

31 August 2006

## PRELIMINARY FINAL REPORT: 30 JUNE 2006

The following information is provided to the ASX under Listing Rule 4.3A.

1. The Board of Progen Industries Limited announce the results of the Company for the year ending 30 June 2006 including comparative information for the year ending 30 June 2005. The results as reported have been audited.

## 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

<b>Revenue</b> from ordinary activities	Down 7.6% to \$2,822,000.
<b>Loss</b> from ordinary activities after tax attributable to members	Loss up by 27.2% to \$7,609,000.
<b>Loss</b> for the period attributable to members	Loss up by 27.2% to \$7,609,000.
<b>Explanation</b> of the loss from ordinary activities for the period attributable to members	An impairment loss totalling \$619,000 was recognised during the current year on the Company's equity investment in privately owned Medigen Biotechnology Corporation. Refer to Note 10 of the Financial Statements for further details.
<b>Dividends</b>	The Company has not declared nor paid any dividends.
<b>Net Tangible Assets</b> per security	Net tangible assets per share at 30 June 2006 amounted to \$0.44 (2005: \$0.63).

Please refer to the Directors' Report and Financial Statements for an explanation of these results and further information required to be released in accordance with ASX Listing Rule 4.3A.



Linton Burns  
Company Secretary

**PROGEN INDUSTRIES LIMITED**  
**ABN: 82 010 975 612**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED**  
**30 JUNE 2006**

Your directors present their report on the Company for the year ended 30 June 2006.

## 1. Directors

Mr Stephen Chang, Prof John Zalcborg, Dr Mal Eutick, Mr Patrick Burns, Dr Stanley Chang and Mr Eugene Cheng (alternate for Dr Stanley Chang) were directors of Progen Industries Limited during the whole of the financial year and up to the date of this report.

Mr T Justus Homburg was appointed as managing director on 1 March 2006 and continues in that office as of the date of this report. Mr Lewis Lee resigned as managing director on 1 March 2006.

Mr Linton Burns was the company secretary during the whole of the financial year and up to the date of this report.

## 2. Dividends

No dividends have been paid or declared during the period and the directors do not recommend the payment of a dividend for the year ended 30 June 2006 (2005: \$Nil).

## 3. Results and Review of Operations

### Company Overview

The principal activities of Progen Industries Limited during the year continued to be:

- Discovery, research and development of potential biopharmaceutical therapeutics for the treatment of human diseases; and
- The provision of contract services related to the process development, manufacture and quality assurance of biological products.

The Company's objective is to build a sustainable biotechnology business through the discovery, development and commercialisation of small molecule-based therapeutics for cancer and other serious diseases.

Our two operating divisions are Research and Development (R&D) and Manufacturing.

### Operating Results for the Year

To be read in conjunction with the attached Financial Report.

Total operating revenue was down 7.6% year on year at \$2.822 million, the decline being attributable to a drop of \$523,000 in Manufacturing revenues as this division continues to concentrate on the production of PI-88 for our clinical trial program over pursuit of external revenue generating contracts consistent with the Company's focussing on the clinical development of PI-88 including preparation for potential Phase III clinical trials.

The overall operating result for the year ended 30 June 2006 was a loss of \$7.609 million, being an increase of 27.2% over the prior year loss. The increased loss is primarily due to the decline in Manufacturing revenues recorded over the previous reporting period and the impairment charge in relation to our investment in Medigen Biotechnology Corporation. Ignoring the impairment charge the year on year operating loss increased 16.9% to \$6,990.

An analysis by business segment follows.

	% Change	2006 \$000	2005 \$000
<b>Revenue</b>			
Research & Development	(0.9)	760	767
Manufacturing	(36.6)	905	1,428
Unallocated	34.7	1,157	859
<b>Total Revenue</b>	<b>(7.6)</b>	<b>2,822</b>	<b>3,054</b>
<b>Segment Result</b>			
Research & Development	5.4	(3,135)	(3,314)
Manufacturing	(319.4)	(1,170)	(279)
Unallocated	(38.4)	(3,304)	(2,387)
<b>Operating (loss)</b>	<b>(27.2)</b>	<b>(7,609)</b>	<b>(5,980)</b>

**Research and Development (R&D)**

The primary activities of the R&D division continue to be:

1. The clinical development of the Company's anti-cancer drug candidates PI-88 and PI-166; and
2. The drug discovery program.

PI-88 is the Company's most advanced compound. Our principal objective is to commercialize PI-88 as an anti-cancer therapy applicable to a broad range of cancer types. PI-88 is currently being evaluated in Phase II human clinical trials. All PI-88 clinical trials are being conducted under an active Investigational New Drug application, or IND, with the United States Food and Drug Administration, or FDA.

PI-166, the Company's second oncology product candidate, is a novel combination of an active small organic chemical molecule and a delivery vehicle that directs and retains the active drug constituent at the tumour site. PI-166 is being developed for potential application in the treatment of advanced hepatocellular carcinoma (primary liver cancer). PI-166 is currently being tested in a Phase I clinical trial with the primary objective being to investigate the safety and tolerability of escalating doses of PI-166 in patients with advanced stage primary liver cancer where surgical intervention is no longer an option (unresectable).

The goal of our Drug Discovery program is to discover and develop small molecule drug candidates that modulate the interaction between carbohydrates (sugars) and disease related protein targets as potential therapeutics for cancer. The drug discovery program involves an ongoing collaboration with the academic laboratory of Professor Martin Banwell of the Research School of Chemistry at the Australian National University. This program is partially funded by a \$3.394 million Australian federal government AusIndustry Commercial Ready grant.

The net investment in our research and development initiatives decreased year on year by \$179,000 or 5.4% to \$3.135 million due mainly to the following:

- Expenditure on the PI-88 Phase II mono-therapy trial with patients with advance melanoma decreased by \$382,000 as this trial completed during the prior reporting period;
- Expenditure on the PI-88 Phase II trial in patients with advance non-small cell lung cancer decreased \$193,000 as patient recruitment concluded in February 2006;
- A decreases in expenditure on earlier PI-88 Phase I trials of \$102,000 due to finalisation of these trials including analysis and report writing in the prior reporting period; and
- A decrease in expenditure on our Phase Ib PI-166 trial of \$22,000 due to lower patient recruitment in the current financial year.

Somewhat off-setting the above decreases in expenditure were the following increases:

- Expenditure incurred in preparing for potential PI-88 Phase III development including regulatory and additional animal studies increased \$369,000;
- Net expenditure increased \$182,000 year on year on the Phase II trial in conjunction with the chemotherapy agent dacarbazine in patients with metastatic Melanoma. This trial commenced in May 2005 and during the course of the current financial year we completed patient recruitment into the lead-in phase. This trial is being co-funded by our strategic alliance partners Medigen Biotechnology Corporation. During the year they contributed \$249,000 to the costs of running this trial; and
- Net expenditure on our drug discovery program increased \$11,000 year on year. Our drug discovery program is partially funded by an AusIndustry Commercial Ready grant. This grant contributed \$760,000 to the costs incurred in funding this program during the financial year ended 30 June 2006.

**Manufacturing**

The primary activities of the Manufacturing division continue to be the manufacture of therapeutic products, including PI-88, and bioprocess technology development services. This division operates a manufacturing facility consisting of 15 modular laboratories each with a designated function.

The facility manufactures a range of biological products, including PI-88 and preparation of PI-166 for preclinical and clinical trials.

Our facility is licensed by the Australian Therapeutic Goods Administration for the manufacture of biological-based starting materials for human therapeutics to cGMP and by the Australian Office of Gene Technology Regulator for the manufacture of large scale genetically modified organisms.

The Manufacturing division's priorities for the financial year were the supply of PI-88 along with the validation and optimisation of the manufacturing process. As a result contract manufacturing revenue declined 36.6% year-on-year to \$905,000.

The gross margin earned on external contracts, as a percentage of sales, increased from 76.6% to 95.0% with current contracts providing higher margins than those of the prior reporting period.

The divisions priority continues to be on optimising the PI-88 production processes and validating manufacturing steps in preparation for the production/technology transfer of the sulfation manufacturing to a FDA cGMP approved facility for future supply of Phase III clinical trial material. The Company's Darra facility will continue the fermentation and purification of the starting material.

#### **Liquidity**

The Company ended the financial year with cash and cash equivalents totalling \$15.872 million compared with \$23.428 million at previous year-end. No additional capital was raised during the reporting period as a total of \$15.089 million was raised during the previous reporting period.

Cash and cash equivalents at 30 June 2006 consisted of highly liquid interest bearing investments with maturities of 90 days or less. We believe that these investments do not constitute any material market risk exposure.

#### *Cash Flows*

Cash of \$6.5 million was expended during the year ended 30 June 2005 to finance net operating activities. This was in line with the previous corresponding reporting period.

#### *Funding Requirements*

Currently there are no material commitments for capital expenditures. However, we expect to incur substantial future commitments in light of our oncology clinical program and our drug discovery program. We are presently funding three Phase II multi-centre clinical trials of PI-88 and one Phase Ib clinical trial of PI-166, and are planning a potential Phase III clinical trial of PI-88 in post-resection liver cancer.

We expect to incur net expenditure of \$3.219 million over the next two years on our current PI-88 clinical development program by which time all current trials are anticipated to have completed, and \$155,000 on our current PI-166 Phase 1b trial during the next financial year. In addition, we expect to incur expenditure in relation to the planning of a potential Phase III clinical trial of PI-88, including regulatory and manufacturing costs.

Drug discovery is partially funded by a \$3.394 million AusIndustry Commercial Ready grant. This grant is for three years funding from August 2005. As at 30 June 2006 the maximum remaining to be claimed under this grant amounted to \$2.634 million, the Company expects to contribute a similar amount to this over the next two years.

Future cash requirements will depend on a number of factors, including: the scope and results of preclinical studies and clinical trials, continued progress of our research and development programs, including our in-licensing activities, our ability to generate revenues from our contract manufacture services, our ability to generate revenue from the commercialization of PI-88, PI-166 and our drug discovery platform, and the availability of other financing.

The Company estimates that the current cash reserves are sufficient to fund its on-going operations for at least 15 months from the date of this report. This excludes capital requirements outside of normal operating activities.

#### **4. Significant Changes in the State of Affairs**

There were no significant changes in the state of affairs of the Company during the year other than those matters that are stated in this report and the accompanying financial report.

## 5. Significant Events after the Balance Date

There has not been any matter or circumstance, other than referred to elsewhere in this report, the financial statements or notes thereto, that has arisen since 30 June 2006 that has significantly affected, or may significantly affect:

- the Company's operations in future financial years; or
- the results of those operations in future financial years; or
- the Company's state of affairs in future financial years.

## 6. Likely Developments and Expected Results

The likely developments in the year ahead include:

- Continuing the clinical development of PI-88 which involves conducting and managing the multiple Phase II cancer trials and planning for a Phase III trial in post resection HCC with a likely commencement date of 2<sup>nd</sup> quarter calendar year 2007.
- In parallel with the clinical development program, complete a PI-88 partnering agreement with a pharmaceutical or biotechnology company that has the appropriate capabilities to accelerate development and commercialisation. The Company has engaged the transactional services of Burrill & Co to assist with this process.
- Continue the clinical development of PI-166 by concluding the current Phase Ib trial. Determine the future development or partnering of PI-166 based on the results of the current Phase Ib trial.
- Continue to advance our Drug Discovery program with the objective of producing a new drug candidate with the potential to enter human clinical studies by the end of calendar year 2008.
- To screen in-licensing opportunities to supplement the existing drug development pipeline.

The overall goal is to build a sustainable biotechnology company that has a well diversified and deep pipeline of drug candidates in development.

- Assess funding opportunities to ensure that capital requirements are sufficient in facilitating realisation of the above objectives.

## 7. Information on Directors

*Mr Stephen Chang, B.Eng.  
Executive Chairman*

Mr Chang is a founding Director of the Company and has served as Chairman in the period from 1989 to 1994 and again since 1999. Mr Chang holds an engineering degree from the National Taiwan Ocean University. He served as Chairman of Taiwan-based Medigen Biotechnology Corporation during its inauguration.

*Mr T Justus Homburg  
Managing Director*

Mr Homburg was appointed Managing Director and CEO in March 2006 having joined the Company as COO in January 2006.

Mr Homburg holds an MBA from the University of Washington with degrees from Iowa State University, Southern Illinois University, and The University of Utrecht.

His background includes over a decade in new technology commercialisation, strategic planning, corporate development and general management with Monsanto. Prior to joining the Company in January 2006 Mr Homburg spent three years as the CEO of the start-up biotechnology company, Chirogen Pty Ltd, based in Melbourne.

*Prof John Zalcborg, M.B. B.S. Ph.D. FRACP  
Non-Executive Independent Director  
Member of the Audit Committee*

Professor Zalcborg, joined us as a Non-Executive Director in May 1995. He is Professor/Director of the Division of Haematology and Medical Oncology at the Peter MacCallum Cancer Institute in Melbourne, Australia. Among his numerous professional positions, Prof. Zalcborg has served as president of the Clinical Oncology Society of Australia; is currently the Chairman of the Australasian Gastrointestinal Trials Group, and a member of the National Colorectal Cancer Care Surgery Working Party.

**7. Information on Directors (cont'd)**

*Mr Patrick Burns, B.A. LLB (Hons)*  
*Non-Executive Independent Director*  
*Member of the Audit Committee*

*Member of the Remuneration Committee*

Mr Burns was appointed a Non-Executive Director in March 1999. Mr Burns holds a law degree from Harvard Law School. He is currently a non-executive director of ChemGenex Pharmaceuticals Ltd (ASX:CSX); vice chairman of Euclid Systems Corp, an eye-care company; chairman of StablEyes, Inc a biotechnology company in the eye-care field; a director of Firm View Inc and an advisor to a number of early stage technology companies.

*Dr Malvin Eutick, B.Sc. (Hons) Ph.D. OAM*  
*Non-Executive Independent Director*  
*Chairman of the Audit Committee*

*Member of the Remuneration Committee*

Dr Eutick was appointed a Non-Executive Director in March 1999. Dr Eutick holds a science degree and a Ph.D. in biochemistry from the University of Sydney. He is a director of several private companies including TUTA Healthcare Pty Ltd and EuPharma Pty Ltd. He has had a long association with the biotechnology industry and was awarded the Medal of the Order of Australia for services to the industry in 1995.

*Dr Stanley Chang, MD. Ph.D.*  
*Non-Executive Director*

Dr Chang was appointed a Non-Executive Director in February 2001. Dr Chang holds a medical degree from the National Taiwan University (NTU) college of Medicine, and a Ph.D. from the Department of Surgery, London Medical School, University of London. Dr Chang is the Chairman and CEO of Taiwan-based Medigen Biotechnology Corporation.

*Mr Eugene Cheng, B.Eng, MBA*  
*Alternate for Dr Stanley Chang*

Mr Cheng was appointed the alternate director for Dr. Stanley Chang in March 2003. He is currently the chief operating officer of Medigen Biotechnology Corporation. Mr. Cheng holds a B.E. in chemical engineering from the Chung Yuan College of Science and Engineering, Chung Li, Taiwan, and an M.B.A. from the Management School of the National Sun Yat-sen University, Kaohsiung, Taiwan.

*Mr Linton Burns, B.A. Acc., ACA*  
*Company Secretary and Chief Financial Officer*

Mr Burns was appointed Company Secretary and Chief Financial Officer in August 2004. He is a qualified Chartered Accountant with over 17 years of commercial experience. Before joining Progen, Burns spent 5 years as CFO and Company Secretary for ASX listed biotechnology company BresaGen Limited. Mr Burns is the Company's representative on the Board of Medigen Biotechnology Corporation.

**8. Particulars on Directors' Interest in Shares and Options**

As at the date of this report the directors' interests in shares and options of the Company as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001 were:

<b>Director</b>	<b>Shares</b>	<b>Options</b>
Stephen Chang	736,424	-
T Justus Homburg	25,000	30,000
Prof John Zalcborg	15,849	-
Patrick Burns	500	-
Dr Mal Eutick	15,000	-
Dr Stanley Chang	-	-
Eugene Cheng	-	-

## 9. Directors' Attendance at Board and Committee Meetings

The number of directors' meetings held during the year and the number of meetings attended by each director were as follows:

Name	Directors' Meetings		Audit Committee Meetings	
	A	B	A	B
Stephen Chang	11	11	*	*
Lewis Lee (resigned 1 March 2006)	8	8	*	*
T Justus Homburg (appointed 1 March 2006)	3	3	*	*
Prof John Zalberg	11	11	5	5
Patrick Burns	11	11	5	5
Dr Mal Eutick	11	11	5	5
Dr Stanley Chang	10	11	*	*
Eugene Cheng (alternate director for Dr Stanley Chang)	1	11	*	*

**Key:** A : Number of meetings attended  
 B : Number of meetings held during the time the director held office or was a member of the audit committee  
 \* : Not a member of the audit committee

## 10. Remuneration Report

### A. Principles used to determine the nature and amount of remuneration

Remuneration levels are competitively set to attract the most qualified and experienced directors and executives. The remuneration structures outlined below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of shareholder value.

The Board ensures that executive reward satisfies the following criteria for good reward corporate governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management

Remuneration packages include a mix of fixed and variable remuneration and long-term based incentives.

### Non-executive directors

Non-executive directors' fees reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed periodically by the Board.

Non-executive directors' have, in the past, received share options in the Company. The Company considers that issuing options to non-executive directors is good cash management in that it is a form of non-cash remuneration. Details of share options currently held by non-executive directors are shown on page 9. The Company may consider issuing further share options to non-executive directors', such allocations are subject to shareholder approval under the listing rules of the Australian Stock Exchange.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The current aggregate fee pool limit is \$300,000 which was approved by shareholders at the 2002 AGM.

Fees paid to non-executive directors' were last reviewed on 1 January 2005 and amount to \$53,750 per annum for each non-executive director. This is inclusive of board committee fees.

Retirement allowances are not paid to non-executive directors.

**Executive pay**

The executive pay and reward framework has two components:

- fixed remuneration including base pay and benefits
- performance-linked remuneration

*Fixed remuneration*

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Base pay for senior executives is reviewed annually through a process that considers individual performance and overall performance of the Company. A senior executive's remuneration is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts. Certain executives are however entitled to receive a fixed number of options on the first three anniversaries of commencement of employment with the Company. Such arrangements are used as a non-cash inducement to secure the services of those senior executives' and as a means of retaining the services of those senior executives'.

The Company does not pay retirement benefits to any senior executives' other than contributing compulsory superannuation to the senior executives' fund of choice. This benefit forms part of the senior executives' base remuneration.

*Performance-linked remuneration*

Performance linked remuneration includes both cash and equity based incentives and is designed to reward executive directors and senior executives' for achieving certain defined milestones.

Periodically, the Remuneration Committee sets the milestones which, if achieved, form the basis for the payment of cash bonuses. Currently several senior executives can earn cash bonuses on the achievement of certain pre-agreed milestones.

Equity based incentives currently consist of options that are issued under the Progen Directors and Employee Option Incentive Plan which was approved at the 2004 AGM.

The Remuneration Committee periodically considers the granting of options to senior executives'. With the exception of the Managing Director the number of options granted to senior executives' is based on the prior performance and seniority of that executive and therefore they have no performance hurdles attached to them that are required to be achieved before they can be exercised. The exercise price has however been set above the share price at the time of grant, thereby linking this component of remuneration to shareholder returns.

Details of options currently held by senior executives' is shown on page 10 of the financial statements.

As a development stage company the Remuneration Committee does not provide long-term incentives based on the Company's earnings.

In considering the consequences of the Company's performance on shareholder wealth the Board have regard to total shareholder returns. In the Company's case this consists of the movement in the Company's share price and other capital management incentives. Given the current stage of the Company's development we have never paid a dividend and currently have no intentions of doing so.

The following table shows the change in the Company's share price and market capitalisation during the current financial year and the previous four financial years:

	2006	2005	2004	2003	2002
Share price at end of year	\$2.70	\$2.69	\$3.55	\$0.76	\$1.01
Change in share price	\$0.01	\$(0.86)	\$2.79	\$(0.25)	\$(0.53)
Market capitalisation at end of year (\$m's)	\$109.6	\$109.1	\$122.5	\$22.9	\$24.6
Change in market capitalisation (\$m's)	\$0.50	\$(13.4)	\$99.6	\$(1.7)	\$(13.0)

**B. Details of remuneration of key management personnel (audited)**

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

Directors		Short term benefits			Post employment benefits		Share-based payments	Total \$
		Salary and fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Retirement \$	Options \$	
Stephen Chang	2006	295,526	-	-	30,421	-	-	325,947
Executive Chairman	2005	236,177	-	-	21,256	-	-	257,433
T Justus Homburg <sup>1</sup>	2006	135,526	-	-	8,707	-	23,539	167,772
Chief Executive	2005	-	-	-	-	-	-	-
Lewis Lee <sup>2</sup>	2006	221,142	45,872	18,921	22,069	-	-	308,004
Chief Executive	2005	268,783	-	37,885	24,190	-	-	330,858
Prof John Zalcborg	2006	49,312	-	-	4,438	-	-	53,750
Non-executive	2005	44,376	-	-	3,994	-	-	48,370
Patrick Burns	2006	53,750	-	-	-	-	-	53,750
Non-executive	2005	48,370	-	-	-	-	-	48,370
Dr Mal Eutick	2006	49,312	-	-	4,438	-	-	53,750
Non-executive	2005	44,376	-	-	3,994	-	-	48,370
Dr Stanley Chang	2006	53,750	-	-	-	-	-	53,750
Non-executive	2005	48,370	-	-	-	-	-	48,370
Eugene Cheng	2006	-	-	-	-	-	-	-
Alternate, non-executive	2005	-	-	-	-	-	-	-

<sup>1</sup> Commenced employment on 3 January 2006, appointed a director on 1 March 2006.

<sup>2</sup> Resigned 1 March 2006.

Table 2: Remuneration for the other key management personnel for the year ended 30 June 2006.

Other key management personnel		Short term benefits			Post employment benefits		Share-based payments	Total \$
		Salary and fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Retirement \$	Options \$	
Linton Burns <sup>1</sup>	2006	145,000	27,523	-	15,527	-	23,413	211,463
Company Secretary, CFO	2005	117,819	-	-	10,604	-	33,330	161,753
Anand Gautam <sup>2</sup>	2006	113,211	-	-	10,189	-	-	123,400
VP Research & Development	2005	-	-	-	-	-	-	-
Sarah Meibusch <sup>3</sup>	2006	95,000	4,987	-	8,999	-	-	108,986
Director of Business Development	2005	3,288	-	-	295	-	-	3,583
Greg Orders	2006	100,004	-	-	9,000	-	-	109,004
General Manager, Manufacturing	2005	89,127	-	28,457	9,018	-	-	126,602
Dr. R. Don <sup>4</sup>	2006	-	-	-	-	-	-	-
V.P. Research & Development	2005	107,834	-	-	7,429	-	-	115,263
M.McColl <sup>5</sup>	2006	-	-	-	-	-	-	-
CFO	2005	6,531	-	2,049	766	-	-	9,346
Dr D. Schliebs <sup>6</sup>	2006	-	-	-	-	-	-	-
V.P. Business Development	2005	122,024	-	14,586	10,708	-	25,520	172,838

<sup>1</sup> Appointed 23 August 2004

<sup>2</sup> Appointed 19 Sept 2005

<sup>3</sup> S Meibusch was appointed Director of Business Development on 17 June 2005. Before this appointment she was the Company's Manager of Business Development. Amounts shown above include S Meibusch's remuneration as the Director of Business Development and not that of the entire reporting period.

<sup>4</sup> Resigned 4 March 2005

<sup>5</sup> Resigned 15 August 2004

<sup>6</sup> Resigned 17 June 2005

**PROGEN INDUSTRIES LIMITED  
INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

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***C. Service agreements (audited)***

It is the Company's policy that service contracts for executive directors and senior executives be unlimited in term but capable of termination on specified notice periods and that the Company has the right to terminate the contract immediately, by making payment equal to the specified notice period as pay in lieu of notice other than for misconduct when termination is immediate. The executive directors and senior executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual leave and long service leave.

The service contract outlines the components of remuneration paid to the executive directors and senior executives but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive.

The current base remuneration and termination notice periods included in the service agreements with executives are detailed below.

*S Chang, Executive Chairman*

- Term of agreement – until next AGM where re-election in accordance with the Company's Constitution is required.
- Current base salary, inclusive of superannuation, of \$305,200, last reviewed on 1 January 2005.
- Provision of a motor vehicle, or payment of a motor vehicle allowance not exceeding \$20,000.
- Payment of termination benefit on early termination by the Company, other than for misconduct, equal to 13 weeks base salary.

*T J Homburg, CEO and Managing Director*

- Term of agreement – unlimited, capable of termination on 6 months notice.
- Current base salary, inclusive of superannuation, of \$305,200, last reviewed on 31 March 2006.
- Payment of termination benefit on termination by the Company, other than for misconduct, equal to 6 months base salary.

*L Burns, CFO and Company Secretary*

- Term of agreement – unlimited, capable of termination on 8 weeks notice.
- Current base salary, inclusive of superannuation, of \$158,050, last reviewed on 1 January 2005.
- Payment of termination benefit on termination by the Company, other than for misconduct, equal to 8 weeks base salary.

*A Gautam, Vice President, Research & Development*

- Term of agreement – unlimited, capable of termination on 8 weeks notice.
- Current base salary, inclusive of superannuation, of \$158,050, last reviewed on 28 July 2005.
- Payment of termination benefit on termination by the Company, other than for misconduct, equal to 8 weeks base salary.

*G Order, General Manager, Manufacturing*

- Term of agreement – unlimited, capable of termination on 4 weeks notice.
- Current base salary, inclusive of superannuation, of \$109,000, last reviewed on 1 January 2005.
- Payment of termination benefit on termination by the Company, other than for misconduct, equal to 4 weeks base salary.

*S Meibusch, Director of Business Development*

- Term of agreement – unlimited, capable of termination on 4 weeks notice.
- Current base salary, inclusive of superannuation, of \$103,550, last reviewed on 20 June 2005.
- Payment of termination benefit on termination by the Company, other than for misconduct, equal to 8 weeks base salary.

**PROGEN INDUSTRIES LIMITED  
INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

***D. Share-based payments (audited)***

The last tranche of options granted to the directors and employees of the Company was made on 28 October 2003 under the terms of the Employee and Executive Share Incentive Scheme ("2003 Plan") which was approved by shareholders at the 2003 annual general meeting.

The options granted to employees during the current reporting period relate to those negotiated as a component of compensation at the time the employee was considering an offer to join the Company. These options were granted under either the terms of the 2003 Plan or the Directors and Employees Option Incentive Plan which was approved by shareholders at the 2004 annual general meeting.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Name	Grant date	Expiry date	No. of options granted	Exercise price	Value per option at grant date	Date exercisable
Linton Burns	2 September 2005	28 February 2008	33,000	\$3.03	\$0.71	From date of grant
T Justus Homburg	17 February 2006	8 November 2008	30,000	\$3.09	\$0.78	8 April 2006

Options granted under the plans for no consideration, have no vesting hurdles, and carry no dividend or voting rights. When exercised each option is converted into one ordinary share.

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of the options granted to directors and executives. The fair value of options granted in 2005 and 2006 were computed at grant date using a bi-nomial option pricing model with the following weighted average assumptions:

	2006	2005
Expected life (yrs)	2.28	0.94
Expected volatility	56.0%	51.9%
Expected dividend yield	0.0%	0.0%
Risk free interest rate	5.16%	5.29%

Further details relating to options are set out below.

Name	A % remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B to D \$
T Justus Homburg	14.0%	23,539	-	-	23,539
Linton Burns	11.1%	23,413	21,450	Nil	44,863
Sarah Meibusch	0.0%	-	-	Nil	Nil

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in using a bi-nomial option pricing model using assumptions disclosed elsewhere in this directors report.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year. This figure represents the intrinsic value of the options at exercise date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year. Where options lapsed due to the underlying share price at the time of option expiry being greater than the exercise price \$Nil is shown.

**PROGEN INDUSTRIES LIMITED  
INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

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**D. Share-based compensation (audited) (cont'd)**

For each cash bonus and grant of options included in the tables under sections B and D above the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses are payable in future years. No options granted to directors or key management personnel contain vesting conditions.

	Cash Bonus		Options	
	Paid %	Forfeited %	Vested %	Forfeited %
Lewis Lee (resigned 1 March 2006)	42	58	-	-
Linton Burns	60	40	-	-
Sarah Meibusch	10	90	-	-
Anand Gautam	0	100	-	-

**11. Loans to Directors and Executives**

No loans have been paid to Company directors or executives during or since the end of the financial year.

**12. Environmental Regulations**

The Company complies with all environmental regulations applicable to its operations.

**13. Rounding**

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

**14. Indemnification and Insurance of Directors and Officers**

During the year, the Company paid a premium to insure the directors, company secretary and other executive staff. Due to the terms and conditions of the insurance arrangements, disclosure of the nature of the insurance and the premium are excluded.

The liabilities insured include costs and expenses that may be incurred in defending any wrongful, but not wilful, act, error or omission by the officers in their capacity as officers of the Company.

No other insurance premiums have been paid or indemnities given, during or since the end of the year, for any person who is or has been an officer or auditor of the Company.

**Auditor Independence and Non-Audit Services**


A copy of the Company's auditors' independence declaration is set out on the following page.

**Non-Audit Services**

The Company's auditor, Ernst & Young, did not provide any non-audit services during the financial year ended 30 June 2006.

Signed in accordance with a resolution of the directors.

S. Chang  
Director



T.J. Homburg  
Director

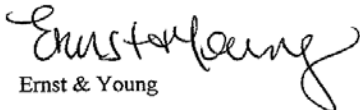



Date: 29 August 2006

Date: 29 August 2006

**Auditor's Independence Declaration to the Directors of Progen Industries Limited**

In relation to our audit of the financial report of Progen Industries Limited for the 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 code of professional conduct.

  
Ernst & Young

  
Winna Brown  
Partner

30 August 2006

**PROGEN INDUSTRIES LIMITED**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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	Note	2006 \$'000	2005 \$'000
<b>REVENUE FROM CONTINUING OPERATIONS</b>			
Sales revenue	4 (a)	905	1,428
Cost of sales		45	334
<b>GROSS PROFIT</b>		<b>860</b>	<b>1,094</b>
Other income from ordinary activities	4 (b)	1,917	1,626
Research and development expenses		3,896	4,081
Manufacturing expenses		2,030	1,373
Administrative and corporate expenses		3,816	3,219
Finance costs	4 (c)	25	27
Impairment of available-for-sale financial assets	10	619	-
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE</b>		<b>(7,609)</b>	<b>(5,980)</b>
<b>INCOME TAX EXPENSE RELATING TO CONTINUING OPERATIONS</b>	5	-	-
<b>NET LOSS ATTRIBUTABLE TO MEMBERS OF PROGEN INDUSTRIES LIMITED</b>		<b>(7,609)</b>	<b>(5,980)</b>
Basic and diluted loss per share (cents per share)	6	(18.8)	(16.7)
Dividends per share (cents per share)		-	-

**PROGEN INDUSTRIES LIMITED**  
**BALANCE SHEET**  
**AS AT 30 JUNE 2006**

	Note	2006 \$'000	2005 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	15,872	23,428
Trade and other receivables	9	156	243
Short-term deposits		87	-
Prepayments		449	38
<b>Total Current Assets</b>		<b>16,564</b>	<b>23,709</b>
<b>Non-current Assets</b>			
Short-term deposits		-	13
Available-for-sale financial assets	10	1,769	2,388
Property, plant and equipment	11	1,460	908
<b>Total Non-current Assets</b>		<b>3,229</b>	<b>3,309</b>
<b>TOTAL ASSETS</b>		<b>19,793</b>	<b>27,018</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	1,265	1,162
Provisions	14	265	250
Unearned government grants		74	-
<b>Total Current Liabilities</b>		<b>1,604</b>	<b>1,412</b>
<b>Non-current liabilities</b>			
Provisions	14	217	223
Unearned government grants		52	-
<b>Total Non-current liabilities</b>		<b>269</b>	<b>223</b>
<b>TOTAL LIABILITIES</b>		<b>1,873</b>	<b>1,635</b>
<b>NET ASSETS</b>		<b>17,920</b>	<b>25,383</b>
<b>EQUITY</b>			
Issued capital	15	88,476	88,376
Options reserve		102	56
Accumulated losses	23	(70,658)	(63,049)
<b>TOTAL EQUITY</b>		<b>17,920</b>	<b>25,383</b>

**PROGEN INDUSTRIES LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Number of ordinary shares	Amount \$'000	Accumulated losses \$'000	Options reserve \$'000	Total \$'000
<b>At 1 July 2004</b>	<b>34,521,065</b>	<b>73,751</b>	<b>(57,069)</b>	<b>-</b>	<b>16,682</b>
Income and expense recognised directly in equity	-	-	-	-	-
Loss of the period	-	-	(5,980)	-	(5,980)
<b>Total income/expense for the period</b>	<b>-</b>	<b>-</b>	<b>(5,980)</b>	<b>-</b>	<b>(5,980)</b>
Exercise of options	4,816,713	12,041	-	-	12,041
Share placement	1,219,015	3,048	-	-	3,048
Less transaction costs		(464)	-	-	(464)
Cost of share-based payment	-	-	-	56	56
<b>At 30 June 2005</b>	<b>40,556,793</b>	<b>88,376</b>	<b>(63,049)</b>	<b>56</b>	<b>25,383</b>
<b>At 1 July 2005</b>	<b>40,556,793</b>	<b>88,376</b>	<b>(63,049)</b>	<b>56</b>	<b>25,383</b>
Income and expense recognised directly in equity	-	-	-	-	-
Loss of the period	-	-	(7,609)	-	(7,609)
<b>Total income/expense for the period</b>	<b>-</b>	<b>-</b>	<b>(7,609)</b>	<b>-</b>	<b>(7,609)</b>
Exercise of options	33,000	100	-	-	100
Cost of share-based payment	-	-	-	46	46
<b>At 30 June 2006</b>	<b>40,589,793</b>	<b>88,476</b>	<b>(70,658)</b>	<b>102</b>	<b>17,920</b>

**PROGEN INDUSTRIES LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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	Notes	2006 \$'000	2005 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		1,250	2,091
Payments to suppliers and employees and others		(9,668)	(8,799)
Receipt of government grants		838	605
Interest received		1,084	820
Finance costs		(25)	(27)
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	8	<u>(6,521)</u>	<u>(5,310)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for short-term deposits		(74)	-
Purchase of property, plant, equipment and other assets	11	(1,061)	(216)
Proceeds from sale of property, plant and equipment		-	8
<b>NET CASH FLOWS FROM USED IN INVESTING ACTIVITIES</b>		<u>(1,135)</u>	<u>(208)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Exercise of options		100	12,041
Share placement		-	3,048
Transaction costs of issue of shares		-	(464)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<u>100</u>	<u>14,625</u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		(7,556)	9,107
Cash and cash equivalents at beginning of period		<u>23,428</u>	<u>14,321</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	8	<u><u>15,872</u></u>	<u><u>23,428</u></u>

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**1. CORPORATE INFORMATION**

The financial report of Progen Industries Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 29 August 2006.

Progen Industries Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange (ASX).

The nature of the operations and principal activities of the Company are described in Note 3.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

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. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

**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 prepared 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 AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 24.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

<b>AASB Amendment</b>	<b>Affected Standards</b>	<b>Title</b>	<b>Nature of change to accounting policy</b>	<b>Application date of standard*</b>	<b>Application date for the Company</b>
2004 – 3	AASB 119	Employee Benefits	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005 – 1	AASB 139	Financial Instruments: Recognition and Measurements	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005 – 4	AASB 139 AASB 132 AASB 1 AASB 1023 AASB 1038	Financial Instruments Financial Instruments First-time adoption of AIFRS General Insurance Contracts Life Insurance Contract	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005 – 5	AASB 1 AASB 139	First-time adoption of AIFRS Financial Instruments	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005 – 6	AASB 3	Business Combinations	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005 – 9	AASB 4 AASB 1023 AASB 139 AASB 132	Insurance Contracts General Insurance Contracts Financial Instruments Financial Instruments	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

2005 – 10	AASB 132 AASB 101  AASB 114 AASB 117 AASB 139 AASB 4 AASB 1023 AASB 1038	Financial Instruments Presentation of Financial Statements Segment Reporting Leases Financial Instruments Insurance Contracts General Insurance Contracts Life Insurance Contracts	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
2006 – 1	AASB 121	The Effects of Change in Foreign Currency Rates	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
New Standard	AASB 7	Financial Instruments:	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
	UIG 4	Determining whether an Arrangement contains a Lease	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
	UIG5	Rights to Interests in Decommissioning , Restoration and Environmental Rehabilitation Funds	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
	UIG 7	Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies	No change to accounting policy required. Therefore no impact	1 March 2006	1 July 2006
	UIG8	Scope of AASB 2	No change to accounting policy required. Therefore no impact	1 May 2006	1 July 2006
	UIG9	Reassessment of Embedded Derivatives	No change to accounting policy required. Therefore no impact	1 June 2006	1 July 2006

\*Application date is for the annual reporting periods beginning on or after the date shown in the above table, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005

The following amendments are not applicable to the Company and therefore have no impact.

<b>AASB Amendment</b>	<b>Affected Standard(s)</b>	<b>Title</b>
2006 – 2	AASB 1	First-time Adoption of IFRS for not-for-profit entities
2005 – 13	AAS 25	Financial Reporting by Superannuation Plans
2005 – 12	AASB 1038	Life Insurance Contracts
2005 – 12	AASB 1023	General Insurance Contracts
2005 – 9	AASB 4	Insurance Contracts
2005 – 9	AASB 1023	General Insurance Contracts
2005 – 9	AASB 139	Financial Instruments: Recognition and Measurements
2005 – 9	AASB 132	Financial Instruments: Disclosure and Presentation
2005 – 4	AASB 139	Financial Instruments: Recognition and Measurements
2005 – 4	AASB 132	Financial Instruments: Disclosure and Presentation
2005 – 4	AASB 1	First-time Adoption of IFRS
2005 – 4	AASB 1023	General Insurance Contracts
2005 – 4	AASB 1038	Life Insurance Contracts
2005 – 2	AASB 1023	General Insurance Contracts
2005 – 1	AASB139	Financial Instruments: Recognition and Measurement

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **Significant accounting, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### *(i) Available-for-sale investments*

At each reporting date the Company tests whether the investment in Medigen Biotechnology Corporation (MBC) has suffered any impairment, in accordance with the *Impairment of financial assets* accounting policy. The recoverable amount and hence any estimated impairment is based on the Company's ownership interest in the adjusted net tangible assets of MBC. The assumption being that this is a reasonable estimate of the recoverable amount. Refer to Note 10 for details of this investment.

### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

#### *(ii) Rendering of services*

Revenue from the provision of contract manufacturing services is recognised by reference to the stage of completion. Stage of completion is measured by reference to the outcome achieved to date as a percentage of the total outcome required for each contract.

#### *(iii) Interest income*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### **Government grants**

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### **Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

### **Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### **Trade and other receivables**

The Company 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 trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

#### *Accounting policies applicable for the year ending 30 June 2006*

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

#### *Accounting policies applicable for the year ending 30 June 2005*

Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

### **Impairment of financial assets**

The Company 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 applicable for the years ending 30 June 2006 and 30 June 2005.

#### *Accounting policies applicable for the year ending 30 June 2006*

The Company assesses at each balance sheet date whether a financial asset is impaired.

##### *(i) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **Impairment of financial assets (cont'd)**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### *(ii) Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

#### *(iii) Available-for-sale investments*

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### *Accounting policies applicable for the year ending 30 June 2005*

For current and non-current financial assets, refer to note above for the impairment accounting policy.

### **Foreign currency translation**

Both the functional and presentation currency of the Company is Australian dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the financial report are taken to profit or loss.

### **Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **Income tax (cont'd)**

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### **Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### **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.

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

Plant and equipment	5 to 10 years
Office furniture and equipment	3 to 10 years
Leasehold improvements	3 to 6 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### *(i) Impairment*

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **Property, plant and equipment (cont'd)**

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

#### *(ii) Derecognition and disposal*

An item of property, plant and 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 amount of the asset) is included in profit or loss in the year the asset is derecognised.

### **Investments and other financial assets**

The Company 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 investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

#### *Accounting policies applicable for the year ending 30 June 2006*

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

#### *(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *(ii) Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques, or cost if that approximates fair value. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

#### *Accounting policies applicable for the year ending 30 June 2005*

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **Investments and other financial assets (cont'd)**

All other non-current investments were carried at the lower of cost and recoverable amount.

#### *Recoverable amount*

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount.

### **Impairment of assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### **Trade and other payables**

The Company 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 trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

#### *Accounting policies applicable for the year ending 30 June 2006*

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

#### *Accounting policies applicable for the year ending 30 June 2005*

Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received.

### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **Provisions (cont'd)**

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### **Employee leave benefits**

#### *(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. Annual leave accrued and expected to be settled within 12 months of the reporting date is recognised in current provisions. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### **Share-based payment transactions**

#### *(i) Equity settled transactions:*

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in Note 12.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

- (i) the extent to which the vesting period has expired and
- (ii) the Company's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Share-based payment transactions (cont'd)**

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Earnings per share**

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

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share 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 ordinary shares, adjusted for any bonus element.

**3. SEGMENT INFORMATION**

The Company operates predominantly in the biotechnology industry. The Company's primary segment reporting format is business segments as the Company's risks and rates of return are affected predominantly by differences in the products and services produced. The Company's activities comprise the research, development, and manufacture of biopharmaceuticals.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Company operates predominantly in Australia, however does import and export some products.

<b>Business Segments 2006</b>	<b>Research &amp; Development \$'000</b>	<b>Manufacturing \$'000</b>	<b>Total \$'000</b>
<b>Operating Revenue</b>			
Sales to external customers	-	905	905
Government grants	760	-	760
Total segment revenue	<u>760</u>	<u>905</u>	<u>1,665</u>
Unallocated revenue			<u>1,157</u>
Total revenue			<u><u>2,822</u></u>
<b>Segment Result</b>	(3,135)	(1,170)	(4,305)
Unallocated revenues & expenses			<u>(3,304)</u>
<b>Operating loss</b>			<u><u>(7,609)</u></u>

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**3. SEGMENT INFORMATION (cont'd)**

<b>Business Segments</b>	<b>Research &amp; Development</b>	<b>Manufacturing</b>	<b>Total</b>
<b>2005</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Operating Revenue</b>			
Sales to external customers	-	1,428	1,428
Government grants	767	-	767
Total segment revenue	<u>767</u>	<u>1,428</u>	<u>2,195</u>
Unallocated revenue			<u>859</u>
Total revenue			<u><u>3,054</u></u>
<b>Segment Result</b>	(3,314)	(279)	(3,593)
Unallocated revenues & expenses			<u>(2,387)</u>
<b>Operating loss</b>			<u><u>(5,980)</u></u>
<b>2006</b>			
<b>Assets</b>			
Segment assets	783	898	1,681
Unallocated assets			<u>18,112</u>
Total assets			<u><u>19,793</u></u>
<b>Liabilities</b>			
Segment liabilities	854	193	1,047
Unallocated liabilities			<u>826</u>
Total liabilities			<u><u>1,873</u></u>
<b>Other Segment Information</b>			
Acquisition of Property, Plant & Equipment, and other non-current assets	330	545	875
Unallocated acquisition of Property, Plant & Equipment, and other non-current assets			186
Depreciation	220	274	494
Unallocated depreciation			38
<b>2005</b>			
<b>Assets</b>			
Segment assets	184	706	890
Unallocated assets			<u>26,128</u>
Total assets			<u><u>27,018</u></u>
<b>Liabilities</b>			
Segment liabilities	506	96	602
Unallocated liabilities			<u>1,033</u>
Total liabilities			<u><u>1,635</u></u>
<b>Other Segment Information</b>			
Acquisition of Property, Plant & Equipment, and other non-current assets	35	172	207
Unallocated acquisition of Property, Plant & Equipment, and other non-current assets			9
Depreciation	223	322	545
Unallocated depreciation			24

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**4. REVENUE AND EXPENSES**

The following revenue and expense disclosure is relevant in explaining the performance of the entity:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Revenue</b>		
Revenue from services	905	1,428
	<u>905</u>	<u>1,428</u>
<b>(b) Other income</b>		
Interest	1,103	820
Government grants	760	767
Other revenue	54	39
	<u>1,917</u>	<u>1,626</u>
<b>(c) Finance cost</b>		
Other Loans	15	17
Make good provision discount adjustment	10	10
Total Finance costs	<u>25</u>	<u>27</u>
<b>(d) Depreciation, amortisation and foreign exchange differences included in the income statement</b>		
Depreciation	532	569
Net foreign exchange differences	(14)	7
<b>(e) Lease payments and other expenses included in the income statement</b>		
Minimum lease payments – operating leases	222	121
<b>(f) Employee benefits expenses</b>		
Wages and salaries	3,729	3,348
Long service leave provision	18	29
Share-base payments expenses	46	33

**5. INCOME TAX**

The prima facie tax, using tax rates applicable in the country of operation, on operating loss differs from the income tax provided in the financial statements as follows:

Prima facie tax on loss from ordinary activities @ 30%	(2,283)	(1,794)
Tax effect of amounts which are not deductible (taxable in calculating taxable income):		
Impairment of available-for-sale investment	186	-
Other expenses	87	(33)
Additional deduction for research and development expenditure	(218)	(315)
	<u>(2,228)</u>	<u>(2,142)</u>
Income tax benefit attributable to current year losses as reported in the Income Statement	(2,228)	(2,142)
Deferred tax asset not brought to account as realisation of the asset is not regarded as probable	2,228	2,142
Income tax attributable to operating loss	<u>-</u>	<u>-</u>

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**5. INCOME TAX (cont'd)**

	Balance sheet		Income Statement	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Deferred income tax</b>				
Deferred income tax at 30 June relates to the following:				
<i>Deferred tax liabilities</i>				
Interest on short-term investments	(24)	(30)	-	-
Gain on available-for-sale investment	(531)	(716)		
<i>Deferred tax assets</i>				
Sundry creditors and accruals	87	59	-	-
Depreciation	239	185	-	-
Employee entitlements	102	110	-	-
Make good obligation	41	-	-	-
Sec 40-880 costs	93	129	-	-
Patent costs	96	86	-	-
Losses available for offset against future taxable income	23,357	21,129	-	-
Deferred tax asset	23,460	20,952		
Deferred tax asset not recognised	(23,460)	(20,952)		
Gross deferred income tax assets	-	-		
Deferred tax income/(expense)			-	-

The deferred tax asset will only be obtained if:

- (i) future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (iii) no changes in tax legislation adversely affect the Company in realising the benefit.

**Tax Consolidation**

Effective from 1 July 2003, for purposes of income taxation, Progen Industries Limited and its dormant subsidiary have not entered into tax consolidation.

**6. EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss used in calculating basic earnings (loss) per share	(7,609)	(5,980)
	<b>Number of</b>	<b>Number of</b>
	<b>Shares</b>	<b>Shares</b>
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	40,560,782	35,709,343
Basic and diluted earnings (loss) per share (cents per share)	(18.8)	(16.7)

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**7. DIVIDENDS PAID AND PROPOSED**

The entity has not declared or paid dividends and does not anticipate declaring or paying any dividends in the immediate term.

**8. CASH AND CASH EQUIVALENTS**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	372	147
Short-term deposits	15,500	23,281
Cash and cash equivalents	<u>15,872</u>	<u>23,428</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

**Reconciliation of net loss after tax to net cash flows from operations**

Net loss	(7,609)	(5,980)
Adjustments for:		
Depreciation	532	569
Impairment of available-for-sale financial assets	619	-
Net (profit)/loss on disposal of property, plant and equipment	-	13
Restoration additions	(23)	-
Share options expensed	46	56

**Changes in assets and liabilities**

(Increase)/decrease in trade and other receivables	87	215
(Increase)/decrease in prepayments	(411)	123
(Decrease)/increase in trade and other payables	103	(345)
(Decrease)/increase in provisions	9	39
(Decrease)/increase in government grants	126	-
Net cash used in operating activities	<u>(6,521)</u>	<u>(5,310)</u>

**9. TRADE AND OTHER RECEIVABLES**

Trade receivables (i)	17	30
Other receivables	139	213
Total Trade and other receivables	<u>156</u>	<u>243</u>

(i) Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is not collectable.

**10. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS**

**Medigen Biotechnology Corporation - unlisted shares**

Beginning of financial year- carrying amount	2,388	2,388
Impairment loss	(619)	-
End of financial year – carrying amount	<u>1,769</u>	<u>2,388</u>

Available-for-sale investments consists of an investments in Medigen Biotechnology Corporation (MBC) ordinary shares, and therefore have no fixed maturity date or coupon rate.

On 31 May 2000 Progen entered into an agreement with MBC a company incorporated in Taiwan, in relation to the co-development of PI-88 (the 'Alliance Agreement'). Under the Alliance Agreement, MBC will fund and conduct, at no cost to Progen, several Phase II clinical trials in respect of PI-88. These trials are in addition to those undertaken by Progen. In return MBC is entitled to receive a portion of Progen's future PI-88 revenues. In accordance with the Alliance Agreement

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**10. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS (cont'd)**

Progen is to supply PI-88 to MBC free of charge for the designated trials and provide 'in kind' technical know-how to assist MBC with conduct of the trials. During the current year Progen provided 5,911 vials of PI-88 to Medigen at a total cost to the Company of \$131,000.

On 28 April 2005 Progen and MBC agreed to amend the terms of the Alliance Agreement in that Progen agreed to waive the requirement for MBC to conduct one of the Phase II trials outlined in the Alliance Agreement. In return MBC agreed to fund 50% of the Company's Phase II melanoma clinical trial (PI-88 in combination with Dacarbazine) up to \$A1 million.

Under the Alliance Agreement Progen was issued 19.9% of MBC's issued ordinary equity with certain anti-dilution rights. As at 30 June 2006 Progen held 15,176,525 ordinary shares in MBC.

An impairment loss of \$619,000 was recognised during the current year, which reduces the carrying amount of the Company's equity investment in MBC to the estimated recoverable amount.

Stanley Chang, a director of Progen, is the Chairman and CEO of MBC.

**11. PROPERTY, PLANT & EQUIPMENT**

	<b>1 July 2005</b>	<b>Additions</b>	<b>Restoration</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>30 June 2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>Additions</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
			<b>\$'000</b>	<b>\$'000</b>		
<b>Plant &amp; Equipment</b>						
At cost	4,533	844	-	(774)	-	4,603
Accumulated Depreciation	(3,740)	-	-	774	(442)	(3,408)
	<u>793</u>	<u>844</u>	<u>-</u>	<u>-</u>	<u>(442)</u>	<u>1,195</u>
<b>Office Equipment</b>						
At cost	449	64	-	(160)	-	353
Accumulated Depreciation	(412)	-	-	160	(34)	(286)
	<u>37</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>(34)</u>	<u>67</u>
<b>Leasehold Improvements</b>						
At cost	612	153	23	-	-	788
Accumulated Depreciation	(534)	-	-	-	(56)	(590)
	<u>78</u>	<u>153</u>	<u>23</u>	<u>-</u>	<u>(56)</u>	<u>198</u>
<b>TOTAL</b>	<b>908</b>	<b>1,061</b>	<b>23</b>	<b>-</b>	<b>(532)</b>	<b>1,460</b>

**12. SHARE BASED PAYMENT PLANS**

The Company has previously issued directors, executives and certain permanent members of staff options over the ordinary shares of Progen Industries Limited. These options issued in accordance with the employee and executive directors option plans established by the directors of Progen Industries Limited. The options are issued for varying terms not exceeding 10 years and are exercisable upon issue.

During the 2006 financial year 63,000 options were issued under the terms of an employee and non-executive director share incentive scheme approved at the 2004 Annual General Meeting. These options were issued for nil consideration and are exercisable upon issue. Of the 63,000 options issued 33,000 have been exercised. The remaining 30,000 expire on the 8 November 2008.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**12. SHARE BASED PAYMENT PLANS (cont'd)**

Information with respect to the number of options granted under the employee share incentive scheme is as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Number of Options</b>	<b>Weighted average exercise price \$</b>	<b>Number of Options</b>	<b>Weighted average exercise price \$</b>
Beginning of the financial year	567,820	4.00	2,529,064	3.44
- granted	63,000	3.06	65,000	4.00
- forfeited	(22,000)	4.00	(26,000)	4.00
- expired	(545,820)	4.00	(472,033)	5.86
- exercised (i)	(33,000)	3.03	(1,528,211)	2.50
Balance at end of year	30,000	3.09	567,820	4.00
Exercisable at end of year	30,000		567,820	

(i) The weighted average share price at the date of exercise is \$3.68 (2005; \$3.42).

Fair value of shares issued during the reporting period is estimated to be the market price of shares of Progen Industries Limited on the ASX as at the close of trading on their respective issue dates.

The following table summarises information about options granted under the employee share incentive scheme outstanding and exercisable at 30 June 2006:

<b>Grant date</b>	<b>Expiry date</b>	<b>Balance Beginning of Year</b>		<b>Balance End of Year</b>	
		<b>Number of options</b>	<b>Average option price \$</b>	<b>Number of options</b>	<b>Average option price \$</b>
22 December 2000	22 December 2005	350,000	4.00	-	-
28 February 2001	28 February 2006	152,820	4.00	-	-
14 September 2004	28 February 2006	32,000	4.00	-	-
16 February 2005	28 February 2006	33,000	4.00	-	-
8 April 2006	8 November 2008	-	-	30,000	3.09
		<u>567,820</u>		<u>30,000</u>	<u>3.09</u>

The fair value of the equity-settled share options granted under the option plans is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the year ended 30 June 2005 and 30 June 2006:

	<b>2006</b>	<b>2005</b>
Expected volatility	56%	52%
Risk-free rate average	5.16 %	5.29%
Expected life of options average (years)	2.30	1.04
Option exercise price average	\$3.06	\$4.11
Weighted average share price at grant date	\$2.74	\$4.33

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

All options on issue at 30 June 2006 are exercisable from grant date.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**13. TRADE AND OTHER PAYABLES (CURRENT)**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade creditors (i)	394	257
Other creditors (ii)	871	905
	<u>1,265</u>	<u>1,162</u>

**Australian dollar equivalents**

Australian dollar equivalent of amounts payable in foreign currencies not hedged- United States Dollar \$39,133.

**Terms and conditions**

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have a term between 30 days and 12 months.

**14. PROVISIONS**

**Make good provision**

In accordance with the lease agreement terms, the Company must restore its leased premises situated at Darra, Brisbane and Toowong, Brisbane to their original condition at the end of the lease term. For the Darra premises a provision of \$108,000 was made during the year ended 30 June 2005 in respect of the Company's obligation to remove leasehold improvements from these leased premises. During the year ended 30 June 2006 the Company provided a further \$12,880 for this purpose. For the Toowong premises a provision of \$20,312 was made during this financial year.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The provision has been calculated using a discount rate of 10 per cent.

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Make good provision	141	108
<b>Employee benefits provision</b>		
Provision Long Service Leave	144	128
Provision Annual Leave	197	237
	<u>341</u>	<u>365</u>
Total Provisions	<u>482</u>	<u>473</u>
Current	265	250
Non Current	217	223
	<u>482</u>	<u>473</u>

**15. CONTRIBUTED EQUITY**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>a) Issued and paid up capital</b>		
Ordinary shares fully paid	<u>88,476</u>	<u>88,376</u>

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**15. CONTRIBUTED EQUITY (cont'd)**

**b) Movements in shares on issue**

	2006		2005	
	Number of Shares	\$'000	Number of Shares	\$'000
Beginning of the financial year	40,556,793	88,376	34,521,065	73,751
Issued during the year:				
- equity raised through private placement	-	-	1,219,015	3,048
less transaction costs	-	-	-	(464)
- options exercised by shareholders in terms of the Prospectus dated 19 November 2003	-	-	2,588,502	6,471
- placement options exercised	-	-	700,000	1,750
- options exercised by employees in terms of the October 2003 Employee Option Plan			1,528,211	3,820
- options exercised by employees in terms of the Employee Option Incentive Plan approved at the 2004 AGM held (i)	33,000	100	-	-
End of the financial year	40,589,793	88,476	40,556,793	88,376

(i) Shares allotted in terms of the Employee and Executive Share Incentive Scheme, were exercised in June 2006. Total proceeds received from the exercise of options was \$99,990

**c) Shares options**

At 30 June 2006 there were a total of 52,500 (2005: 590,320) unissued ordinary shares in respect of which options were outstanding, comprising of:

*(i) Consultant Options:*

At 30 June 2006 there were a total of 22,500 (2005: 22,500) unlisted options over ordinary shares issued as part of the terms of a consulting agreement.

*(ii) Employee and Executive share incentive scheme:*

During the 2006 financial year, 63,000 unlisted options over ordinary shares were issued in terms of Progen Directors and Employees Option Incentive Plan approved at the 2004 Annual General Meeting held on 30 November 2004.

In total 30,000 unlisted options over ordinary shares remain outstanding as at 30 June 2006.

**16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's principal financial instruments are cash and short-term deposits. The various other financial assets and liabilities are trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk and credit risks. The Board reviews and agrees policies for managing each of these risks which are summarised below. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

**Foreign currency risk**

As a result of an equity investment in the Taiwan based Medigen Biotechnology Corporation, the Company's balance sheet can be affected by movements in the NTD/A\$ exchange rates. The Company has not sought to hedge this risk.

**Credit risk**

The Company trades only with recognised, creditworthy third parties.

Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

**Investments**

Investments are made in accordance with a Board approved Investment Policy. Investments are typically in bank bills and investment grade commercial paper.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**17. FINANCIAL INSTRUMENTS**

	Carrying amount		Fair value	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Financial assets</b>				
Cash	15,872	23,428	15,872	23,428
Trade and other receivables	156	243	156	243
Security deposit	87	13	87	13
Available-for-sale investment	1,769	2,388	1,769	2,388
<b>Financial liabilities</b>				
Trade payables	1,391	1,162	1,391	1,162

**Interest rate risk**

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

**Fixed Interest Rate Maturing In:**

	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Total carrying amount as per the balance sheet \$'000	Weighted average effective interest rates %
<b>Financial Instruments 2006</b>					
<i>(i) Financial assets</i>					
Cash	15,872	-	-	15,872	5.6
Trade and other receivables	156	-	-	156	-
Security deposit	87	-	-	87	5.2
Available-for-sale investment	1,769	-	-	1,769	-
Total financial assets	17,884	-	-	17,884	
<i>(ii) Financial liabilities</i>					
Trade and other creditors	1,391	-	-	1,391	-
Total Financial liabilities	1,391	-	-	1,391	-

**Fixed Interest Rate Maturing In:**

	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Total carrying amount as per the balance sheet \$'000	Weighted average effective interest rates %
<b>Financial Instruments 2005</b>					
<i>(i) Financial assets</i>					
Cash	23,428	-	-	23,428	5.5
Trade and other receivables	243	-	-	243	-
Security deposit	13	-	-	13	3.3
Available-for-sale investment	2,388	-	-	2,388	-
Total financial assets	26,072	-	-	26,072	
<i>(ii) Financial liabilities</i>					
Trade and other creditors	1,162	-	-	1,162	-
Total Financial liabilities	1,162	-	-	1,162	-

## **17. FINANCIAL INSTRUMENTS (cont'd)**

### **b) Net fair values**

The carrying value of financial assets and liabilities at the balance date approximate their net fair values.

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

#### **Recognised financial instruments**

*Cash, cash equivalents and short-term investments:* The carrying amount approximates fair value because of their short-term to maturity.

*Trade and other receivables:* The carrying amount approximates fair value.

*Non-current investments/securities:* For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price and where the fair value cannot be reliably determined, the investment is carried at cost.

### **c) Credit risk exposure**

The Company's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets in the balance sheet.

### **d) Hedging instruments**

At 30 June 2006, the Company had no unused forward exchange contract facilities (2005: \$Nil).

## **18. EXPENDITURE COMMITMENTS**

### **(a) Expenditure commitments**

The following expenditure commitments had been contracted but not provided:

#### *Sponsored Research Agreement*

In 2006 the Company signed a Sponsored Research Agreement with the Australian National University. The terms of this agreement state that the Company is to fund research in quarterly amounts of \$65,259 until February 2007. The committed value of this agreement for the next financial year is \$152,270.

#### *Insurance Premium*

In July 2006 the Company signed an agreement to fund the Company's insurance premium for the year ended 30 June 2007. The terms of the agreement state that the amount funded is to be repaid in twelve equal monthly instalments of \$36,232 including finance charges (2005: nine equal instalments of \$59,666).

#### *Consultant Agreements*

During the financial year 2006 Progen entered into various consultant agreements with a committed value of \$29,657 for the next financial year (2005: \$376,913).

#### *Purchases*

At the end of the financial year 2006 Progen ordered goods and services with a total value of \$220,227 which had not been delivered by 30 June 2006 (2005: \$20,383).

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**18. EXPENDITURE COMMITMENTS (cont'd)**

**(a) Expenditure commitments (cont'd)**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Future expenditure commitments not provided for in the financial statements and payable:		
- not later than one year:		
Sponsor Research Agreement	152	58
Consultant Agreements	30	377
Insurance Premium	435	547
Purchases	220	20
Total not later than one year	<u>837</u>	<u>1,002</u>
- later than one and not longer than five years:	-	-
Total expenditure commitment	<u>837</u>	<u>1,002</u>

**(b) Non-cancellable operating lease commitments**

Future operating lease commitments not provided for in the financial statements and payable:

Minimum lease payments		
- not later than on year	237	107
- later than one and not longer than five years	234	77
- aggregate lease expenditure contracted for at balance date	<u>471</u>	<u>184</u>

The operating lease commitments include the rental of office premises and office equipment.

**(c) Clinical trials**

At 30 June 2006 the Company had anticipated expenditure commitments of \$3,374,000 (2005: \$1,936,000) in relation to the clinical trials currently being undertaken for PI-88 and PI-166. These commitments are forecast to become due and payable as follows: \$2,654,000 not later than one year, and \$762,000 later than one and not longer than five years, however that could vary depending upon the rate of patient recruitment.

**19. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS**

<b>Employee benefits</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
The aggregate employee entitlement liability is comprised of:		
Accrued wages, salaries and on-costs	119	154
Provisions (current)	265	250
Provisions (non-current)	76	115
	<u>460</u>	<u>519</u>

**Superannuation**

The Company makes no superannuation contributions other than the statutory superannuation guarantee levy. The Company does not operate a defined benefit plan on behalf of its employees.

The Company contributed on behalf of employees to superannuation funds for the year ended 2006: \$294,466 (2005: \$279,584).

**20. SUBSEQUENT EVENTS**

There has not been any material event, other than referred to elsewhere in the financial statements or notes thereto, that has arisen since 30 June 2006.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**21. AUDITORS' REMUNERATION**

	<b>2006</b>	<b>2005</b>
	\$	\$
Amounts received or due and receivable by Ernst & Young for:		
(a) Audit or review of the financial reports of the entity		
- The Australian financial report of the entity	89,500	105,250
- The US financial report of the entity	60,000	60,000
- Grant audit	6,000	6,000
	<u>155,500</u>	<u>171,250</u>
 (b) Other services in relation to the entity	 -	 -
	<u>155,500</u>	<u>171,250</u>

**22. DIRECTOR AND EXECUTIVE AND RELATED PARTY DISCLOSURES**

**(a) Details of Key Management Personnel**

*(i) Directors*

S. Chang	Executive Chairman
L.J. Lee	Managing Director (Resigned 1 March 2006)
T.J. Homburg	Managing Director (Appointed 1 March 2006)
Prof. J. Zalcborg	Director (non-executive)
Dr. M. Eutick	Director (non-executive)
P.O. Burns	Director (non-executive)
Dr. S.S.C. Chang	Director (non-executive)
E. Cheng	Alternate Director to Dr Chang

*(ii) Executives*

L. Burns	Chief Financial Officer & Company Secretary
G. Orders	General Manager – Manufacturing
S. Meibusch	Director of Business Development
B. Creese	Manager, Clinical Development (Resigned 5 May 2006)
A. Gautam	Vice President Research & Development (Appointed 19 September 2005)

**(b) Remuneration of Key Management Personnel**

	<b>2006</b>	<b>2005</b>
	\$	\$
Short term employee benefits	1,408,836	1,220,052
Post-employment benefits	113,788	92,254
Share-based payments	46,952	58,850
<b>Total key management personnel compensation</b>	<u><b>1,569,576</b></u>	<u><b>1,371,156</b></u>

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in Remuneration Report section of the Directors' Report designated as audited.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**22. DIRECTOR AND EXECUTIVE AND RELATED PARTY DISCLOSURES (cont'd)**

**(c) Option holdings of Key Management Personnel**

<b>Directors</b>	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other #	Balance at end of period	Vested at 30 June 2006			
	1 July 2005				30 June 2006	Total	Not exercisable	Exercisable	
S. Chang	75,000	-	-	(75,000)	-	-	-	-	
T. J. Homburg <sup>1</sup>	-	30,000	-	-	30,000	30,000	-	30,000	
L.J. Lee <sup>2</sup>	50,000	-	-	(50,000)	-	-	-	-	
Prof. J. Zalberg	75,000	-	-	(75,000)	-	-	-	-	
Dr M. Eutick	75,000	-	-	(75,000)	-	-	-	-	
P.O. Burns	75,000	-	-	(75,000)	-	-	-	-	
Dr. S.S.C. Chang	-	-	-	-	-	-	-	-	
E. Cheng	-	-	-	-	-	-	-	-	
<b>Executives</b>									
L. Burns	33,000	33,000	(33,000)	(33,000)	-	-	-	-	
A. Gautum	-	-	-	-	-	-	-	-	
G. Orders	-	-	-	-	-	-	-	-	
S. Meibusch	10,000	-	-	(10,000)	-	-	-	-	
<b>Total</b>	<b>393,000</b>	<b>63,000</b>	<b>(33,000)</b>	<b>(393,000)</b>	<b>30,000</b>	<b>30,000</b>	<b>-</b>	<b>30,000</b>	

# Includes options that expired unexercised.

<sup>1</sup> Appointed 1 March 2006

<sup>2</sup> Resigned 1 March 2006

**(d) Exercise of options granted as remuneration**

During the reporting period, the following shares were issued on the exercise of options previously granted as remuneration:

<b>Executives</b>	<b>Number of shares</b>	<b>Amount paid per share</b>
L. Burns	33,000	\$3.03

There are no amounts unpaid on the shares issued as a result of the exercise of the options.

**(e) Shareholdings of Key Management Personnel**

<b>Ordinary shares held in Progen Industries Limited</b>	<b>Balance 1 July 05</b>	<b>On Exercise of Options</b>	<b>Net Change</b>	<b>Balance 30 June 06</b>
<b>Directors</b>				
S. Chang	736,424	-	-	736,424
L.J. Lee <sup>1</sup>	160,000	-	(160,000)	-
T.J. Homburg <sup>2</sup>	-	-	25,000	25,000
Prof. J. Zalberg	115,849	-	(100,000)	15,849
Dr M. Eutick	100,000	-	(85,000)	15,000
P.O. Burns	100,500	-	(100,000)	500
Dr. S.S.C. Chang	100,000	-	(100,000)	-
E. Cheng	-	-	-	-
<b>Executives</b>				
L. Burns	-	33,000	(30,000)	3,000
A. Gautum	-	-	-	-
G. Orders	-	-	-	-
S. Meibusch	-	-	-	-
<b>Total</b>	<b>1,312,773</b>	<b>33,000</b>	<b>(550,000)</b>	<b>795,773</b>

<sup>1</sup> Resigned 1 March 2006

<sup>2</sup> Appointed 1 March 2006

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**22. DIRECTOR AND EXECUTIVE AND RELATED PARTY DISCLOSURES (cont'd)**

**(f) Transaction with related parties**

Dr. S.S.C. Chang is the Chairman and CEO of Medigen Biotechnology Corporation (MBC). During the reporting period MBC transacted with the Company under the terms of the Alliance Agreement (refer Note 10).

During the year the amount charged to MBC in relation to its 50% contribution to the costs of PI-88 Phase II Melanoma trial in combination with dacarbazine amounted to \$248,503 (2005: \$59,261). Of this amount \$48,494 is included in trade and other receivables as at 30 June 2006, refer Note 9.

**23. RECONCILIATION OF ACCUMULATED LOSSES**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at the beginning of the financial year	(63,049)	(57,069)
Net loss attributable to members of Progen Industries Limited	(7,609)	(5,980)
Total available for appropriation	<u>-</u>	<u>-</u>
Balance at the end of the financial year	<u>(70,658)</u>	<u>(63,049)</u>

**24. TRANSITION TO AIFRS**

For all periods up to and including the year ended 30 June 2005, the Company prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Company is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Company has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 2. In preparing these financial statements, the Company has started from an opening balance sheet as at 1 July 2004, the Company's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

This note explains the principal adjustments made by the Company in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

**Exemptions applied**

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Company has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company has adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139; *Financial Instruments: Recognition and Measurement* from 1 July 2005.
- AASB 2: *Share-based Payment* has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

**Explanation of material adjustments to the cash flow statement.**

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**24. TRANSITION TO AIFRS (cont'd)**

Balance Sheet reflecting reconciliation of adjustments of AIFRS as at 1 July 2004

		1 July 2004		
	Note	AGAAP \$'000	Transition Impact \$'000	AIFRS \$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		14,321	-	14,321
Trade and other receivables		458	-	458
Prepayments		161	-	161
<b>Total current assets</b>		<u>14,940</u>	-	<u>14,940</u>
<b>Non-current assets</b>				
Short-term deposits		15	-	15
Available-for-sale investments		2,388	-	2,388
Property, plant and equipment		1,282	-	1,282
<b>Total non-current assets</b>		<u>3,685</u>	-	<u>3,685</u>
<b>Total Assets</b>		<u><b>18,625</b></u>	<b>-</b>	<u><b>18,625</b></u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		1,509	-	1,509
Short term provision		237	-	237
<b>Total current liabilities</b>		<u>1,746</u>		<u>1,746</u>
<b>Non-current liabilities</b>				
Long term provision	(f)	99	98	197
<b>Total non-current liabilities</b>		<u>99</u>	<u>98</u>	<u>197</u>
<b>Total liabilities</b>		<u><b>1,845</b></u>	<u><b>98</b></u>	<u><b>1,943</b></u>
<b>Net Assets</b>		<u><b>16,780</b></u>	<u><b>(98)</b></u>	<u><b>16,682</b></u>
<b>EQUITY</b>				
Share capital		73,751	-	73,751
Other reserves		-	-	-
Accumulated losses	(f)	(56,971)	(98)	(57,069)
<b>Total Equity</b>		<u><b>16,780</b></u>	<u><b>(98)</b></u>	<u><b>16,682</b></u>

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**24. TRANSITION TO AIFRS (cont'd)**

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

	Note	1 July 2004 AGAAP \$'000	2004 Transition Impact \$'000	2005 Transition Impact \$'000	1 July 2005 AIFRS \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents		23,428	-	-	23,428
Trade and other receivables		243	-	-	243
Prepayments		38	-	-	38
<b>Total current assets</b>		<b>23,709</b>	<b>-</b>	<b>-</b>	<b>23,709</b>
<b>Non-current assets</b>					
Short-term deposits		13	-	-	13
Available-for-sale investments		2,388	-	-	2,388
Property, plant and equipment		908	-	-	908
<b>Total non-current assets</b>		<b>3,309</b>	<b>-</b>	<b>-</b>	<b>3,309</b>
<b>Total Assets</b>		<b>27,018</b>	<b>-</b>	<b>-</b>	<b>27,018</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables		1,162	-	-	1,162
Short term provision		250	-	-	250
<b>Total current liabilities</b>		<b>1,412</b>	<b>-</b>	<b>-</b>	<b>1,412</b>
<b>Non-current liabilities</b>					
Long term provision	(f)	115	98	10	223
<b>Total non-current liabilities</b>		<b>115</b>	<b>98</b>	<b>10</b>	<b>223</b>
<b>Total liabilities</b>		<b>1,527</b>	<b>98</b>	<b>10</b>	<b>1,635</b>
<b>Net Assets</b>		<b>25,491</b>	<b>(98)</b>	<b>(10)</b>	<b>25,383</b>
<b>EQUITY</b>					
Share capital		88,376	-	-	88,376
Other reserves		23	-	33	56
Accumulated losses	(b) (f)	(62,908)	(98)	(43)	(63,049)
<b>Total Equity</b>		<b>25,491</b>	<b>(98)</b>	<b>(10)</b>	<b>25,383</b>

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**24. TRANSITION TO AIFRS (cont'd)**

**Income Statement for the financial year ended 30 June 2005**

The following table sets out the adjustments to the statements of financial performance of the Company for the year ended 30 June 2005.

	Note	30 June 2005		
		AGAAP \$'000	Transition Impact \$'000	AIFRS \$'000
Sales Revenue		1,428		1,428
Cost of sales		334		334
<b>GROSS PROFIT</b>		<b>1,094</b>		<b>1,094</b>
Other income from ordinary activities		1,626		1,626
Research and development expense		4,081		4,081
Manufacturing expenses		1,373		1,373
Administrative and corporate expenses	(b)	3,186	33	3,219
Finance costs	(f)	17	10	27
<b>Profit / (loss) before income tax expense</b>		<b>(5,937)</b>	<b>(43)</b>	<b>(5,980)</b>
Income tax expense		-	-	-
<b>Profit / (loss) for the period</b>		<b>(5,937)</b>	<b>(43)</b>	<b>(5,980)</b>

*Summary of impact of transition to AIFRS on Accumulated losses*

The impact of the transition to AIFRS on Accumulated losses as at 1 July 2004 is summarised below:

	\$'000
Accumulated losses as at 1 July 2004 under AGAAP	(56,971)
Transition Impact	(98)
Accumulated losses as at 1 July 2004 under AIFRS	<u>(57,069)</u>

The significant changes to the accounting policies are adopted in preparing the AIFRS reconciliations and the elections made under AASB 1 are set out below.

*(a) Impairment of Assets*

Under AGAAP the carrying amounts of non-current assets valued on a cost basis were reviewed at reporting date to determine whether they were in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs.

Under AIFRS the carrying amount of the Company's non-current assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

If there is any indication that an asset is impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

An impairment loss is recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement.

The adjustment for the Company is \$Nil.

**24. TRANSITION TO AIFRS (cont'd)**

*(b) Share Based Payments*

Under AGAAP no expense was recognised for options issued to employees.

Under AIFRS the Company is required to determine the fair value of options issued to employees as remuneration and recognise an expense in the net profit, with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the options.

No adjustment was made to share-based payments issued after 7 November 2002 which had vested prior to 1 January 2005.

For the financial year ended 30 June 2005, employee benefit expense and accumulated losses were increased by \$33,330 representing the options expense for the period.

*(c) Income Taxes*

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method currently applied under AGAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income tax statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year (if any), using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

As disclosed in Note 5 to these financial statements the Company has significant future income tax benefit attributable to tax losses, however this benefit is not booked. Under AGAAP this benefit was only booked if there was virtual certainty that the benefit will be realised. Under AIFRS the benefit can only be booked if it is probable that the benefit will be realised.

At this stage of the Company's development we do not satisfy the *probable* test, therefore no transition adjustments occurred.

The impact at 30 June 2005 was \$Nil.

*(d) Intangible Assets*

Under AIFRS expenditure on research activities will be expensed as incurred and expenditure on development activities must be capitalised if the product is technically and commercially feasible and the Company has sufficient resources to complete the development. Under AGAAP research and development costs were expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs.

No research or development expenditure has previously been capitalised under AGAAP, therefore at transition there was no impact on the Company.

No research or development expenditure had been capitalised under AGAAP in the year ended 30 June 2005, therefore there was no impact on the Company.

**PROGEN INDUSTRIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**24. TRANSITION TO AIFRS (cont'd)**

*(e) Financial Instruments*

The Company took advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and, AASB 139 *Financial Instruments: Recognition and Measurement*. There were no adjustments in relation to these standards for 1 July 2004 or for the year ended 30 June 2005 as AGAAP continued to apply.

As at 1 July 2005 the adjustments were:

- Under AGAAP available-for-sale equities were recognised at cost. This includes the Company's investment in Medigen Biotechnology Corporation. This investment will continue to be recognised at cost until such time as its fair value can be reliably measured and will be tested for impairment at each reporting date. There were no adjustments for the Company.

*(f) Restoration Provision*

Under the terms of our premises lease agreement we are required to undertake remedial works to make good at the time we vacate the premises. The bulk of these remedial works will involve dismantling and decommissioning plant and equipment.

Under AIFRS, the present value of restoration obligations is recognised on acquisition of the asset that will require dismantling and decommissioning. The provision is recognised as a non-current liability with a corresponding increase in asset. At each reporting date the restoration liability is measured in line with changes in discount rates, and timing and amount of costs to be incurred. Any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as interest in the income statement as it occurs.

At transition, a restoration provision was raised being the present value of the required restoration provision under AIFRS. An asset was recognised as the amount of the liability discounted back to acquisition date, and accumulated depreciation was calculated on this amount from acquisition to transition date. The adjustment to the Company at the date of transition is:

- Creation of a restoration provision                      \$98,000
- Net increase in accumulated losses                      \$98,000

The impact on the Company for the financial year ended 30 June 2005 was to increase the restoration provision by \$10,000 with a corresponding interest expense of \$10,000.

*(g) Government Grants*

The Company has been the recipient of an AusIndustry Start Grant. This grant provides for a reimbursement of eligible expenditure. AusIndustry advances monies quarterly based on our anticipated program expenditure.

Under AGAAP we treated these advances as unearned revenue until such time as we had incurred the expenditure to which this grant relates at which time we recognised the applicable amount as grant income.

AIFRS requires government grants to be recognised as income on a systematic basis over the period necessary to match them with the related costs to which they are intended to compensate, but only when there is reasonable assurance that a) the entity will comply with the conditions attaching to them; and b) the grants will be received.

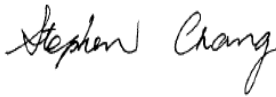
As the Company's AGAAP accounting treatment of government grants is consistent with that required under AIFRS there is no impact for the Company at transition or for the year ended 30 June 2005.

In accordance with a resolution of the directors of Progen Industries Limited, I state that:

- (1) In the opinion of the directors:
  - (a) The financial report and the additional disclosures included in the directors' report designated as audited, of the Company are in accordance with the Corporations Act 2001, including the provision that:
    - (i) this report provides a true and fair view of the Company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
    - (ii) this report is in compliance 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) The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the managing director and chief financial officer for the financial year ended 30 June 2006.

On behalf of the board.

S. Chang  
Director



T.J. Homburg  
Director



Date: 29 August 2006

Date: 29 August 2006

## Independent audit report to members of Progen Industries 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 Progen Industries Limited ("the company"), for the year ended 30 June 2006.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report", in paragraphs 10B to 10D of 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 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 financial position, and of its performance as represented by the results of its 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 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.

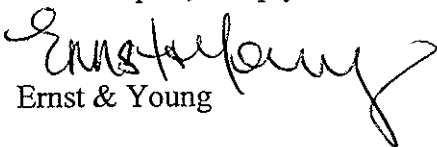
### Independence

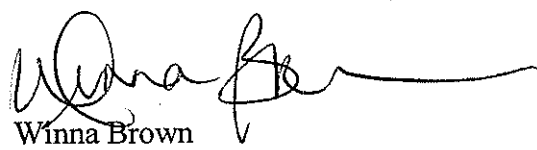
We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

### Audit opinion

In our opinion:

1. the financial report of Progen Industries Limited is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of Progen Industries Limited at 30 June 2006 and of its 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 paragraphs 10B to 10D of the directors' report, comply with Accounting Standard AASB 124 *Related Party Disclosures*.

  
Ernst & Young

  
Winna Brown  
Partner  
Brisbane

30 August 2006