

GENESIS BIOMEDICAL LTD

A.B.N. 48 083 274 024

ANNUAL FINANCIAL REPORT

for the year ended 30 June 2006

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CORPORATE DIRECTORY

GENESIS BIOMEDICAL LTD **A.B.N. 48 083 274 024**

Directors

Mr Rodger Johnston
Non - Executive Chairman

Mr Donald Valentino
Managing Director

Mr Russell Black
Non Executive Director

Mr Roger Smith
Non Executive Director

Joint Company Secretaries

Mr Shane Hartwig

Mr David Semmens

Registered Office

Level 1, 248 Hay Street,
SUBIACO
Western Australia 6008
Telephone: 08 9381 6922
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Web : www.genbiomed.com

Share Registry

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
PERTH
Western Australia 6000
Telephone: 1300 557 010

Auditors

Ernst & Young
680 George Street
SYDNEY
New South Wales 2000

Solicitors

Steinpreis Paganin
Level 4, Chancery House
37 St Georges Terrace
PERTH
Western Australia 6000

Bankers

Westpac Bank
1257 Hay Street,
WEST PERTH
Western Australia 6005



REVIEW OF OPERATIONS

Summary

The year ended 30 June 2006 has seen a high level of activity including the joint development of the fertility technology project with Manawatu Biotech Investments Limited (“MBIL”), ongoing assessment and due diligence carried out on various commercial opportunities, a capital raising and a change to the management and Board structure.

Having been appointed in December 2005 as Non-Executive Chairman the seven months to 30 June 2006 have been spent in conjunction with the Board assessing and continuing management of existing projects, completing a capital raising, developing a profile of, and identifying and hiring an appropriate managing director and carrying out an in depth review of an opportunity that did not satisfy the full due diligence process.

MBIL

The MBIL opportunity involved the Company entering into various agreements with MBIL that involved Genesis providing development funding for its fertility technology as well as securing an option to purchase the entire issued capital in MBIL within a twelve month time frame.

MBIL’s focus is the development of commercial products based on its proprietary science concerning the measurement of the urinary glucuronides E1G and PDG which are metabolites of oestrogen and progesterone, respectively, found in the urine of female humans and various other mammals.

Throughout the year MBIL commissioned a US based biotechnology company BioDot Inc to perform product development for two MBIL fertility hormone assays for women to a point where assays could be considered to be at the “proof of concept” stage.

For each of the two assays, BioDot were given a specification to work towards. These specifications were derived from the MBIL scientists’ understanding of the requirements of the assays as indicators of the fertile status of women. The BioDot work concluded in December, with reporting occurring to MBIL late January.

In addition, BioDot manufactured and shipped to MBIL a batch of assay strips for testing. This testing work is currently underway at MBIL.

Generally, the assays developed by BioDot meet the criteria set out for them. In particular, BioDot demonstrated that paramagnetic particle assay technology provides an effective means of taking quantitative measurements of the levels of urinary metabolites of the key fertility hormones estrogen and progesterone, in the low assay time of 15 minutes. Further work was required to develop ‘market-ready’ assays.

Significant progress was made in respect of the development of the test strips themselves over the last twelve months and it demonstrated in the opinion of MBIL that the concept of using lateral flow assays based on paramagnetic particle technology is a valid one.

Whilst it is possible that the technology may be licensed now, further work was required to create a “market-ready” product.

Under the terms of the option agreement Genesis had until early July 2006 to elect to exercise its option and purchase 100% of the issued capital of MBIL and by doing so be the ultimate owner of the MBIL technology as well as being responsible for the ongoing funding and project development.

In July 2006 the Company announced to the market that after considering several alternatives in relation to this asset, the Board of Genesis resolved to continue its involvement in MBIL on the following basis:



1. Sought full repayment of the monies advanced under the loan facility;
2. Elected not to exercise its option to purchase 100% of MBIL;
3. Has negotiated a position whereby Genesis have conditionally agreed to participate in an intended equity capital raising by MBIL to a level of NZD\$250,000.

Rationale for not Exercising Option

Whilst the Board was satisfied with the continued development work carried out over the last twelve months by MBIL, and after discussions with the Company and its advisers is encouraged by MBIL's ongoing commercialisation strategy, the Board resolved not to exercise its option to purchase 100% of the Company.

The end rationale for not proceeding with the exercise of the option was carefully considered including site visits made by the newly appointed Managing Director to assess and review the project and was based largely on the following:

1. Assessed difficulty of running and administering the ongoing project in regional New Zealand from Genesis's head office in Perth;
2. Given the underlying status of the Company and its project, the effective value prescribed to MBIL through the exercise of the option was considered too high;
3. Upon exercise, Genesis would have been responsible for providing 100% of the required funding for MBIL, which for its next stage is considered to be approximately AUD \$1 million;
4. Prior to the option exercise date, Genesis negotiating an in principle agreement (subject to obtaining certain MBIL approvals) whereby Genesis has conditionally agreed to subscribe for shares in MBIL at an agreed lower entry value point.

The Board considers that it has achieved a very positive outcome for Genesis by seeking repayment of its original loan monies, but maintaining a meaningful interest in the Company via its proposed shareholding and thereby gaining an exposure to the upside of any commercialisation success MBIL may have through implementation of its next stage commercialisation path.

The Board notes that the repayment of the loan by MBIL to Genesis and any subsequent investment by Genesis is conditional upon, amongst other things, MBIL being successful in raising sufficient equity capital.

As at the date of this report the Company was awaiting the completion of the MBIL 1st phase capital raising which if successful will be used in part to repay the loan amount outstanding to Genesis.

Commercial Opportunities

The Company reviewed several opportunities in the medical device sector throughout the year. Genesis completed an in-depth review of a project surrounding the establishment of a facility for the receiving, processing, culturing and storage of cells for use in the cord blood storage industry as well as the development of a collagen cell replacement therapy.

After having reviewed and considered all available due diligence material, the Board resolved not to proceed with the proposed transaction as it considered given the early stage nature of the projects and the existing competitor landscape, the Board felt there was insufficient commercial upside to proceed.

Capital Raising

The Company completed an underwritten share and option offer in January 2006. The Company offered 80 million shares at an offer price of \$0.03 plus 80 million attaching options to raise a total of \$2.4 million (before costs of the offer). The options have an exercise price of \$0.03 and are able to be exercised on or before 30 November 2010.



Management

With the change of Board structure occurring in late November 2005, the new Board resolved that a full time Managing Director was required to drive the business forward. The Board composed a profile and identified Mr Don Valentino as the ideal candidate.

In his previous roles he has been successful in building businesses and driving growth through increased sales and strict operating cost management. Over the years Mr Valentino has developed an extensive network of medical industry participants and industry peers.

Mr Valentino joined the Company in May and has already commenced accessing his extensive network to assess existing projects and put in place strategies for the identification, review and negotiation on new projects as they come to light.

The Board is comfortable that the Company is now well positioned to deal with existing assets and identify new projects under the stewardship of an experienced business builder.

Financials

The consolidated entity's operating loss after tax for the year ended 30 June 2006 was \$1,145,101 (2005: loss of \$386,191). This result included interest income totalling \$82,257 offset by operating expenditure which has increased this financial year due mainly to costs incurred in regard to due diligence undertaken on the projects included in this report.

Mr Rodger Johnston
Non Executive Chairman



DIRECTORS' REPORT

Your directors submit their report for the Company and its controlled entities ("the consolidated entity") for the year ended 30 June 2006.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr Rodger Johnston Non Executive Chairman

Appointed effective 7 December 2005 Mr Johnston has a bachelor of Economics degree from the University of Sydney and was a member of the CPA Australia from 1976 to 1996. He commenced his career as an insolvency specialist, rising to the level of Senior Management.

Mr Johnston is Chairman and CEO of ASX listed IC2 Global Limited; was a non-executive director of ASX listed mining company Rusina Mining NL; is a non-executive director of ASX listed mining company West Australian Metals Limited and non-executive director of Peoples Merchant Bank Limited which is listed on the Colombo Stock Exchange.

Mr Don Valentino Managing Director

Mr Valentino was appointed to the Board as Managing Director effective 25 May 2006. Until recently, Mr Valentino was Western Australian state manager of Sigma Pharmaceuticals Ltd a position he held for ten years. He possesses a reputation as a leading negotiator, public speaker and leader in the pharmacy and related medical products field.

In his previous roles he has been successful in building businesses and driving growth through increased sales and strict operating cost management. Over the years Mr Valentino has developed an extensive network of medical industry participants and industry peers.

For the 25 years prior to joining Sigma, was employed by FH Faulding & Co until departing as Marketing Manager.

Mr Roger Smith Non-executive Director

Mr Smith has many years experience in retail trade. He has held a number of proprietary company directorships and has been successful in the operation of a number of wholesale/retail businesses in Australia. During the past four years Mr Smith has also served (and continues to serve) as a non-executive director of Multi Channel Solutions Limited, an ASX listed Company.

Mr Russell Black Non-executive Director

Appointed 28 November 2005, Mr Black was a Certified Practising Accountant for in excess of 20 years and remains the managing partner of the Western Australian based Goldfinch Black Public Accountants. The practice attends to the needs of a diverse range of small business clients from four locations in Perth and the Pilbara with extended services of financial planning, finance broking and real estate investments.



DIRECTORS' REPORT (CONT'D)

Dr Robert F Gilmour **Non-executive Director**
B.Sc., MDChD

Dr Gilmour resigned effective 28 November 2005. Dr Gilmour's experience included medical design in the orthopedic, orthotic and prosthetic markets to the Company's board. Dr Gilmour has taught anatomy at Monash Medical School and Stanford University, California, where he also worked in the Sports Medicine Clinic. Dr Gilmour began work in the area of medical design in 1987 and gained quick success in retail markets.

Mr Emmanuel Correia **Non-executive Director**

Mr Correia resigned effective 7 December 2005. He is an Associate of the Institute of Chartered Accountants of Australia. Over the last 10 years, Mr Correia has held a number of corporate finance positions in Europe and in Australia with international accounting firms and investment banks. Mr Correia works in the areas of corporate structuring and strategy, capital raising and mergers and acquisitions. During the past three years Mr Correia has also served (and continues to serve) as a non-executive director of Multi Channel Solutions Limited, an ASX listed Company.

Mr Adrian Knight **Non-executive Director**

Mr Knight was appointed to the Board effective 21 February 2005 and was not re-elected at the Company's annual general meeting held on 28 November 2005. Mr Knight's career to date has been focused primarily in the Financial Services, Information Technology and Sales and Marketing industries and he has held senior positions within these industries throughout the UK, Europe, South Africa, Japan, USA and Australia.

Directorships of other listed companies

Directorships of other listed companies held by directors in the last three years immediately before the end of the financial year are as follows.

Name	Company	Period of Directorship
Mr Rodger Johnston	IC2 Global Limited	25/08/05 to current
	Rusina Mining NL	29/11/00 to 23/08/06
	West Australian Metals Limited	16/09/05 to current
Mr Donald Valentino	Nil	N/A
Mr Russell Black	Transerv Australia Limited	9 December 2005 – 24 July 2006
Mr Roger Smith	Multi Channel Solutions Limited	June 1988 to current
Mr Emmanuel Correia	Multi Channel Solutions Limited	Jan 2004 to current

OTHER OFFICERS

Mr Shane Hartwig **Joint Company Secretary**

Mr Hartwig is a Certified Practicing Accountant and Chartered Company Secretary holds a Bachelor of Business degree, majoring in Accounting and Taxation from Curtin University of Technology in Western Australia.

Shane is involved in the areas of IPO's, capital raisings, prospectus and information memorandum preparation and project management, company assessments and due diligence reviews, mergers and acquisitions and providing general corporate advice and is Company Secretary on a contract basis to GLG Corp Limited an ASX listed company.



DIRECTORS' REPORT (CONT'D)

Mr David Semmens Joint Company Secretary

Appointed effective 14 July 2006, Mr Semmens has experience in providing company secretarial, financial and corporate and other related services to organisations listed on ASX.

Former partners of the audit firm

No officer of the company has been a partner in an audit firm, or a director of an audit company that is an auditor of the company during the year or was such a partner or director at a time when the audit firm or the audit company undertook an audit of the company.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were the continued development and attempted commercial exploitation of either owned or partnered medical device technologies.

RESULTS

The consolidated entity's operating loss after tax for the year ended 30 June 2006 was \$1,145,101 (2005: loss of \$386,191).

DIVIDENDS

The directors do not recommend the payment of a dividend for this financial year. No dividends have been paid or declared by the Company since the end of the previous financial year (2005: Nil).

REVIEW OF OPERATIONS, LIKELY DEVELOPMENTS AND FUTURE RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity would, in the opinion of the directors, be speculative and may hinder the consolidated entity in the achievement of its commercial objectives.

DIRECTORS' INTERESTS

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	DIRECT		INDIRECT	
	Ordinary Shares	Options	Ordinary Shares	Options
D Valentino	600,000	600,000	4,298,267	3,898,267
R Johnston	-	-	-	-
R Black	-	-	2,262,500	600,000
R Smith	-	-	5,140,523	-

Note: Direct holdings are those held in the individuals name, indirect holdings are all other holdings controlled by the individual.



DIRECTORS' REPORT (CONT'D)

SIGNIFICANT CHANGE IN STATE OF AFFAIRS

The state of affairs of the consolidated entity was not affected by any significant changes during the financial year.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Manawatu Biotech Investments Limited ("MBIL")

In July 2005, Genesis Biomedical Limited ("Genesis") entered into an option agreement to purchase 100% of the issued capital of MBIL on agreed terms and conditions. Genesis's option had an expiry date twelve months from the date of the agreement.

In addition, Genesis entered into a loan facility agreement whereby Genesis agreed to loan \$350,000 to MBIL. These loan monies are disclosed as MBIL Receivable at Note 7 of the Notes to the Financial Statements.

In July 2006 the Company announced to the market that after considering several alternatives in relation to this asset, the Board of Genesis resolved to continue its involvement in MBIL on the following basis:

1. Has sought full repayment of the loan from MBIL
2. Elected not to exercise its option to purchase 100% of MBIL;
3. Has negotiated a position whereby GBL have conditionally agreed to participate in an intended equity capital raising by MBIL to a level of NZD\$250,000.

The Board considers that it has achieved a very positive outcome for Genesis by seeking repayment of its original loan monies, but maintaining a meaningful interest in the Company via its proposed shareholding and thereby gaining an exposure to the upside of any commercialisation success MBIL may have through implementation of its next stage commercialisation path.

The Board notes that the repayment of the loan by MBIL to Genesis and any subsequent investment by Genesis is conditional upon, amongst other things, MBIL being successful in raising sufficient equity capital.

As at the date of this report the Company was awaiting the commencement of the MBIL 1st phase capital raising which if successful will be used in part to repay the loan amount outstanding. Until an underwritten capital raising proceeds the directors believe it is appropriate to provide against the \$352,521 MBIL receivable in full. Accordingly a provision for \$352,521 has been recorded. This provision was not reflected in the Appendix 4E Preliminary Final Report released to the Australian Stock Exchange on 13 September 2006.

DBC Equipment

The Company has an unlisted investment being a 15% shareholding in the Singapore based Back to Health Pte Ltd, a 50% shareholder in DBCI Asia Pacific Pte Ltd. This company holds the Master Licence for the DBC operations in Asia. The directors resolved to write down the value of this holding to Nil as at 31 December 2003.

The Company has entered into an agreement dated 29 May 2006 whereby Back to Health Pte Ltd and DBCI Asia Pacific Pte Ltd (together "DBC") have agreed to purchase back certain equipment originally purchased by the Company in relation to the DBC operations.



DIRECTORS' REPORT (CONT'D)

The material commercial terms of this agreement are that DBC and associates have agreed to purchase back the DBC equipment from the Company through the payment of 10,000 EURO plus agree to enter into a share swap whereby the parties agree to “swap back” their respective holdings in Back to Health Pte Ltd and DBC Australia Pty Ltd.

The Company had written down the value of the equipment to zero. This transaction has not been reflected in the financial statements to 30 June 2006 as the transaction had not completed, however will be recognised in the subsequent accounting period.

OPTIONS

During the year, 80,000,000 options were issued and listed on ASX, as at the date of this report the Company had Nil (2005: Nil) unlisted options on issue.

The listed options have the following exercise price and expiry period:

Exercise Price: \$0.03

Expiry Date: 30 November 2010

During the year, 100,000 (2005: Nil) fully paid ordinary shares were issued by the virtue of the exercise of the listed options. Since the end of the financial year no shares have been issued by the virtue of the exercise of options.

Option holders do not have the right, by any virtue of the option, to participate in any share issue of the Company or any related body corporate, or in the interest issue of any other registered scheme. Since the end of the financial year no options have been issued.

INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE CONSOLIDATED ENTITY

During or since the financial year-end no director has had any interest in a contract or proposed contract with the consolidated entity, other than being an interest, the nature of which has been declared by the director below or elsewhere throughout this report:



DIRECTORS' REPORT (CONT'D)

- (i) The consolidated entity paid to Cardrona Capital Pty Ltd, a company of which Mr E Correia is a director, fees totalling \$49,000 (2005:\$86,700) for provision of company secretarial, financial control, rent and due diligence services.
- (ii) The consolidated entity paid to Bodyworks Holdings Limited a company which Dr Robert Gilmour is a Director an amount of \$58,959 (2005:\$90,244) in consulting fees (included in Short Term Employee Benefits Other).

REMUNERATION REPORT

This remuneration report outlines the remuneration arrangements for the Company's directors.

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper the Company must attract, motivate, and retain highly skilled directors and executives.

To ensure this the Company has put in place a remuneration structure:

- For its Managing Director role that has helped attract a high quality experienced candidate;
- Provides a balance of base compensation and short and long term incentive plans;
- Providing market based director fees for its non executive directors and potential for a non executive director share plan.

Remuneration Committee

The Company did establish a Remuneration Committee in the early part of the financial year, however with the changes to the Board occurring on 28 November 2005, the revised Board elected that the Company was of the size that a Remuneration Committee was not warranted and that these issues would be considered by the Board.

The full Board was responsible for establishing Genesis's remuneration policies and practices and to ensure they match the group's objectives. The Genesis Board proposed the Managing Directors total remuneration package and is responsible for reviewing the Non Executive remuneration and review of any non-executive director share plan that may be proposed.

Non-Executive Director and Executive Remuneration

The remuneration of non executive directors may not exceed in aggregate in any financial year the amount fixed by the Company at the general meeting. Currently the non executive directors are remunerated by way of Director Fees which have been set at \$25,000 p.a., an amount considered reasonable for a Company of its size and operational activity.

The Company's only executive Mr Donald Valentino has entered into a service agreement with Genesis Biomedical Limited. Under the terms of this engagement:

- Mr Valentino was employed by the Company commencing 22 May 2006;
- Mr Valentino is employed in the role of CEO/Managing Director;
- Covenanted not to compete against Genesis Biomedical Limited for a period of 3 months after cessation of employment with the Company;
- Agree that either party may terminate the executive service agreement by giving three months notice. In addition Genesis may without prior notice terminate the service agreement under certain conditions, for example, if the executive commits a serious breach of his or her obligations, or is guilty of grave misconduct in the discharge of his duties or becomes bankrupt;



REMUNERATION REPORT (CONT'D)

- The service agreement contains otherwise standard terms, including to duties, Genesis owning all intellectual property created by its executives, confidentiality, entitlements to minor benefits in addition to remuneration, and devoting substantially the whole of their time and attention during business hours to the discharge of their duties;
- Details of agreed remuneration amounts and structure set out below.

Details of Executives

Employment Contracts

All Executives are also Directors and whose details are noted in the Directors Report.

Mr Donald Valentino, Managing Director/CEO is currently under contract and is currently the only executive of the Company and has been remunerated for this role as follows:

- (i) Base Salary \$200,000 p.a.;
- (ii) Statutory Superannuation;
- (iii) Provision of a company car;
- (iv) Long Term Incentive package (to be determined); and
- (v) Base Director Fees.

Dr Robert Gilmour, was the Executive Chairman of the Company up until 28 November 2005 and at that stage was the only executive of the Company and had been remunerated for this role as follows:

- (i) Base Director Fees; and
- (ii) Agreed Consultancy Fees.

During the year the Board had agreed to include an additional fee for his role as Chairman.

Reward for Performance

During the year there was no reward for performance component of any remuneration package. It is noted that under the terms of Mr Valentino's contract, it has been agreed that an appropriate long term incentive component will be agreed and implement by the Board. This is expected to occur during the 2006/07 financial year.

Key Management Personnel Positions

D Valentino	Managing Director (executive): appointed 25 May 2006
R Johnston	Non Executive Chairman: appointed 7 December 2005
R Smith	Director (non-executive): appointed 21 February 2005
R Black	Director (non-executive): appointed 28 November 2005
R Gilmour	Executive Chairman: resigned 28 November 2005
A Knight	Director (non –executive) ceased effective 28 November 2005
E Correia	Director (non –executive) resigned effective 7 December 2005



DIRECTORS REPORT (CONT'D)
Remuneration Report Continued
Remuneration of Directors and named Executives

Table 1: Directors remuneration for the year ended 30 June 2006

	Short-term employee benefits				Post-employment benefits		Other long-term employee benefits \$	Termination Benefits \$	Share-based payment		Total \$	% Performance Related \$
	Salary & fees \$	Cash Bonus \$	Non-monetary \$	Other \$	Super-annuation \$	Other \$			Equity-settled			
									Shares & units \$	Options & rights \$		
2006												
Rodger Johnston	\$14,041	-	-	\$5,618	-	-	-	-	-	-	\$19,659	-
Donald Valentino	\$22,820	-	-	\$1,096	\$2,054	-	-	-	-	-	\$25,970	-
Russell Black	\$14,658	-	-	\$5,864	-	-	-	-	-	-	\$20,522	-
Roger Smith	\$25,000	-	-	\$10,003	-	-	-	-	-	-	\$35,003	-
Robert Gilmour	\$20,685	-	-	\$63,097	-	-	-	-	-	-	\$83,782	-
Adrian Knight	\$10,342	-	-	\$4,138	-	-	-	-	-	-	\$14,480	-
Emmanuel Correia	\$10,959	-	-	\$4,385	-	-	-	-	-	-	\$15,344	-
Total 2006	\$118,505			\$94,201	\$2,054						\$214,760	
2005												
Rodger Johnston	-	-	-	-	-	-	-	-	-	-	-	-
Donald Valentino	-	-	-	-	-	-	-	-	-	-	-	-
Russell Black	-	-	-	-	-	-	-	-	-	-	-	-
Roger Smith	\$8,850	-	-	\$4,560	-	-	-	-	-	-	\$13,410	-
Robert Gilmour	\$25,000	-	-	\$103,110	-	-	-	-	-	-	\$128,110	-
Adrian Knight	\$8,850	-	-	\$4,560	-	-	-	-	-	-	\$13,410	-
Emmanuel Correia	\$25,000	-	-	\$12,868	-	-	-	-	-	-	\$37,868	-
Total 2005	\$67,700			\$125,098							\$192,798	

1) Dr Gilmour assumed the role of Executive Chairman up until his resignation date and was remunerated for these services through base fees. Consulting fees were paid to Bodyworks Holdings Limited.

(2) Represents pro-rata apportionment of directors & officers insurance premium paid during the year.



DIRECTORS REPORT (CONT'D)

Remuneration Report (cont'd)

Remuneration of the 5 named executives who received the highest remuneration for the year ended 30 June 2006

As all executives are also directors of Genesis, their remuneration is included in Table 1 above.

Options granted as part of remuneration

There were no options granted during the year as part of any remuneration package, please refer to Note 19 for details of the holdings of Options and Shares of the specified Directors.



DIRECTORS' REPORT (CONT'D)

DIRECTORS' MEETINGS

During the year, directors' meetings were held. The number of meetings in which directors were in attendance is as follows:

	Directors' Meetings	
	No. of meetings held while in office	Meetings attended
D Valentino	3	3
R Johnston	12	12
R Black	12	12
R Smith	17	17
R Gilmour	5	5
A Knight	5	5
E Correia	5	5

As at the date of this report, the consolidated entity did not have an audit committee, as the directors believe the size of the consolidated entity and the size of the Board do not currently warrant its existence.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the consolidated entity has paid premiums in respect of a contract insuring all the directors of Genesis Biomedical Ltd against a liability incurred in their role as directors of the consolidated entity, except where:

- (a) the liability arises out of conduct involving a wilful breach of duty;
- (b) there has been a contravention of the relevant Sections of the Corporations Act;
- (c) the conduct involves trading whilst insolvent;
- (d) the conduct involves an operation carried on outside Australia.

The total amount of insurance contract premiums paid for Directors' and Officers' Liability and consolidated entity reimbursement cover was \$4,947 (2005: \$43,200). This amount has been included as part of directors' remuneration.

In addition, during the financial year, the company and each of the directors entered into Deeds of Indemnity and Access, as approved by the board. Those Deeds of Indemnity and Access provide that:

- the directors will have access to the books of Genesis Biomedical Limited for their period of office and for seven years after they cease to hold office;
- Genesis Biomedical Limited indemnifies the directors to the extent permitted by law;
- The indemnity covers liabilities incurred by the directors in their capacity as officers of other Genesis group companies; and
- Genesis will, where appropriate maintain directors and officers insurance cover for the directors to the extent permitted by the law for the period of their office and for seven years after they cease to hold office.



DIRECTORS' REPORT (CONT'D)

CAPITAL RAISING

During the financial year the Company raised \$2,400,000 (excluding costs of the issue) through the issue of 80,000,000 fully paid ordinary shares in the Company at an issue price of \$0.03 per share plus a free attaching option with an exercise price of \$0.03 and an expiry date of 30 November 2010. These shares were issued and allotted on 6 February 2006.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of Corporate Governance.

The consolidated entity's Corporate Governance Statement is contained in the additional Australian Stock Exchange information section of this annual report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity does not hold any permits in relation to environmental discharge and does not handle or store hazardous materials.

AUDITOR INDEPENDENCE

A copy of the Auditor's Independence Declaration for the year ended 30 June 2006 is set out on page 17.

NON-AUDIT SERVICES

There were no non-audit services provided to the entity's auditors Ernst & Young.

SIGNED in accordance with a resolution of the directors

Don Valentino
Managing Director

27 September 2006



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680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

■ Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock
Exchange 10172

Auditor's Independence Declaration to the Directors of Genesis Biomedical Limited

In relation to our audit of the financial report of Genesis Biomedical Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable professional code of conduct.

Ernst & Young

Christopher D. George
Partner

27 September 2006



GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES
INCOME STATEMENT
YEAR ENDED 30 JUNE 2006

	Notes	Consolidated		Genesis Biomedical Ltd	
		2006	2005	2006	2005
		\$	\$	\$	\$
CONTINUING OPERATIONS					
REVENUES	4	115,261	331,607	115,261	331,607
Salaries and Directors fees		(124,656)	(83,021)	(124,656)	(83,021)
Lease Rental Payments	5(c)	(49,005)	(259,624)	(49,005)	(259,624)
Professional fees	5(a)	(548,253)	(303,927)	(548,253)	(303,927)
Insurance		(51,173)	(22,503)	(51,173)	(22,503)
Provision for non-recovery of receivable	7	(352,521)	-	(352,521)	-
Due Diligence travel and accommodation		(82,238)	(35,836)	(82,238)	(35,836)
Decrement in the value of investments	5(b)	-	-	-	(10,000)
Other expenses from ordinary activities		(52,516)	(26,443)	(52,516)	(26,443)
Net gain in listed investment disposed	5(d)	-	13,556	-	13,556
LOSS BEFORE INCOME TAX EXPENSE		(1,145,101)	(386,191)	(1,145,101)	(396,191)
INCOME TAX EXPENSE	6	-	-	-	-
LOSS AFTER INCOME TAX EXPENSE		(1,145,101)	(386,191)	(1,145,101)	(396,191)
NET LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST		-	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF GENESIS BIOMEDICAL LTD		(1,145,101)	(386,191)	(1,145,101)	(396,191)
Basic earnings per share (cents)	18	(0.96)	(0.47)	-	-
Diluted earnings per share (cents)	18	(0.96)	(0.47)	-	-

Note: The Appendix 4E lodged with ASX on 13 September 2006 disclosed a net loss after tax attributable to members of \$792,580. This loss has increased to \$1,145,101 as a result of the Board making a provision for non recovery of the MBIL receivable totalling \$352,521.



GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES
BALANCE SHEET
AT 30 JUNE 2006

	Notes	Consolidated		Genesis Biomedical Ltd	
		2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	15(b)	2,196,313	1,063,492	2,196,313	1,063,492
Receivables	7	23,685	13,148	23,685	13,148
Other	8	41,480	134,782	41,480	134,782
TOTAL CURRENT ASSETS		2,261,478	1,211,422	2,261,478	1,211,422
NON-CURRENT ASSETS					
Property Plant and Equipment	9	37,288	-	37,288	-
Other financial assets	10	-	-	3	3
TOTAL NON-CURRENT ASSETS		37,288	-	37,291	3
TOTAL ASSETS		2,298,766	1,211,422	2,298,769	1,211,425
CURRENT LIABILITIES					
Payables	12	116,315	70,532	116,315	70,532
Provisions	12	-	72,338	-	72,338
TOTAL CURRENT LIABILITIES		116,315	142,870	116,315	142,870
NON-CURRENT LIABILITIES					
		-	-	-	-
TOTAL LIABILITIES		116,315	142,870	116,315	142,870
NET ASSETS		2,182,451	1,068,552	2,182,454	1,068,555
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	13	15,531,985	13,272,985	15,531,985	13,272,985
Accumulated losses	14	(13,349,534)	(12,204,433)	(13,349,531)	(12,204,430)
Parent Interests		2,182,451	1,068,552	2,182,454	1,068,555
Minority Interests		-	-	-	-
TOTAL EQUITY		2,182,451	1,068,552	2,182,454	1,068,555



GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES
CASHFLOW STATEMENT
YEAR ENDED 30 JUNE 2006

	Notes	Consolidated		Genesis Biomedical Ltd	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		9,318	255,168	9,318	255,168
Payments to suppliers and employees		(827,945)	(664,180)	(827,945)	(664,180)
NET CASH FLOWS USED IN OPERATING ACTIVITIES					
	15(a)	(818,627)	(409,012)	(818,627)	(409,012)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of fixed assets		(37,288)	-	(37,288)	-
Interest received		82,257	68,243	82,257	68,243
Proceeds from sale of investments		-	30,973	-	30,973
NET CASH FLOWS FROM INVESTING ACTIVITIES					
		44,969	99,216	44,969	99,216
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans made to third party		(352,521)		(352,521)	
Proceeds from issue of ordinary shares		2,259,000	285,000	2,259,000	285,000
NET CASH FLOWS FROM FINANCING ACTIVITIES					
		1,906,479	285,000	1,906,479	285,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Opening cash brought forward		1,132,821	(24,796)	1,132,821	(24,796)
CASH AND CASH EQUIVALENTS AT END OF PERIOD					
	15(b)	2,196,313	1,063,492	2,196,313	1,063,492



**GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2006**

	Parent Entity Interest		
	Share Capital	Retained Profits	Total
	\$	\$	\$
Balance at 1.7.2004	12,987,985	(11,818,242)	1,169,743
Shares issued during the year	300,000	-	300,000
Net Income recognised directly in equity	-	(386,191)	(386,191)
Share issue costs	(15,000)	-	(15,000)
Total income and expense for the period	(15,000)	(386,191)	(401,191)
Balance at 30.6.2005	<u>13,272,985</u>	<u>(12,204,433)</u>	<u>1,068,552</u>
Balance at 1.7.2005	13,272,985	(12,204,433)	1,068,552
Shares issued during the year	2,403,000	-	2,403,000
Net Income recognised directly in equity	-	(1,145,101)	(1,145,101)
Share issue costs	(144,000)	-	(144,000)
Total income and expense for the period	(144,000)	(1,145,101)	(1,289,101)
Balance at 30.06.2006	<u>15,531,985</u>	<u>(13,349,534)</u>	<u>2,182,451</u>



GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

1. CORPORATE INFORMATION

The financial report of Genesis Biomedical Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 27 September 2006.

Genesis Biomedical Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, and Australian Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost basis, except for financial instruments which are measured at fair value.

The financial statements have been prepared on a going concern basis.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply to AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balance reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 3.

Certain Australian Accounting Standards and UIG interpretations have recently been issued or amended but are not yet effective and have not been adopted by the group for the annual reporting period ended 30 June 2006. The directors have assessed the impact of these new or amended standards (to the extent relevant to the group) and do not expect any impact to the amounts recognised in the financial statements.



GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTD.

(c) Principles of Consolidation

A controlled entity is any entity controlled by Genesis Biomedical Limited whereby it has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report. Losses that exceed the minority interest have been allocated against the majority interest.

(d) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Since the enactment of the Tax Consolidation legislation, the Genesis consolidated group has elected not to enter the tax consolidation regime.

(e) Financial Instruments
Recognition

Financial instruments 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 instruments are measured as set out below.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTD.

(e) Financial Instruments (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

(f) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

(g) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(h) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

(i) Revenue

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Rental Income is recognised upon receipt of rental monies.

All revenue is stated net of the amount of goods and services tax (GST).

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(k) Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTD.

(l) Other Current Receivables

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for other receivables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Other current receivables are carried at the nominal amounts due. The collectability of debts is assessed continually and specific provision is made for any doubtful debts.

Accounting policies applicable for the year ended 30 June 2005

Other current receivables are recognised at cost less any provision for uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable.

(m) Payables

Liabilities are recognised for amounts to be paid in the future for goods or received, whether or not billed to the company or consolidated entity.

(n) Contributed Equity

Issued and paid up capital is recognized at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(o) Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries and annual leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Employee benefit expenses arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, and other leave benefits; and
- other types of employee benefits

are charged against profits on a net basis in their respective categories.

(p) Earnings per share

Basic earnings per share is calculated as net profit/(loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/(loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential shares, adjusted for any bonus element.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTD.

(q) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Assets useful life, residual value and amortisation are revised and adjusted if necessary at each balance date.

Any item of property, plant or equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the year the asset is derecognised.

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

Plant and Equipment – over 5 to 15 years.

(r) Leases

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.



NOTE 3: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Genesis Biomedical Limited 2005 Annual Report notes to the accounts, the Company at that stage was of the opinion that any impact from transitioning its accounting policies and financial reporting from Australian Standards to Australian equivalents of International Financial Reporting Standards (AIFRS) would be minimal. As a result of adopting AASB 127 “Consolidated and Separate Financial Statements” the minority interest loss of \$21,389 (see reconciliation below) has been reclassified into retained earnings. No other transitional adjustments were required to the Income Statement or Cashflow statement.

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

	Consolidated			Genesis Biomedical Limited		
	AGGAP \$	AIFRS Impact \$	AIFRS \$	AGGAP \$	AIFRS Impact \$	AIFRS \$
CURRENT ASSETS						
Cash and cash equivalents	1,063,492	-	1,063,492	1,063,492	-	1,063,492
Receivables	13,148	-	13,148	13,148	-	13,148
Other	134,782	-	134,782	134,782	-	134,782
TOTAL CURRENT ASSETS	1,211,422	-	1,211,422	1,211,422	-	1,211,422
NON-CURRENT ASSETS						
Property Plant and Equipment	-	-	-	-	-	-
Other financial assets	-	-	-	3	-	3
TOTAL NON-CURRENT ASSETS	-	-	-	3	-	3
TOTAL ASSETS	1,211,422	-	1,211,422	1,211,425	-	1,211,425
CURRENT LIABILITIES						
Payables	70,532	-	70,532	70,532	-	70,532
Provisions	72,338	-	72,338	72,338	-	72,338
TOTAL CURRENT LIABILITIES	142,870	-	142,870	142,870	-	142,870
NON-CURRENT LIABILITIES						
Provisions	-	-	-	-	-	-
TOTAL NON-CURRENT LIABILITIES	-	-	-	-	-	-
TOTAL LIABILITIES	142,870	-	142,870	142,870	-	142,870
NET ASSETS	1,068,552	-	1,068,552	1,068,555	-	1,068,555
EQUITY						
Equity attributable to equity holders of the parent						
Contributed equity	13,272,985	-	13,272,985	13,272,985	-	13,272,985
Accumulated losses	(12,183,044)	(21,389)	(12,204,433)	(12,204,430)	-	(12,204,430)
Parent Interests	1,089,941	(21,389)	1,068,552	1,068,555	-	1,068,555
Minority Interests	(21,389)	21,389	-	-	-	-
TOTAL EQUITY	1,068,552	-	1,068,552	1,068,555	-	1,068,555

**NOTE 4. REVENUE FROM ORDINARY ACTIVITIES**

	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues				
Revenue from sale of goods	-	-	-	-
Finance Income	82,257	68,243	82,257	68,243
Rental income – sub leased premises	33,003	263,364	33,003	263,364
Total revenues	115,261	331,607	115,261	331,607

NOTE 5. EXPENSES AND LOSSES/(GAINS)**(a) Professional Fees**

Audit Fees	30,791	24,000	30,791	24,000
Company Secretarial Fees	89,500	72,000	89,500	72,000
Corporate Advisory Services	146,120	-	146,120	-
Legal Fees	40,321	16,873	40,321	16,873
Accounting Fees	4,312	10,878	4,312	10,878
Due Diligence related Consultants	51,844	-	51,844	-
ASX/Share Registry Fees	47,685	21,908	47,685	21,908
Other Consulting Fees	137,680	158,268	137,680	158,268
Total	548,253	303,927	548,253	303,927

(b) Other expenses and losses/(gains) - - - (10,000)

(c) Minimum Lease Rental payments associated with sub-leased excess office premises

49,009 259,624 49,005 259,624

(d) Cost of Investments in listed

investments sold	-	17,418	-	17,418
Proceeds from sale of listed investments	-	(30,974)	-	(30,974)
Net (gain)/loss on listed investments sold	-	(13,556)	-	(13,556)



NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006 (cont'd)

	Notes	Consolidated		Genesis Biomedical Ltd	
		2006	2005	2006	2005
		\$	\$	\$	\$
NOTE 6. INCOME TAX					
The prima facie tax on the operating loss is reconciled to the income tax provided in the financial statements as follows:					
Prima facie tax payable on the operating loss from ordinary activities		(343,530)	(115,857)	(343,530)	(118,857)
Tax effect of deferred tax asset:					
Research & development refund		-	-	-	-
Amortisation of non-deductible expenditures		-	-	-	-
Current period tax benefit not brought to account		(343,530)	(115,857)	(343,530)	(118,857)
Income tax expense attributable to ordinary activities		-	-	-	-

As at 30 June 2006 deferred tax assets were available to the consolidated entity in respect of operating losses. The Directors estimate the potential income tax benefit at 30 June 2006 in respect of tax losses not brought to account is approximately \$4,452,142 (2005: \$4,108,612). The benefit of these losses has not been brought to account as realisation is not probable.



NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006 (cont'd)

	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 7. RECEIVABLES				
(CURRENT)				
Other Debtor	23,685	13,148	23,685	13,148
Manawatu Biotech Investments Loan	352,521	-	352,521	-
Allowance for non - recovery of MBIL Loan	(352,521)	-	(352,521)	-
	<u>23,685</u>	<u>13,148</u>	<u>23,685</u>	<u>13,148</u>

There is some uncertainty over the recoverability of the MBIL loan, as at the date of this financial report, the documentation for the underwriting of the rights issue that would fund the loan are not signed. The Board has raised a provision for the whole loan. This may be written back in the year ending 30 June 2007 if the loan is repaid.

NOTE 8. OTHER CURRENT ASSETS

Prepayments	-	12,969	-	12,969
Security deposits in respect of operating leases	41,480	121,813	41,480	121,813
	<u>41,480</u>	<u>134,782</u>	<u>41,480</u>	<u>134,782</u>

NOTE 9. PROPERTY PLANT AND EQUIPMENT

	Consolidated		Genesis Biomedical Ltd	
	Furniture and Office Equipment	Total	Furniture and Office Equipment	Total
	\$	\$	\$	\$
Year ended 30 June 2005	-	-	-	-
Additions at Cost	37,288	37,288	37,288	37,288
Accumulated Depreciation and Impairment	-	-	-	-
Year ended 30 June 2006	<u>37,288</u>	<u>37,288</u>	<u>37,288</u>	<u>37,288</u>

NOTE 10. OTHER FINANCIAL ASSETS (NON-CURRENT)

	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
Investments at cost comprise:				
Shares - unlisted	547,862	547,862	547,862	547,862
Provision for diminution in value	(547,862)	(547,862)	(547,862)	(547,862)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment in controlled entities (Refer to note 11)	-	-	3	3
	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>

The unlisted investment is the 15% shareholding the Company has in the Singapore based Back to Health Pte Ltd, a 50% shareholder in DBCI Asia Pacific Pte Ltd. This company holds the Master Licence for the DBC operations in Asia. The directors resolved to write down the value of this holding to Nil as at 31 December 2003.



NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006 (cont'd)

The Company has entered into an agreement dated 29 May 2006 whereby Back to Health Pte Ltd and DBCI Asia Pacific Pte Ltd (together “DBC”) have agreed to purchase back the equipment originally purchased by the Company in relation to the DBC operations.

The material commercial terms of this agreement are that DBC and associates have agreed to purchase back the DBC equipment from the Company through the payment of 10,000 EURO plus agree to enter into a share swap whereby the parties agree to “swap back” their respective holdings in Back to Health Pte Ltd and DBC Australia Pty Ltd.

The Company had written down the value of the equipment to zero and was incurring storage costs. This transaction has not been reflected in the financial statements to 30 June 2006 as the equipment was not dispatched and title remained with Genesis.

NOTE 11. INTERESTS IN CONTROLLED ENTITIES

Name	Country of Incorporation	Percentage of equity interest held by the consolidated entity		2006	2005
		2006	2005		
Direct				\$	\$
Genovations Pty Ltd	Australia	100	100	1	1
NewMed Systems Ltd	Australia	100	100	1	1
Smart Chair Systems Pty Ltd	Australia	50	50	-	-
Indirect					
Back to Health Australasia Ltd	Australia	100	100	1	1
West Perth Clinic 1 Pty Ltd	Australia	100	100	-	-
DBC Australia Pty Ltd	Australia	75	75	-	-
				<u>3</u>	<u>3</u>

Entities subject to class order relief

Pursuant to Class Order 95/1418, relief has been granted to the wholly owned subsidiaries from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, Genesis Biomedical Ltd and the controlled entities subject to the Class Order (the “Closed Group”) entered into a Deed of Cross Guarantee on 29 May 2000. The effect of the deed is that Genesis Biomedical Ltd has guaranteed to pay any deficiency in the event of winding up of a controlled entity to which the class order applies. The controlled entities have also given a similar guarantee in the event that Genesis Biomedical Ltd is wound up.

**NOTES TO THE FINANCIAL STATEMENTS**
30 JUNE 2006 (cont'd)

	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 12. PAYABLES (CURRENT)				
Trade creditors (1)	44,585	20,532	44,585	20,532
Other creditors	71,730	50,000	71,730	50,000
	<u>116,315</u>	<u>70,532</u>	<u>116,315</u>	<u>70,532</u>
Aggregate amounts payable to related parties:				
Directors and director-related entities				
- director related entities	6,875	50,000	6,875	50,000

(1) Trade payables are non-interest bearing and normally settled in 14 days.

12a. PROVISIONS (CURRENT)

Surplus lease space	-	16,671	-	16,671
Other provisions	-	55,667	-	55,667
	<u>-</u>	<u>72,338</u>	<u>-</u>	<u>72,338</u>

Other Provisions relate to provisions made for certain unpaid operating expenses as at 30 June 2005.

12b. MOVEMENTS IN PROVISIONS

(i) Surplus Lease Space Provision	
Carrying amount at the beginning of the financial year	16,671
Additional Provision	-
Amounts utilised during the year	(16,671)
Carrying amount at the end of the financial year	<u>-</u>
(ii) Other Provisions	
Carrying amount at the beginning of the financial year	55,667
Additional Provision	-
Amounts utilised during the year	(55,667)
Carrying amount at the end of the financial year	<u>-</u>



NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006 (cont'd)

13. CONTRIBUTED EQUITY	Shares 2006	Shares 2005	\$ 2006	\$ 2005
(a) Issued and paid up capital				
Fully paid ordinary shares	166,650,003	86,550,003	15,531,985	13,272,985
(b) Movement in shares on issue				
- Issued capital at beginning of financial year	86,550,003	76,550,003	13,272,985	12,987,985
- Shares issued on 2 February 2006 pursuant to an underwritten offer of shares by Directors at 3 cents per fully paid share	80,000,000	-	2,400,000	-
- Shares issued on 3 March as a result of the exercise of 100,000 10 November 2010 options	100,000	-	3,000	-
- Shares issued on 11 November 2004 pursuant to a placement by Directors at 3 cents per fully paid share	-	10,000,000	-	300,000
- Less expenses of the issue			(144,000)	(15,000)
Issued capital at the end of the financial year	166,650,003	86,550,003	15,531,985	13,272,985
(c) Share Options				
As at 30 June 2006, there are 79,900,000 (2005: Nil) unissued ordinary shares in respect of which options were outstanding.				

(a) Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.



NOTES TO THE FINANCIAL STATEMENTS
JUNE 2006 (cont'd)

	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
14. ACCUMULATED LOSSES				
Balance at beginning of year	(12,204,433)	(11,818,242)	(12,204,430)	(11,808,239)
Net Loss attributable to members of Genesis Biomedical Ltd	(1,145,101)	(386,191)	(1,145,101)	(396,191)
Balance at end of year	<u>(13,349,534)</u>	<u>(12,204,433)</u>	<u>(13,349,534)</u>	<u>(12,204,430)</u>
15. CASH AND CASH EQUIVALENTS				
	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
(a) Reconciliation of cash flows from operations with operating loss after income tax				
Operating (loss) after income tax	(1,145,101)	(386,191)	(792,580)	(396,191)
Profit on sale of investments	-	(13,556)	-	(13,556)
Provision for diminution / (increment) in value of investments	-	(2,930)	-	(2,930)
Other expenses from ordinary activities	-	-	-	10,000
Interest received	(82,257)	(68,243)	(81,257)	(68,243)
Changes in assets and liabilities				
Increase in receivables	(10,536)	(8,196)	(10,536)	(8,196)
Increase in allowance for non recovery of receivables	352,521	-	352,521	-
Decrease in prepayments & deposits	93,301	92,172	93,301	92,172
Increase in creditors and accruals	45,783	56,200	(19,072)	56,200
Decrease in provisions	(72,338)	(78,268)	(7,483)	(78,268)
Net cash flows used in operating activities	<u>(818,627)</u>	<u>(409,012)</u>	<u>(818,627)</u>	<u>(409,012)</u>
(b) Reconciliation of cash				
Cash balances comprise				
- cash at bank	<u>2,196,313</u>	<u>1,063,492</u>	<u>2,196,313</u>	<u>1,063,492</u>

At balance date the company and the consolidated entity had no financing facilities available.



NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006 (cont'd)

	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
	\$	\$	\$	\$
16. EXPENDITURE COMMITMENTS				
(a) Lease expenditure commitments				
Operating leases (non-cancellable)				
Minimum lease payments				
- not later than one year	50,256	61,674	50,256	61,674
- later than one year and not later than five years	102,435	-	102,435	-
Aggregate lease expenditure contracted for at balance date	<u>152,691</u>	<u>61,674</u>	<u>152,691</u>	<u>61,674</u>
Aggregate expenditure commitments comprise:				
Amounts provided for:				
-Surplus lease space – current	-	16,671	-	16,671
	<u>-</u>	<u>16,671</u>	<u>-</u>	<u>16,671</u>
Amounts not provided for:				
-rental commitments	152,691	45,003	152,691	45,003
Total not provided for	<u>152,691</u>	<u>45,003</u>	<u>152,691</u>	<u>45,003</u>
Aggregate lease expenditure contracted for at balance date	<u>152,691</u>	<u>61,674</u>	<u>152,691</u>	<u>61,674</u>

Aggregate lease expenditure represents lease commitments pursuant to an office accommodation lease entered into effective 1 May 2006 for a period of three years. This lease is for the Company's head office which effective May 2006 is now situated in Perth.

The previous years operating lease related to office accommodation expired in September 2005. Amounts not provided for in 2005 equated to the sub-lease commitments received by the Company from sub-tenants that occupied the premises pertaining to the then operating lease.

An additional operating lease related to office accommodation that expired in April 2006 and was assigned to the sub-tenant effective April 2005. The terms of the assignment provided for the Company to be liable for all rent and outgoings due under the operating lease should the subtenant default on their obligations under the terms of the assigned lease. This lease expired in April 2006.

A provision for surplus leased office accommodation was recognised in the prior year for the expected lease cost to be paid by the consolidated entity less any amounts to be recovered from sub-leasing. The provision was based on the best estimate of the expenditure to be incurred and sub-leasing income to be received, and was reviewed each reporting date to determine whether the provision is adequate. This provision is no longer required as the leases associated with the surplus lease space have terminated.



NOTES TO THE FINANCIAL STATEMENTS
JUNE 2006 (cont'd)

17. SEGMENT INFORMATION

The consolidated entity operated in one business segment, being medical device technology. The consolidated entity operated during the year in one geographical segment being Australia.

Segment accounting policies are the same as the consolidated entity's policies described. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

18. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2006	2005
	\$	\$
Net Loss	(1,145,101)	(386,191)
Adjustments:		
Net loss attributable to outside equity interest	-	-
Net loss attributable to equity holders of the parent	<u>(1,145,101)</u>	<u>(386,191)</u>
Net loss attributable to ordinary shareholders for diluted earnings per share	<u><u>(1,145,101)</u></u>	<u><u>(386,191)</u></u>
	Number of Shares	Number of Shares
Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	119,020,962	82,878,770
Effect of dilutive securities:		
Share options	-	-

There are options outstanding at the end of the financial year however have not been included in EPS calculation due to being antidilutive in nature.

No ordinary shares have been issued since the reporting date and up to completion of this financial report.



NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006(cont'd)

19. KEY MANAGEMENT PERSONNEL

The Company has applied the relief available under ASIC Class Order CO 06/50, which exempts listed companies from providing remuneration disclosures in their annual financial report as required by paragraphs Aus25.4 to Aus25.7.2 of Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report designated as audited.

Remuneration Committee

The Company did establish a Remuneration Committee in the early part of the financial year, however with the changes to the Board occurring on 28 November 2005, the revised Board elected that the Company was of the size that a Remuneration Committee was not warranted and that these issues would be considered by the Board.

The full Board was responsible for establishing Genesis's remuneration policies and practices and to ensure they match the group's objectives. The Genesis Board proposed the Managing Directors total remuneration package and is responsible for reviewing the Non Executive remuneration and review of any non-executive director share plan that may be proposed.

(a) Details of Key Management Personnel

D Valentino	Managing Director (executive): appointed 25 May 2006
R Johnston	Non Executive Chairman: appointed 7 December 2005
R Smith	Director (non-executive): appointed 21 February 2005
R Black	Director (non-executive): appointed 28 November 2005
R Gilmour	Executive Chairman: resigned 28 November 2005
A Knight	Director (non –executive) ceased effective 28 November 2005
E Correia	Director (non –executive) resigned effective 7 December 2005

(b) Option holdings of Key Management Personnel

Key Management Personnel	Balance at 1 July 2005/ Appointment Date	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2006	Total	Vested at 30 June 2006	
				#		Total	Not Exercisable	Exercisable
D Valentino ⁽¹⁾	4,498,267	-	-	-	4,498,267	4,498,267	-	4,498,267
R Johnston	-	-	-	-	-	-	-	-
R Black	-	-	-	600,000	600,000	600,000	-	600,000
R Smith	-	-	-	-	-	-	-	-
Total	4,498,267	-	-	-	5,098,267	5,098,267	-	5,098,267

(1) Options held by D Valentino were held either directly or indirectly upon appointment.

**19. KEY MANAGEMENT PERSONNEL CONTD..****(c) Shareholdings of Key Management Personnel**

	Balance at 1 July 2005/ Appointment Date	Granted as Remuneration	On Exercise of Options	Net Change Other (1)	Balance at 30 June 2006/Resignation Date
D Valentino	4,598,267	-	-	300,000	4,898,267
R Johnston	-	-	-	-	-
R Black	2,112,500	-	-	150,000	2,262,500
R Smith	5,140,523	-	-	-	5,140,523
R Gilmour	4,000,000	-	-	-	4,000,000
A Knight	-	-	-	-	-
E Correia	125,000	-	-	-	125,000
Total	15,976,290	-	-	450,000	16,426,290

(1) On market purchases

All equity dealings have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

20. RELATED PARTY DISCLOSURES

All payments made to related parties are made by the parent company Genesis Biomedical Limited.

Compensation of Key Management Personnel

	2006 \$	2005 \$
Short-term	212,706	192,798
Post Employment	2,054	-
Other Long-Term	-	-
Termination Benefits	-	-
Share-based Payments	-	-
	214,760	192,798

Loans to Key Management Personnel

No loans to Key Management Personnel.

Other transactions of Key Management Personnel and their personally related entities

During or since the financial year-end no director has had any interest in a contract or proposed contract with the consolidated entity, other than being an interest, the nature of which has been declared by the director below or elsewhere throughout this report:

- (i) The company paid to Cardrona Capital Pty Ltd, a company of which Mr E Correia is a director, fees totalling \$49,000 (2005:\$86,700) for provision of company secretarial, financial control, rent and due diligence services.
- (ii) The company paid to Bodyworks Holdings Limited a company which Dr Robert Gilmour is a Director an amount of \$58,959 (2005:\$90,244) in consulting fees (included in Short Term Employee Benefits Other).



20. RELATED PARTY DISCLOSURES CONTD

Interests in Controlled entities

The consolidated statement of financial performance and statement of financial position of the entities which are members of the “Closed Group” are as follows:

<i>(i) Consolidated statement of financial performance</i>	2006	2005
	\$	\$
Operating loss before income tax	(1,145,101)	(396,191)
Income tax attributable to operating loss	-	-
Operating loss after income tax attributable to Members	<u>(1,145,101)</u>	<u>(396,191)</u>
Accumulated losses at the beginning of the financial year	<u>(12,183,044)</u>	<u>(10,559,784)</u>
Accumulated losses at the end of the financial year	<u><u>(13,328,145)</u></u>	<u><u>(10,955,975)</u></u>
<i>(ii) Consolidated statement of financial position</i>	2006	2005
	\$	\$
Current assets		
Cash	2,196,313	1,063,492
Receivables and other	417,686	147,930
Allowance for non-recovery of receivable	(352,521)	-
Total current assets	<u>2,261,478</u>	<u>1,211,422</u>
Non-current assets		
Furniture & Fittings	37,288	-
Investments	1,122,900	1,122,900
Intercompany loans	125,558	125,558
Total non-current assets	<u>1,285,746</u>	<u>1,248,458</u>
Total assets	<u><u>3,547,224</u></u>	<u><u>2,459,880</u></u>
Current liabilities		
Payables	116,315	70,532
Provisions	-	72,338
Total current liabilities	<u>116,315</u>	<u>142,870</u>
Non Current liabilities		
Provisions	-	-
Total non current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>116,315</u>	<u>142,870</u>
Net assets	<u><u>3,430,909</u></u>	<u><u>2,317,010</u></u>
Equity		
Contributed Equity	15,531,985	13,272,985
Accumulated losses	<u>(12,101,076)</u>	<u>(10,955,975)</u>
Total shareholders' equity	<u><u>3,430,909</u></u>	<u><u>2,317,010</u></u>



	Consolidated		Genesis Biomedical Ltd	
	2006	2005	2006	2005
21. AUDITOR'S REMUNERATION				
Amounts received or due and receivable				
By Ernst & Young for:				
- An audit and review of the financial report of the entity and any other entity in the consolidated entity	30,791	24,000	30,791	24,000
	<u>30,791</u>	<u>24,000</u>	<u>30,791</u>	<u>24,000</u>

22. SUBSEQUENT EVENTS

Manawatu Biotech Investments Limited ("MBIL")

In July 2005, Genesis Biomedical Limited ("Genesis") entered into an option agreement to purchase 100% of the issued capital of MBIL on agreed terms and conditions. Genesis's option had an expiry date twelve months from the date of the agreement.

In addition, Genesis entered into a loan facility agreement whereby Genesis agreed to loan \$350,000 to MBIL. These loan monies are disclosed as MBIL Receivable at Note 7 of the Notes to the Financial Statements.

In July 2006 the Company announced to the market that after considering several alternatives in relation to this asset, the Board of Genesis resolved to continue its involvement in MBIL on the following basis:

4. Has sought full repayment of the loan from MBIL
5. Elected not to exercise its option to purchase 100% of MBIL;
6. Has negotiated a position whereby GBL have conditionally agreed to participate in an intended equity capital raising by MBIL to a level of NZD\$250,000.

The Board considers that it has achieved a very positive outcome for Genesis by seeking repayment of its original loan monies, but maintaining a meaningful interest in the Company via its proposed shareholding and thereby gaining an exposure to the upside of any commercialisation success MBIL may have through implementation of its next stage commercialisation path.

The Board notes that the repayment of the loan by MBIL to Genesis and any subsequent investment by Genesis is conditional upon, amongst other things, MBIL being successful in raising sufficient equity capital.

As at the date of this report the Company was awaiting the commencement of the MBIL 1st phase capital raising which if successful will be used in part to repay the loan amount outstanding. Until an underwritten capital raising proceeds the directors believe it is appropriate to provide against the \$352,521 MBIL receivable in full. Accordingly a provision for \$352,521 has been recorded. This provision was not reflected in the Appendix 4E Preliminary Final Report released to the Australian Stock Exchange on 13 September 2006.

DBC Equipment

The Company has an unlisted investment being a 15% shareholding in the Singapore based Back to Health Pte Ltd, a 50% shareholder in DBCI Asia Pacific Pte Ltd. This company holds the Master Licence for the DBC operations in Asia. The directors resolved to write down the value of this holding to Nil as at 31 December 2003.



The Company has entered into an agreement dated 29 May 2006 whereby Back to Health Pte Ltd and DBCI Asia Pacific Pte Ltd (together “DBC”) have agreed to purchase back certain equipment originally purchased by the Company in relation to the DBC operations.

The material commercial terms of this agreement are that DBC and associates have agreed to purchase back the DBC equipment from the Company through the payment of 10,000 EURO plus agree to enter into a share swap whereby the parties agree to “swap back” their respective holdings in Back to Health Pte Ltd and DBC Australia Pty Ltd.

The Company had written down the value of the equipment to zero. This transaction has not been reflected in the financial statements to 30 June 2006 as the transaction had not completed, however will be recognised in the subsequent accounting period.

23. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The consolidated entity’s accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

	RECOGNISED FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
(i)	FINANCIAL ASSETS			
	Cash at Bank	15(b)	Carried at nominal amount. Interest is recognised in the statement of financial performance when earned.	Available on call at effective interest rates of 2.1% pa (2005: 2.1% pa).
	Receivables	7	Receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are normally on 30-day terms.
	Security deposits	7	Security deposits are lodged with the Bankers to the consolidated entity, securing bank guarantees provided. Deposits are carried at nominal value.	Average Interest rate of 5.3% pa (2005: 5.38% pa)
	Shares and options		Listed shares and options are recorded at the lower of cost or recoverable amount	No dividends are expected to be received.

**(ii) FINANCIAL LIABILITIES**

Payables (current)	12	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30-day terms.
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(iii) EQUITY

Ordinary shares	13(a)	Ordinary share capital is recognised at the value of the amount received, less direct costs incurred in raising the funds.	The consolidated entity has issued 166,650,003 ordinary shares fully paid. Details of shares issued and the terms and conditions of options issued over ordinary shares at balance date.
Options	13(c)	Options are convertible into fully paid ordinary shares of the Company.	The consolidated entity has issued 79,900,000 options. Details of and the terms and conditions of options issued over ordinary shares at balance date.

(b) Net fair values of financial assets and liabilities

There is no difference between the aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, recorded at balance date and the carrying values of the financial assets and financial liabilities recorded at balance date.

(c) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities**Recognised Financial Instruments**

Cash and cash equivalent: The carrying amount approximates fair value because of their short-term to maturity.

Security deposits are held by the consolidated entity's bank, securing bank guarantees in relation to leased office space. The carrying amount approximates fair value.

Receivables and payables: The carrying amount approximates fair value.

Listed and unlisted shares: The carrying amount approximates fair value.



NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006 (cont'd)

23. FINANCIAL INSTRUMENTS (Cont)

(d) Interest rate risk exposure

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

FINANCIAL INSTRUMENT	FIXED INTEREST RATE MATURING IN										WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
	FLOATING INTEREST RATE (MATURING IN LESS THAN A YEAR)		1 YEAR OR LESS		1 TO 5 YEARS		NON-INTEREST BEARING		TOTAL			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005		
(i) FINANCIAL ASSETS												
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Cash	-	61,926	2,196,313	1,001,566	-	-	-	-	2,196,313	1,063,492	4.64%	
Receivables	-	13,148	-	-	-	-	23,685	-	23,685	13,148	N/A	
Security deposits/Prepayments	-	134,782	41,480	-	-	-	-	-	41,480	134,782	5.33%	
Shares & options	-	-	-	-	-	-	-	-	-	-	N/A	
Total Financial Assets	-	209,856	2,237,793	1,001,566	-	-	23,685	-	2,261,478	1,211,422		
(ii) FINANCIAL LIABILITIES												
Payables (current)	116,315	70,532	-	-	-	-	-	-	116,315	70,532	N/A	
Total Financial Liabilities	116,315	70,532	-	-	-	-	-	-	116,315	70,532		

The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet.



NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006 (cont'd)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Groups principal financial instruments comprise cash at bank, security deposits and receivables. The main purpose for these financial instruments is to provide finance for the Group's operations. The Group has financial liabilities such as trade payables which arise directly from its operations. The Groups main risk arising from the Group's financial instruments relate to credit risk.

Credit Risk

The Group trades only with recognised, creditworthy third parties including having its largest financial instruments cash and security deposits with one of the Australian four pillar banks.

Receivables balances are monitored on an ongoing basis with the result that the Groups exposure to bad debts is not significant.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Genesis Biomedical Ltd, I state that:

- (1) In the opinion of the directors:
 - (a) the financial report and the additional disclosures included in the director's report designated as audited, of the Company and of the consolidated entity are in accordance with 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 and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Don Valentino
Managing Director

27 September 2006

Independent audit report to members of Genesis Biomedical Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Genesis Biomedical Limited (the company) and the 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 company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" in the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report 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 and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, 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 and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

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 the remuneration disclosures; 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is disclosed after the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed.

Audit opinion

In our opinion:

1. the financial report of Genesis Biomedical Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Genesis Biomedical Limited and the consolidated entity 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.
2. the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.

Ernst & Young

Christopher George
Partner

Sydney
27 September 2006



ASX ADDITIONAL INFORMATION

The following additional information is required by the Australian Stock Exchange Limited and was the status on 31 July 2006.

Shareholding

(a) Distribution of ordinary shareholders:

Category (size of Holdings)	Number of Ordinary Shareholders	Number of Shares
1 - 1,000	24	13,412
1,001 - 5,000	151	509,938
5,001 - 10,000	219	1,991,447
10,001 - 100,000	537	21,923,254
100,001 - 9,999,999,999	245	142,211,952
Total	1,176	166,650,003

(b) The number of shareholders holding less than marketable parcels is 494.

(c) 20 largest shareholders at 31 July 2006 - fully paid ordinary share capital.

Rank	Name	Units Held at end of period	% of Issued Capital
1	AQUARIUS FUND MANAGERS PTY LTD AQUARIUS OPPORTUNITY A/C	6,000,000	3.60
2	MR DONALD LAWRENCE VALENTINO MRS JUDITH ANN VALENTINO VALO SUPER PLAN A/C	3,698,267	2.22
3	BIOMED TRUST LIMITED AK/1009025 A/C	3,650,000	2.19
4	ZERO NOMINEES PTY LTD	3,500,000	2.10
5	REGENT PROJECTS HOLDINGS LTD	3,250,000	1.95
6	MR CHRIS CARR MRS BETSY CARR	3,000,000	1.80
7	CS FOURTH NOMINEES PTY LTD UNPAID A/C C/- CS EQUITIES (AUST) LTD	3,000,000	1.80
8	DAVID CHENEY PTY LTD	3,000,000	1.80
9	SA CAPITAL PTY LTD	2,961,033	1.78
10	AMBER MANAGEMENT PTY LTD INTAX NO 2 SUPER FUND A/C	2,262,500	1.36
11	ANZ NOMINEES LIMITED CASH INCOME A/C	2,224,884	1.34
12	MR EDWARD COUTTS	2,084,564	1.25
13	GREEN DRILLING PTY LTD	2,000,000	1.20
14	ROGON NOMINEES PTY LTD SUPER FUND A/C	2,000,000	1.20
15	MR GORDON SINCLAIR HATCH MRS REBEKAH JANE WILSON MR BRUCE WILSON GORDON HATCH SUPER FUND A/C	1,750,000	1.05
16	MENTIQ PTY LTD	1,700,000	1.02
17	PORTFOLIO CUSTODIAN LIMITED 042566 A/C	1,679,056	1.01
18	MIDDLETON NOMINEES (SA) PTY LTD THE MIDDLETON FAMILY A/C	1,650,000	0.99
19	MR MICHAIL NIKOLAENKO	1,650,000	0.99
20	OPTIMAL SYSTEMS AUSTRALIA PTY LTD	1,600,000	0.96
Top 20 holders of ORDINARY FULLY PAID SHARES at 31 Jul 2006		52,660,304	31.61

**Option holding**

(a) Distribution of option holders:

Range	Total Holders	Units
1 - 1,000	0	0
1,001 - 5,000	0	0
5,001 - 10,000	0	0
10,001 - 100,000	28	2,330,038
100,001 - 9,999,999,999	135	77,569,962
Rounding		
Total	163	79,900,000

(b) The number of option holders holding less than marketable parcels is 1.

(c) 20 largest option holders at 31 July 2006

Rank	Name	Units Held at end of period	% of Issued Capital
1	ZERO NOMINEES PTY LTD	3,500,000	4.38
2	MR DONALD LAWRENCE VALENTINO MRS JUDITH ANN VALENTINO VALO SUPER PLAN A/C	3,398,267	4.25
3	CS FOURTH NOMINEES PTY LTD UNPAID A/C C/- CS EQUITIES (AUST) LTD	3,200,000	4.01
4	SA CAPITAL PTY LTD	2,150,000	2.69
5	GREEN DRILLING PTY LTD	2,000,000	2.50
6	MR MICHAEL NIKOLAENKO	1,900,000	2.38
7	TORNADO NOMINEES PTY LTD ANGUS MIDDLETON S/F A/C	1,800,000	2.25
8	MIDDLETON NOMINEES (SA) PTY LTD THE MIDDLETON FAMILY A/C	1,650,000	2.07
9	OPTIMAL SYSTEMS AUSTRALIA PTY LTD	1,600,000	2.00
10	VARGAS HOLDINGS PTY LTD TUSCAN S/F A/C	1,520,000	1.90
11	MR TED MARCHESI	1,500,000	1.88
12	KIAMA GROVE PTY LTD	1,450,000	1.81
13	PENVILLE HOLDINGS PTY LTD	1,400,000	1.75
14	MR TED MARCHESI	1,389,000	1.74
15	MR MARIO SKALECKI MRS CAROL ANNE SKALECKI SKALECKI FAMILY SUPER A/C	1,300,000	1.63
16	MENTIQ PTY LTD	1,200,000	1.50
17	MR KEITH MIDDLETON MRS CHRISTINE MIDDLETON MIDDLETON SUPER FUND A/C	1,100,000	1.38
18	PORTFOLIO CUSTODIAN LIMITED 042566 A/C	1,038,000	1.30
19	AQUARIUS FUND MANAGERS PTY LTD AQUARIUS OPPORTUNITY A/C	1,000,000	1.25
20	AUSSEW IMPORTS PTY LTD	1,000,000	1.25
Top 20 holders of OPTIONS EXP 30/11/2010 @ 3C 01 Jul 2006 to 31 Jul 2006		35,095,267	43.92



- (d) The names of the substantial shareholders listed in the Genesis Biomedical Ltd register as at 31 July 2006 were:

Shareholder	Ordinary Shares	% Held
Nil	Nil	Nil

- (e) **Option holders**

Option holder	Options	% Held
Nil	<u>Nil</u>	<u>Nil</u>

- (f) **Restricted securities**

There are no longer any restricted securities on issue by the company.

- (g) **Voting rights**

No restrictions. On a show of hands every member or proxy present shall be entitled to one vote unless a poll is called in which case every share shall have one vote.

- (h) **On market buy back**

There has been no on market buy back of the Company's shares during the financial year.

- (i) **Stock Exchange Listing**

Quotation has been granted for all the ordinary shares, of the consolidated entity on all Member Exchanges of the Australian Stock Exchange Limited.

- (j) **Director's Interest in Equity**

The interests of each director in the share capital of Genesis Biomedical Ltd as disclosed by the register of director's shareholdings.

	DIRECT		INDIRECT	
	Ordinary Shares	Options	Ordinary Shares	Options
D Valentino	600,000	600,000	4,298,267	3,898,267
R Johnston	-	-	-	-
R Black	-	-	2,262,500	600,000
R Smith	-	-	5,140,523	-



CORPORATE GOVERNANCE STATEMENT

30 JUNE 2006

The Board of Directors of Genesis Biomedical Ltd is responsible for the corporate governance of the consolidated entity. The board guides and monitors the business and affairs of Genesis Biomedical Ltd on behalf of the shareholders by whom they are elected and to whom they are accountable. In considering the issue of corporate governance the board are cognisant of the size of its operations and the fact that the board consists presently of four members, Mr Rodger Johnston currently undertaking a Non Executive Chairman role, Mr Donald Valentino the Managing Director with the remaining two directors being Non Executive Directors.

Composition of the Board

The composition of the board is determined in accordance with the following principles and guidelines:

- the board should comprise directors with an appropriate range of qualifications and expertise; and
- the board shall meet at least every second month and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The directors in office at the date of this statement and their respective terms in office are as follows:

Name	Position	Term in Office
Don Valentino	Managing Director	3 Months
Rodger Johnston	Non-executive Chairman	9 months
Russell Black	Non-executive Director	9 months
Roger Smith	Non-executive Director	2 year 4 months

Please refer to the Directors Report for the relevant skills and experience of each of these directors.

Board Responsibilities

As the board acts on behalf of the shareholders and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

Corporate Governance – Best Practice Recommendations

In accordance with the ASX Corporate Governance Council's best practice recommendations, the Corporate Governance Statement must contain specific information, and also report on the company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted, together with the reasons why they have not been adopted. Genesis's corporate governance principles and policies are therefore structured with reference to the Corporate Governance Council's best practice recommendations, which are as follows:

- (i) Lay solid foundations for management and oversight;
- (ii) Structure the Board to add value;
- (iii) Promote ethical and responsible decision making;
- (iv) Safeguard integrity in financial reporting;
- (v) Make timely and balanced disclosure;
- (vi) Respect the rights of shareholders;
- (vii) Recognise and manage risk;
- (viii) Encourage enhanced performance;
- (ix) Remunerate fairly and responsibly;
- (x) Recognise the legitimate interests of stakeholders.



Genesis Biomedical Limited's corporate governance practices were in place throughout the year ended 30th June 2006. As set out below, with the exception of the departures from the ASXCGC recommendations in relation to the independence of the Board, the nomination and audit committee and board performance evaluation, the corporate governance practices of Genesis Biomedical Limited were compliant with the Council's best practice recommendations.

Independence

ASX Corporate Governance Council ("ASXCGC") best practice recommendation 2.1 requires a majority of the Board to be independent directors and 2.2 recommends the chairperson should be an independent director.

ASXCGC provides a definition of independence to include being independent of management and free of any other business relationships that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. In accordance with this definition and further independence guidelines outlined in ASXCGC best practice recommendations, the following Genesis directors are not considered to be independent:

Name	Position
Mr Don Valentino	Managing Director
Mr Roger Smith	Non – Executive Director

Mr Valentino is considered not to be independent by virtue of being employed in an executive capacity within the Company and his material shareholding in the Company. Mr Valentino has been employed by the Company for his extensive experience in the pharmacy and related medical products field.

Mr Smith is considered not to be independent by virtue of his material shareholding in the Company.

The Board acknowledges the best practice requirement to maintain a majority independent board, however believes that given the Company's size and operational status, the expense associated with establishing such a board profile would not at this stage provide any real benefit to the operation of the Company. This Board structure will be reviewed at the appropriate stages of the Company's development.

When assessing the independence of directors, the ASX recommendations refer to materiality thresholds throughout the independence criteria, specifically in reference to evaluating what may constitute a material relationship.

The Board has adopted the following quantitative thresholds to be used as a guide when considering amounts in context of determining the materiality of certain relationships:

- (i) an amount which is equal to or greater than 10% of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary;
- (ii) an amount which is equal to or less than 5% of the appropriate base amount may be presumed not to be material, unless there is evidence, or convincing argument to the contrary;

As part of discharging its obligations as directors of the Company, the Directors will, from time to time need to seek independent professional advice at the expense of the Company. Accordingly, the board has agreed that where issues or matters arise in relation to the running of the Company, that in the opinion of the directors require independent professional advice to assist in the decision making surrounding the resolution of these issues, the board may engage such professional advice providing it is on standard commercial terms for advice of its nature.

Nomination Committee

ASX Corporate Governance Council ("ASXCGC") best practice recommendation 2.4 recommends the Board should establish a nomination committee.

The Board has not established any such committees at this point in the consolidated entity's development, it is considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible.



Audit Committee

ASX Corporate Governance Council (“ASXCGC”) best practice recommendation 4.2 recommends the Board should establish an audit committee, 4.3 outlines the recommended structure of the audit committee and 4.4 recommends the audit committee should have a formal charter.

The Board has not established any such committees at this point in the consolidated entity’s development, it is considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible. Although there is no Audit Committee, formal meetings are held between nominated directors and the external auditor, to discuss the findings of the half year review and the year end audit.

Board Performance Evaluation

ASX Corporate Governance Council (“ASXCGC”) best practice recommendation 8.1 requires the disclosure of the process for performance evaluation of the board, its committees and individual directors, and key executives. Given the current size of the Genesis Board and level of activity of the Company, the Board does not currently have a formal process for the evaluation of individual Directors and would consider the implementation of one at this particular point as impractical. The Directors do consider and gauge the overall performance of the Board in context of the trading price of its shares on the ASX on a regular basis.

Remuneration Committee

ASX Corporate Governance Council (“ASXCGC”) best practice recommendation 9.2 recommends the Board should establish a remuneration committee.

Throughout the financial year the Board had not established any such committees as at this point in the consolidated entity’s development, it was considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible. Remuneration to the Non Executive Directors was by way of base Directors Fees only, with the level of such fees, having been set by the Board to an amount it considers to be commensurate for a company of Genesis’s size and level of activity. There is currently no link between performance and remuneration. Further there are no schemes for retirement benefits in existence.