Assets	**382,535**	**-**	**382,535**
Total Assets	**2,475,463**		**2,475,463**
Current Liabilities			
Payables	245,066	-	245,066
Interest bearing liabilities	67,795	-	67,795
Provisions	39,960	-	39,960
Total Current Liabilities	**352,821**	**-**	**352,821**
Non-current Liabilities			
Interest bearing liabilities	14,644	-	14,644
Total Non-current Liabilities	**14,644**	**-**	**14,644**
Total Liabilities	**367,465**	**-**	**367,465**
Net Assets	**2,107,998**	**-**	**2,107,998**
Equity			
Contributed equity	19,063,301	-	19,063,301
Accumulated losses	(16,955,303)	-	(16,955,303
Total Equity	**2,107,998**	**-**	**2,107,998**

27. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards *(cont'd)*

Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

	Economic Entity Financial year ended 30 June 2005		
	Superseded Policies	Effect of transition to A-IFRS	A-IFRS
Other revenue from ordinary activities	1,004,042	-	1,004,042
Selling, distribution and business development expenses	(310,601)	-	(310,601)
Occupancy expenses	(306,777)	-	(306,777)
Administrative expenses – other	(366,818)	-	(366,818)
Borrowing costs	(502,729)	(425,214)	(927,943)
Research and development expenses	(1,077,209)	-	(1,077,209)
Other expenses from ordinary Activities	(246,071)	-	(246,071)
Loss from ordinary activities before income tax benefit	**(1,806,163)**	**(425,214)**	**(2,231,377)**
Income tax benefit relating to ordinary activities	-	-	-
Loss from ordinary activities after income tax benefit	**(1,806,163)**	**(425,214)**	**(2,231,377)**
Total changes in equity other than those resulting from transactions with owners as owners	**(1,806,163)**	**(425,214)**	**(2,231,377)**

27. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards *(cont'd)*

Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

	Parent Entity Financial year ended 30 June 2005		
	Superseded Policies	Effect of transition to A-IFRS	A-IFRS
Sales revenue	4,602	-	4,602
Cost of sales	(222,951)	-	(222,951)
Gross Profit	(218,349)	-	(218,349)
Other revenue from ordinary activities	20,517	-	20,517
Selling, distribution and business development expenses	-	-	-
Occupancy expenses	(34,967)	-	(34,967)
Administrative expenses – provision against intercompany indebtedness	386,383	-	386,383
Loss on disposal of subsidiary entity	(383,477)	-	(383,477)
Administrative expenses – other	(443,813)	(32,611)	(476,424)
Borrowing costs	(12,745)	-	(12,745)
Research and development expenses	(145,517)	-	(145,517)
Other expenses from ordinary Activities	(217,751)	-	(217,751)
Loss from ordinary activities before income tax benefit	**(1,049,719)**	**(32,611)**	**(1,082,330)**
Income tax benefit relating to ordinary activities	56,548	-	56,548
Loss from ordinary activities after income tax benefit	**(993,171)**	**(32,611)**	**(1,025,782)**
Total changes in equity other than those resulting from transactions with owners as owners	**(993,171)**	**(32,611)**	**(1,025,782)**

notes to the financial statements
for the year ended 30 June 2006

27. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards *(cont'd)*

Effect of A-IFRS on the balance sheet at 30 June 2005

	Economic Entity		
	Financial year ended 30 June 2005		
	Superseded Policies	Effect of transition to A-IFRS	A-IFRS
Current Assets			
Cash assets	147,069	-	147,069
Receivables	14,835	-	14,835
Inventories	-	-	-
Other	23,010	-	23,010
Total Current Assets	**184,914**	**-**	**184,914**
Non-current Assets			
Property, plant and equipment	502,411	-	502,411
Financial assets	-	-	-
Intangible assets	-	-	-
Total Non-current Assets	**502,411**	**-**	**502,411**
Total Assets	**687,325**	**-**	**687,325**
Current Liabilities			
Payables	129,113	-	129,113
Interest bearing liabilities	-	-	-
Provisions	42,595	-	42,595
Total Current Liabilities	**171,708**	**-**	**171,708**
Non-current Liabilities			
Interest bearing liabilities	4,157,796	1,601,716	5,759,512
Total Non-current Liabilities	**4,157,796**	**1,601,716**	**5,759,512**
Total Liabilities	**4,329,504**	**1,601,716**	**5,931,220**
Net Assets	**(3,642,179)**	**(1,601,716)**	**(5,243,895)**
Equity			
Contributed equity	3,625,002	-	3,625,002
Accumulated losses	(7,267,181)	(1,601,716)	(8,868,897)
Total Equity	**(3,642,179)**	**(1,601,716)**	**(5,243,895)**

These changes reflect the allocation of interest on convertible notes into the correct reporting periods.

27. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards *(cont'd)*

Effect of A-IFRS on the balance sheet at 30 June 2005

	Parent Entity		
	Financial year ended 30 June 2005		
	Superseded Policies	Effect of transition to A-IFRS	A-IFRS
Current Assets			
Cash assets	296,830	-	296,830
Receivables	759,568	-	759,568
Inventories	85,135	-	85,135
Other	8,608	-	8,608
Total Current Assets	**1,150,141**	**-**	**1,150,141**
Non-current AsseTS			
Property, plant and equipment	93,161	-	93,161
Financial assets	100	-	100
Intangible assets	67,000	-	67,000
Total Non-current Assets	**160,261**	**-**	**160,261**
Total Assets	**1,310,402**	**-**	**1,310,402**
Current Liabilities			
Payables	148,201	-	148,201
Interest bearing liabilities	37,456	-	37,456
Provisions	11,570	-	11,570
Total Current Liabilities	**197,227**	**-**	**197,227**
Non-current Liabilities			
Interest bearing liabilities	-	-	-
Total Non-current Liabilities	**-**	**-**	**-**
Total Liabilities	**197,227**	**-**	**197,227**
Net Assets	**1,113,175**	**-**	**1,113,175**
Equity			
Contributed equity	19,125,722	32,611	19,158,333
Accumulated losses	(18,012,547)	(32,611)	(18,045,158)
Total Equity	**1,113,175**	**-**	**1,113,175**

notes to the financial statements
for the year ended 30 June 2006

27. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards *(cont'd)*

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

Economic Entity and Parent Entity

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

28. After Balance Date Events

Since balance date, the Company has engaged in capital raising activities in order to ensure that the Company has sufficient capital reserves to commercialise its technology. Such activities include those set out in the Chairman's report. The Company has put in place a facility for up to $300,000 which it can access, subject to formal documentation of the grant, for the purposes of meeting any obligations under the terms of the grant.

Other than the above, there are no after balance date events that the Directors believe should be reported to shareholders.

29. Company Details

The registered office and principal place of business of the company is:

4/26 Brandl Street
Eight Mile Plains QLD 4113

The Directors of BioLayer Corporation Limited declare that:

(1) The financial statements and notes, as set out on pages 22 to 53 are in accordance with the Corporations Act 2001 and:

a) comply with Accounting Standards, the Corporations Regulations 2001; and

b) give a true and fair view of the financial position as at 30 June 2006 and of the financial performance for the year ended on that date of the Company and the economic entity,

(2) The Chief Executive Officer and the Chief Financial Officer have declared that :

a) The financial records for the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

b) The financial statements and notes for the financial year comply with the Accounting Standards; and

c) The financial statements and notes for the financial year give a true and fair view.

(3) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, having regard to the disclosure made in Note 1 to the financial statements.

Signed in accordance with a resolution of the Board of Directors

Mr Bruce Rathie
Chairman
Dated this 27th day of September 2006

Grant Thornton

Grant Thornton Queensland Partership
ABN 13 131 589 059
Chartered Accountants, Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF BIOLAYER CORPORATION LIMITED AND
CONTROLLED ENTITIES

As lead auditor for the audit of BioLayer Corporation Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON QUEENSLAND PARTNERSHIP
Chartered Accountants

Grant Thornton Queensland Partnership

D J CARROLL
Partner

Brisbane 27 September 2006

Level 4
Grant Thornton House
King George Square
102 Adelaide Street
Brisbane Qld 4000 Australia
GPO Box 1008
Brisbane Qld 4001 Australia
T : +61 7 3222 0200
F : +61 7 3222 0444
www.grantthornton.com.au

Grant Thornton

Grant Thornton Queensland Partership
ABN 13 131 589 059
Chartered Accountants, Business Advisers and Consultants

INDEPENDENT AUDIT REPORT
TO MEMBERS OF BIOLAYER CORPORATION LIMITED

Scope

The financial report and directors' responsibility
The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for BioLayer Corporation Limited (the company) and consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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.

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 judgment, 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, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their 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.

Level 4
Grant Thornton House
King George Square
102 Adelaide Street
Brisbane Qld 4000 Australia
GPO Box 1008
Brisbane Qld 4001 Australia
T : +61 7 3222 0200
F : +61 7 3222 0444
www.grantthornton.com.au

Grant Thornton

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration in the financial report has not changed as at the date of providing our audit opinion.

Audit opinion

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

(a) the Corporations Act 2001, including:

  i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006, and of their performance for the year ended on that date; and
  ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Going Concern

Without qualification to the audit opinion expressed above, attention is drawn to the following matter.

As discussed in Note 1 of the financial report "Basis of Preparation", the company notes that it will deplete its' current cash reserves in November 2006. After balance date, the company has received written notification of a successful application for a Government Grant totalling $2.67 million to be funded over a 2 year period, subject to the completion of formal grant documentation. The directors have also held discussions with major shareholders and have been offered further funds to supplement the operational requirements of the company. These working capital initiatives, have not been finalised as at the date of this report, and are not reflected in the financial report at 30 June 2006.

Unless the group can successfully finalise these initiatives, there is uncertainty whether the group would be able to continue as a going concern. If the group is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report, in particular the parent entity's investment in the controlled entity of $15,187,505 (note 14), and the associated receivable balance of $1,982,342 (note 9) owed from the same entity.

GRANT THORNTON QUEENSLAND PARTNERSHIP
Chartered Accountants

Grant Thornton Queensland Partnership
Dan Carroll

D J CARROLL
Partner

Signed in Brisbane this 27th day of September 2006

Audit Report

Shareholdings as at 6 September 2006

Distribution of shareholdings-

Holding From	Holding To	No. of Holders	Total Shares Held	%
1	1,000	1,301	617,675	0.85
1,001	5,000	560	1,353,650	1.87
5,001	10,000	174	1,334,742	1.85
10,001	100,000	218	6,850,157	9.47
Holdings larger than	100,000	40	62,173,078	95.96
Total		**2,293**	**72,329,302**	**100.00**

Voting rights:

In accordance with the Company's constitution, the following rights to vote apply to members holding ordinary shares:

a)On a show of hands every member present in person or by proxy or attorney or representative will have one vote; and

b)on a poll every member present in person or by proxy, attorney or representative will have one vote for each fully paid share held.

Holdings less than a Marketable Parcel:

As defined by the ASX Listing Rules a marketable parcel is defined as:

Equity securities - parcel of securities of not less than $500 in value based on the closing price on SEATS the date before the issue of the notice.

At the date of this report, in relation to ordinary shares in the Company, a marketable parcel equates to 3,334 ordinary shares. The number of shareholders holding less than a marketable parcel and the number of shares held by them were as follows:

No. of holders holding less than a marketable parcel	1,742
No. of shares held	1,454,323

Names and details of substantial shareholders

Name of Substantial Shareholder	Shares held	% of Total
Coates Myer & Company Pty Limited	33,907,866	46.88
Asia Union Investments Pty Limited	8,596,830	11.89
Nimrod Finance Limited	2,655,858	3.18

Shareholdings as at 6 September 2006 *(cont'd)*

Top 20 shareholders

The following is a listing of the 20 largest shareholders together with the number of shares held and the percentage of total shares held.

Shareholder	Shares held	% of Total
Coates Myer & Company Pty Limited	33,907,866	46.88
Asia Union Investments Pty Limitetd	8,596,830	11.89
Nimrod Finance Limited	2,655,858	3.67
ANZ Nominees Limited	2,035,514	2.81
National Nominees Limited	1,787,350	2.47
HSBC Custody Nominees (Australia) Limited	1,400,000	1.94
First Cape Management Pty Limited	1,333,093	1.84
Catholic Church Insurances Limited	1,230,000	1.70
Mr Nobuyoshi Joe Maiji	1,215,781	1.68
Toneaton Holdings Pty Limited	1,063,705	1.47
Powell Provident Pty Limited	600,000	0.83
Sambold Pty Ltd	555,300	0.77
Mr Stephen John Erichsen	500,000	0.69
Wapimala Pty Limited	372,650	0.52
Romap Pty Limited	350,000	0.48
Mrs Anthea Erichsen	300,000	0.41
Uniteam Marketing Limited	295,000	0.41
Howsten Pty Ltd	290,622	0.40
Sequence Securities Pty Limited	268,752	0.37
Cogent Nominees Pty Limited	267,239	0.37
Top 20 shareholders total	**59,025,560**	**81.60**

On-market buy-back

There is currently no proposal to undertake an on-market buy-back of the Company's securities.

Share Registry: Registries Limited
Level 2, 28 Margaret Street
Sydney.
NSW 2000
(02) 9279 0677

Stock Exchange Listing: The Company's securities are quoted on the official list of the ASX.
The ASX listing code for the Company's securities is:

Ordinary shares	-	BLS
Options to acquire ordinary shares	-	BLSO

Additional ASX Information

Unquoted Securities:

(a) Employee Option Plan

The Employee Option Plan dated 30 August 1999, provides that employees may be issued options to acquire shares in the Company. These options are not quoted on the Australian Stock Exchange.

At 6 September 2006 there were no options issued under the Employee Option Plan.

(b) Other unlisted Options

The following unlisted options to acquire ordinary shares are on issue as at 6 September 2006:

Options issued to directors as remuneration	2,900,000
Options issued to the vendors of Bio-Layer	13,892,599
Options issued to eG capital as consideration for services	1,600,000
Options issued to CEO under executive agreement	2,000,000
Options issued to CFO under executive agreement	1,000,000
Total unlisted options to acquire ordinary shares	**21,392,599**

(c) Unquoted shares

As at 6 September 2006, there are 20,193,184 fully paid ordinary shares on issue which are subject to escrow arrangements and are unquoted.

The total number of fully paid ordinary shares as at 6 September 2006 is as follows:

Quoted	52,136,118
Unquoted	20,193,184
Total	**72,329,302**

BioLayer

www.biolayercorp.com

ABN 75 070 028 625