Narhex Life Sciences Ltd

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PERTH WA 6000
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ABN: 51 094 468 318

18 January 2011

Company Announcements Office
Australian Securities Exchange
10th Floor
20 Bond Street
SYDNEY NSW 2000

Dear Sir

PROSPECTUS

Please find attached a copy of the Company's Prospectus for an offer of 250,000,000 ordinary fully paid shares at 1 cent per share to raise up to $2,500,000.

Yours faithfully

Simon Lill
Director
Narhex Life Sciences Limited

Narhex Life Sciences Limited

ACN 094 468 318

PROSPECTUS

For the offer of 250,000,000 Shares at an issue price of $0.01 per Share to raise $2,500,000

THE OFFER IS NOT UNDERWRITTEN

THE OFFER IS SUBJECT TO CONDITIONS
The Offer is conditional upon certain events occurring. Please refer to **Section 2** of this Prospectus for further details.

ADDITIONAL PURPOSE
In addition to raising $2.5 million, this Prospectus is also being issued under Section 708A(11) of the Corporations Act for the purpose of facilitating secondary trading of the Proponent Shares. Please refer to **Section 1.5** of this Prospectus for further details.

IMPORTANT NOTICE

This is an important document and investors should read the document in its entirety and are advised to consult with their professional advisers before deciding whether to apply for securities pursuant to this Prospectus.

Any investment in the Company under this Prospectus should be considered speculative in nature and prospective investors should be aware that they may lose some or all of their investment.

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IMPORTANT INFORMATION

This Prospectus is dated 17 January 2011 and was lodged with ASIC on that date. ASIC, ASX and their respective officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No Shares will be issued pursuant to this Prospectus later than 13 months after the date of this Prospectus.

Persons wishing to apply for Shares pursuant to the Offer must do so using the Application Form attached to or accompanying this Prospectus. Before deciding to invest in the Company potential investors should carefully read the entire Prospectus and, in particular, in considering the prospects of the Company, investors should consider the risk factors that could affect the financial performance of the Company. Investors should carefully consider these factors in light of their own personal circumstances (including financial and taxation issues).

Refer to **Sections 1.12, 4 and 8** of this Prospectus for details relating to risk factors. Investors should seek professional advice from an accountant, stockbroker, lawyer or other professional advisor before deciding to invest.

Any investment in the Company under this Prospectus should be considered speculative in nature and prospective investors should be aware that they may lose some or all of their investment. Applicants should read this document in its entirety. A copy of this Prospectus may be obtained free of charge from the Company.

No person is authorised to give any information or to make any representation in relation to the Offer described in this Prospectus that is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by the Company or the Directors in relation to the Offer.

The offer of Shares made pursuant to this Prospectus is not made to persons or places to which, or in which, it would not be lawful to make such an offer of securities. No action has been taken to register the Offer or otherwise permit the Offer to be made in any jurisdiction outside Australia. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws.

This Prospectus will also be issued as an electronic prospectus. A copy of this Prospectus can be downloaded from the website of the Company at www.narhexlifesciences.com. Any person accessing the electronic version of this Prospectus for the purposes of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person any of the Application Forms in connection with the Offer unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

A number of terms and abbreviations used in this Prospectus have defined meanings which appear in **Section 11** of this Prospectus. Photographs used in this Prospectus are for illustration only and should not be interpreted to mean that the assets or items shown in them are owned by the Company.

Exposure Period

In accordance with Chapter 6D of the Corporations Act, this Prospectus is subject to an Exposure Period of 7 days from the date of lodgement of the Prospectus with the ASIC. This period may be extended by the ASIC for a further period of 7 days. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of the funds, which examination may result in the identification of deficiencies in this Prospectus. If this Prospectus is found to be deficient, Applications received during the Exposure Period will be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until the expiry of the Exposure Period. No preference will be conferred upon Applications received in the Exposure Period.

Risks

As with any share investment, there are risks associated with investing in the Company. The principal risks that could affect the performance of the Company are detailed in **Sections 4 and 8** of this Prospectus. The Shares on offer under this Prospectus should be considered speculative. Accordingly, before deciding to invest in the Company, Applicants should read this Prospectus in its entirety and should consider all factors in light of their individual circumstances and seek appropriate professional advice. It is possible that investors may lose some or all of their investment.

Specific risks that investors should consider include the following:

- Intellectual Property Rights
- Government and Regulatory Policies, Legislation and Regulation
- Insurance Risks
- Competition Risks
- Development of New Drugs
- Commercialisation of New Drugs
- Joint Venture Risks
- NLSI Shareholder Risk
- Dependence on Personnel
- Uncertainty of Future Profitability
- Financial Reporting Risks
- Acquisition Risks
- International Operations Risks

General risks that investors should consider include the following:

- Economic and Government Risks
- Future Capital Needs

CORPORATE DIRECTORY

DIRECTORS
Mr. Peter Christie (Chairman)
Mr. Peter Nash (Director)
Mr. David Mandel (Director)
Mr. Simon Lill (Director)

COMPANY SECRETARY - JOINT
Mr Mourice Garbutt
Ms Nicki Farley

REGISTERED OFFICE
Level 24
44 St Georges Terrace
Perth WA 6000

SHARE REGISTRY
Link Market Services Limited
Level 9, 333 Collins Street
Melbourne VIC 3000

Telephone: (02) 8280 7111

CORPORATE ADVISOR
Trident Capital Pty Ltd
Level 24
44 St Georges Terrace
Perth WA 6000
Telephone: (08) 9221 7908
Facsimile: (08) 9218 8875

SOLICITORS
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Level 24
44 St Georges Terrace
Perth WA 6000
Telephone: (08) 9221 6733
Facsimile: (08) 9221 6744

INVESTIGATING ACCOUNTANT
William Buck
Level 1
465 Auburn Road
Hawthorn East VIC 3123
Telephone: (03) 9824 8555
Facsimile: (03) 9824 8580

AUDITORS
Nexia ASR
Level 14, 440 Collins Street
Melbourne VIC 3000
Telephone: (03) 9608 0100
Facsimile: (03) 9670 8325

PATENT ATTORNEY
Davies Collison Cave
1 Nicholson Street
Melbourne VIC 3000
Telephone: (03) 9254 2777
Facsimile: (03) 9254 2770

INDEPENDENT EXPERT
Acuity Technology Management Pty Ltd
Suite 329, 1 Queens Road
Melbourne VIC 3004
Telephone: (03) 9863 9110
Facsimile: (03) 9863 9109

LETTER FROM THE CHAIRMAN

Dear Investor

INVESTMENT IN THE COMPANY

On behalf of the Directors of Narhex Life Sciences Limited ("**Company**"), I am pleased to present this Prospectus to you.

This Prospectus seeks to raise $2.5 million. These funds raised will be used to:

- facilitate the Company's reinstatement on the ASX, including the re-quotation of the Existing Shares and the Shares offered under this Prospectus;
- provide funds to fulfill the Company's obligations under the Narhex Life Sciences International Pty Ltd (**NLSI**) Shareholders Agreement to be used primarily for the development of DG-17and DG-35 and Cavidi AB;
- pay the costs of the Recapitalisation Proposal; and
- provide capital to enable investigation of new investment opportunities.

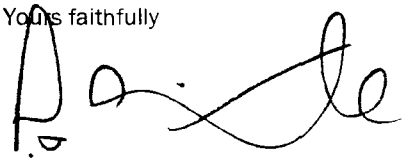
Further information regarding the Company's business and the Recapitalisation Proposal is contained in **Section 3** of this Prospectus.

The Offer pursuant to this Prospectus is subject to various conditions, summarised in **Section 2.**

Details about the risks of an investment of this type are contained in **Sections 1.12, 4 and 8** of this Prospectus. Investors should obtain professional investment advice before deciding to invest. Please read this document carefully before making your investment decision.

It is recommended that you consider the terms of the Offer contained in this Prospectus. In doing so if you then choose to invest in the Company I welcome you as a security holder of the Company.

Yours faithfully



Peter Christie
Chairman

KEY DATES AND CAPITAL STRUCTURE

The anticipated date of quotation of the Shares on ASX is subject to ASX approval. The dates shown in the table below are indicative only and may vary. The Company reserves the right to vary the Opening Date and the Closing Date without prior notice, which may have a consequential effect on the other dates. **Applicants are therefore encouraged to lodge their Application Form as soon as possible after the Offer opens.** The Company also reserves the right not to continue with the Offer at any time before the allotment of Shares to successful Applicants.

Indicative Timetable	
Lodgement of this Prospectus with ASIC	17 January 2011
Opening Date of Offer	25 January 2011
Closing Date of Offer	1 February 2011
Allotment of Shares under Offer	5 February 2011
Commencement of trading of Shares on ASX	11 February 2011

* The allotment of Shares under the Offer and dispatch of holdings statements will occur as soon as practicable after the Prospectus closes. Refer to **Section 1** for further details.

Capital Structure	
Shares	
Existing Shares on issue	180,117,350
Maximum number of Shares offered pursuant to the Offer	250,000,000
Total Shares on issue at completion of the Offer	**430,117,350**

SECTION 1 DETAILS OF THE OFFER

1.1 THE OFFER

The Offer is for 250,000,000 Shares at an issue price of $0.01 per Share to raise $2,500,000 before expenses of the Offer.

If you wish to subscribe for Shares under the Offer, please complete the **APPLICATION FORM.**

The Shares to be issued pursuant to this Prospectus are of the same class and will rank equally in all respects with the Existing Shares in the Company. The rights attaching to the Shares are further described in **Section 9.2** of this Prospectus.

Applications under the Offer must be for a minimum of 200,000 Shares and thereafter in multiples of 100,000, and can only be made by completing the relevant Application Form attached to or accompanying this Prospectus. No brokerage, stamp duty or other costs are payable by applicants in respect of an Application for Shares under this Prospectus.

The Directors reserve the right to reject any Application or to allocate any Applicant fewer Shares than the number for which the Applicant has applied.

A maximum total of 250,000,000 Shares will be issued under the Offer. The Offer is subject to a Minimum Subscription level of 200,000,000 Shares. Applications for Shares must be made on the Application Form contained in **Section 12** of this Prospectus and received by the Company on or before the Closing Date.

1.2 CONDITIONAL OFFER

The Offer under this Prospectus is conditional upon a number of events occurring, including:

- Minimum Subscription under the Offer being achieved; and
- the Company being satisfied of its ability to satisfy certain requirements of ASX for the Company to be reinstated to ASX.

A detailed description of these conditions is set out in **Section 2** of this Prospectus.

If all of the conditions to the Offer are not satisfied within three (3) months after the date of this Prospectus, no Shares will be issued. Application Monies will be refunded in full without interest in accordance with the Corporations Act.

If you wish to participate in the Offer, you should complete the Application Form set out in **Section 12** of this Prospectus. Applicants may apply for a minimum parcel of 200,000 Shares, representing a minimum investment of $2,000. Applicants seeking additional Shares must apply thereafter for Shares in multiples of 100,000 (equivalent to $1,000). All Applications must be completed in accordance with the detailed instructions on how they are to be completed and be accompanied by a cheque or bank cheque drawn and payable on an Australian bank and must be made payable to "**Narhex Life Sciences Limited – Subscription Account**" ("Subscription Account") and should be crossed "Not Negotiable". No brokerage or stamp duty is payable. Completed Application Forms and accompanying cheques must be received by the Company before 5.00pm WST on the Closing Date by either being delivered to or mailed to the following address:

Delivered to:	**Posted to:**
Narhex Life Sciences Limited	Narhex Life Sciences Limited
C/- Trident Capital Pty Ltd	C/- Trident Capital Pty Ltd
Level 24, St Martin's Tower	PO Box Z5183

44 St Georges Terrace Perth WA 6000	St Georges Terrace Perth WA 6831

All Application Monies received with duly completed Application Forms will be paid into the Subscription Account in accordance with the requirements set out in **Section 1.9** of this Prospectus.

The Company must, subject to the conditions set out in **Section 2** being met and the requirements set out in **Section 1.8** of this Prospectus, deal with the Application Monies held in the Subscription Account in accordance with the following instructions of the Directors:

- transfer all of the Application Monies received under this Prospectus and held in the Subscription Account to the Company; and
- allot and issue the Shares offered under this Prospectus.

An original, completed and lodged Application Form together with a cheque for the Application Monies constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in each Application Form. The Application Form does not need to be signed to be valid. If the Application Form is not completed correctly or if the accompanying payment is for the wrong amount, it may be treated by the Company as valid. The Directors' decision as to whether to treat such an application as valid and how to construe, amend or complete the Application Form is final, however, an applicant will not be treated as having applied for more Shares than is indicated by the amount of the cheque for the Application Monies.

Applicants are encouraged to lodge their Application Forms as soon as possible, as the Offer may close early without notice.

1.3 MINIMUM SUBSCRIPTION

The minimum level of subscription pursuant to the Offer is $2 million.

No Shares under the Offer will be allotted or issued by the Company until the Minimum Subscription has been achieved. If the Minimum Subscription has not been reached within three (3) months from the date of this Prospectus, all Applications and Application Monies will be dealt with in accordance with the requirements of the Corporations Act. The Minimum Subscription must be raised before the quotation of the securities on the ASX can occur.

No oversubscriptions will be accepted.

1.4 OFFER NOT UNDERWRITTEN

The Offer is not underwritten. The Offer does not have a sponsoring broker. The Company will pay a 2% management fee to Trident Capital on all capital raised and a fee of up to 4% of the value of the Shares to holders of an AFSL licence in respect of Shares placed to their clients.

1.5 PURPOSE OF THE OFFER

The principal purpose of the Offer is to:

- facilitate the Company's reinstatement on the ASX, including the re-quotation of the Existing Shares and the Shares offered under this Prospectus;
- provide funds to fulfill the Company's obligations under the NLSI Shareholders Agreement to be used primarily for the development of DG-17 and DG-35 and Cavidi AB;
- pay the costs of the Recapitalisation Proposal; and

- provide capital to enable investigation of new investment opportunities.

In addition, this Prospectus has also been issued to ensure that the on-sale of the Proponent Shares issued (as approved by Shareholders at the General Meeting of the Company held on 5 November 2010) does not breach Section 707(3) of the Corporations Act by relying on the exemption to the secondary trading provisions in Section 708A(11) of the Corporations Act. The Proponent Shares were issued without disclosure to investors under Part 6D.2 of the Corporations Act. A prospectus is required under the Corporations Act to enable persons who were issued Proponent Shares to on-sell those securities within 12 months of their issue. The Company did not issue the Proponent Shares with the purpose of those persons to whom they were issued selling or transferring their Shares, or granting, issuing or transferring interests in those Shares within 12 months of the issue, however, this Prospectus provides them with the ability to do so should they wish.

1.6 PROPOSED APPLICATION OF FUNDS RAISED

The Company proposes to raise $2.5 million pursuant to this Prospectus. The Company intends to apply the funds raised from the Offer as follows:

Application of Funds	Minimum Subscription	Maximum Subscription
Expenses of the Offer and Recapitalisation Proposal (refer **Section 9.9**)	$582,500	$612,500
Expenditure Budget (refer **Section 3.5**)	$1,275,000	$1,675,000
Additional Working Capital	$142,500	$212,500
Funds Raised by the Prospectus	**$2,000,000**	**$2,500,000**

The additional working capital ($142,500if Minimum Subscription or $212,500 if Maximum Subscription) will be used for ongoing administration expenses.

Whilst the Directors are satisfied that upon completion of the Offer, the Company will have sufficient working capital to meet its stated objectives, investors should be aware that the Company may use and expend its cash reserves more quickly than contemplated. This may or may not leave the Company in a negative cash flow situation which may ultimately affect the value of the Company's Shares.

Further, any future investments that may be contemplated by the Company may exceed the current or projected working capital of the Company. Accordingly, any such acquisition may need to be funded by debt and/or equity issues, as required (subject to Shareholder approvals if required).

1.7 CAPITAL STRUCTURE

Set out in the table below is a summary of the capital structure of the Company before and after completion of the Offer.

	Minimum Subscription	% assuming Minimum Subscription	Maximum Subscription	% assuming Maximum Subscription
Number of Existing Shares on issue	180,117,350	47.38	180,117,350	41.88
Shares issued pursuant to the Offer	200,000,000	52.62	250,000,000	58.12
Total Shares on issue at completion of the Offer	**380,117,350**	100%	**430,117,350**	100%

1.8 ALLOCATION AND ALLOTMENT OF SHARES

The Directors reserve the right to reject any Application or to allot a lesser number of Shares than that applied for pursuant to the Offer. If the number of Shares allocated is less than that applied for, or no allotment is made, the Application Monies or the surplus Application Monies will be promptly refunded without interest.

Subject to the conditions of the Offer (see **Section 2**), the allotment of shares will occur as soon as possible after the Closing Date. All Shares issued pursuant to the Offer will rank equally in all respects with the Existing Shares of the Company. Statements of shareholding will be dispatched as soon as possible after the Closing Date as required by ASX. It is the responsibility of the Applicant to determine their allocations prior to trading in the Shares.

Applicants who sell Shares before they receive their statement of shareholding will do so at their own risk.

1.9 APPLICATION MONIES TO BE HELD IN TRUST

The Application Monies for Shares to be issued pursuant to the Offer will be held in the Subscription Account on behalf of Applicants until the Shares are allotted. If the Offer is not fully subscribed within a period of three (3) months from the date of this Prospectus, the Application Monies will be refunded in full without interest, and no Shares will be allotted pursuant to this Prospectus. All interest earned on Application Monies (including those which do not result in allotment of Shares) will be retained by the Company.

1.10 ASX REINSTATEMENT

The Company's shares were suspended from trading on the ASX on 3 March 2008.

Subject to, and in accordance with, the conditions (see **Section 2**), the Company will apply to the ASX no later than seven (7) days from the Closing Date of this Prospectus to have the Shares to be issued pursuant to this Prospectus quoted on the Official List of the ASX.

If approval for quotation of the Shares on the Official List of ASX is not granted within 3 months after the date of this Prospectus the Company will not allot or issue any Shares, and Application Monies will be refunded in full without interest in accordance with the Corporations Act.

Neither the ASX nor ASIC, or any of their respective officers, take responsibility for the contents of this Prospectus. The fact that the ASX may grant official quotation to the Shares issued pursuant to this Prospectus is not to be taken in any way as an indication by the ASX as to the merits of the Company or the Shares.

1.11 CHESS AND ISSUER SPONSORSHIP

The Company operates an electronic CHESS sub-register and an electronic issuer sponsored sub-register. These two sub-registers will make up the Company's register of Shares.

The Company will not issue share certificates to shareholders. Rather, holding statements (similar to bank statements) will be dispatched to shareholders as soon as practicable after allotment under this Prospectus. Holding statements will be sent either by CHESS (for Shareholders who elect to hold Shares on the CHESS sub-register) or by the Company's Share Registry (for Shareholders who elect to hold their Shares on the issuer sponsored sub-register). The statements will set out the number of Shares allotted under this Prospectus and provide details of a Shareholder's Holder Identification Number (for Shareholders who elect to hold shares on the CHESS sub register) or Shareholder Reference Number (for Shareholders who elect to hold their shares on the issuer sponsored sub-register). Updated holding statements will also be sent to each Shareholder following the month in which the balance of their shareholding changes and as required by the Listing Rules and the Corporations Act.

1.12 RISKS

As with any share investment, there are risks associated with investing in the Company. The principal risks that could affect the performance of the Company are detailed in **Sections 4 and 8** of this Prospectus. The Shares on offer under this Prospectus should be considered speculative. Accordingly, before deciding to invest in the Company, Applicants should read this Prospectus in its entirety and should consider all factors in light of their individual circumstances and seek appropriate professional advice. It is possible that investors may lose some or all of their investment.

Specific risks that investors should consider include the following:

- **Intellectual Property Rights** – NLSI's Intellectual property (owned by Narhex Limited) is protected by patents. The Company's business will in part depend on its ability to maintain and protect these rights. Further details are also included in the Intellectual Property Report contained in Section 6 of this Prospectus.

- **Government and Regulatory Policies, Legislation and Regulation** – Pharmaceutical products are subject to significant regulatory approvals which if changed during the course of development could significantly impact the company's business.

- **Insurance** – The Company may not be able to adequately insure itself against various business risks.

- **Competition** – The industry in which the Company is involved is highly competitive and subject to domestic and global competition which may render the project unviable.

- **Development of New Drugs** – Drug development is subject to multiple risks of failure related to both efficacy and commercial viability and adverse effects, and any such failure could significantly impact the Company's business.

- **Commercialisation of New Drugs** – The commercialisation of new drugs is subject to a number of risks including the possibility that the product may be difficult or impossible to manufacture on a larger scale, be uneconomical to market or more expensive than competing products.

- **Joint Venture Risk** – The Company or its Chinese partner may not be able to comply with its obligations under the Xi'an Hex Joint Venture which would have a negative impact on the Company's business and financial performance.

- **NLSI Shareholder Risk** - The financial circumstances of Narhex Life Sciences Development Limited (**NLSD**) may change, or NLSD may chose not to invest in NLSI and either of which circumstance would impact on the Company's funding commitments and/or interests in the Xi'an Hex Joint Venture.

- **Dependence on Personnel** – The Company may not be able to retain suitable personnel, be they Directors or key consultants.

- **Profit Uncertainty** – The Company has not previously made profits, and is embarking on a new program to develop its previously non-profitable core asset. The Company may not achieve a viable development plan that allows it to operate profitably.

- **Acquisition** – The Company may make a new investment in another industry which will bring with it the usual business risks associated with managing and operating a new business.

- **Financial Reporting** – The Company must lodge all outstanding financial reports prior to reinstatement. The Company is in breach of its financial reporting requirements under the Corporations Act which may attract liability and affect the Company's ability to be reinstated on the ASX.

- **Future Capital Needs** – The Company may require further funding at some stage in the future. There can be no assurances as to the availability of such funding on satisfactory terms, or at all.

- **International Operations Risks** – Countries in which the Company may have assets or operations are subject to various political, economic and other uncertainties. Any developments or changes in laws or

policy may have a material adverse effect on the Company's operations.

General risks that investors should consider include the following:

- **Economic and Government Risks** – Other risk factors including general economic conditions, changes in Government policies, taxation and laws, natural disasters and other factors beyond the control of the Company may also affect the future viability of the Company.

- **Future Capital Needs** – Any inability to obtaining funding will adversely affect the business and financial condition of the Company, and consequently, its performance.

1.13 OVERSEAS INVESTORS

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or to extend such an invitation. No action has been taken to register this Prospectus or otherwise to permit a public offering of Shares in any jurisdiction outside Australia. It is the responsibility of any non-Australian resident investors to obtain all necessary approvals for the issue to them of Shares offered pursuant to this Prospectus.

1.14 PRIVACY DISCLOSURE

Persons who apply for Shares pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess Applications for Shares, to provide facilities and services to Shareholders, and to carry out various administrative functions. Access to the information collected may be provided to the Company's agents and service providers and to ASIC and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If the information requested is not supplied, Applications for Shares will not be processed. In accordance with privacy laws, information collected in relation to specific Shareholders can be obtained by that Shareholder through contacting the Company or the Share Registry.

1.15 EXPOSURE PERIOD

In accordance with Chapter 6D of the Corporations Act, this Prospectus is subject to an exposure period of 7 days from the date of lodgement with ASIC. The exposure period may be extended by ASIC by a further period of up to 7 days. Unless extended by ASIC, the exposure period will end on 24 January 2011.

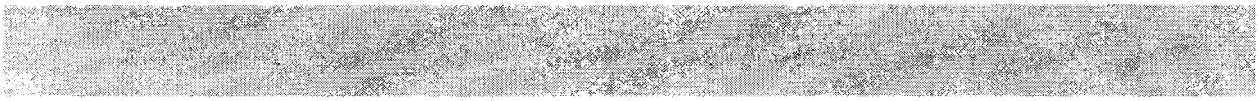
The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in the Prospectus. If deficiencies are detected, any Application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after expiration of the Exposure Period. No preference will be conferred on Applications received during the Exposure Period and all such Applications will be treated as if they were simultaneously received on the Opening Date.

1.16 FORECASTS

The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or financial projection would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

1.17 ELECTRONIC PROSPECTUS

In addition to issuing the Prospectus in printed form, a read-only version of the Prospectus is also available on the Company's website, www.narhexlifesciences.com. There is no facility for online applications. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company



must be an Australian resident and must only access the Prospectus from within Australia. The Corporations Act prohibits any person from passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus.

SECTION 2 CONDITIONS OF THE OFFER

2.1 CONDITIONS

The satisfaction of each of the conditions below is a requirement for the allotment of Shares under this Prospectus.

In the event that all of these conditions are not met within three (3) months of the date of this Prospectus, all Application Monies will be returned to Applicants without interest as soon as possible thereafter.

The Offer is conditional upon:

(a) the Minimum Subscription under the Prospectus being achieved; and

(b) the Company being satisfied of its ability to satisfy the conditions required by the ASX for the Company to be reinstated to ASX.

2.2 MINIMUM SUBSCRIPTION

The minimum level of subscription pursuant to the Offer is 200,000,000 Shares to raise $2 million.

No Shares under the Offer will be allotted by the Company until the Minimum Subscription has been achieved.

2.3 ASX APPROVALS

The Company has received conditional approval from the ASX to be reinstated to trading on the ASX, subject to satisfying the conditions required by the ASX.

As stated above, the Offer is conditional upon the Company being satisfied of its ability to satisfy the requirements of the ASX for the Company to be reinstated to ASX.

SECTION 3 BACKGROUND AND COMPANY OVERVIEW

3.1 BACKGROUND

The Company was incorporated on 13 September 2000. On October 2004 the Company issued a prospectus to raise $8 million to provide funding for further research and commercial development of the DG-35 Pro-Drug, an Australian developed Protease inhibitor for the treatment of HIV/AIDS. The Company was admitted to the Official List on 10 January 2005.

On 3 March 2008 the Company was suspended following failure to lodge their half year accounts for the period ending 31 December 2007, in accordance with the Listing Rules.

On 9 February 2010 the Administrators were appointed as the joint and several administrators of the Company pursuant to section 436A(1) of the Corporations Act.

At a meeting of the Company's creditors on 16 April 2010, the creditors resolved that the Company enter into a Deed of Company Arrangement (DOCA), which was executed on 7 May 2010.

The DOCA was executed to facilitate the recapitalisation of the Company. The principal features of the Recapitalisation Proposal are set out below:

(a) Consolidation of the capital of the Company on a 1 for 10 basis which was approved by shareholders at a General Meeting and completed during November 2010;

(b) The Proponent Issue of 133,333,334 Shares at a price of $0.003 each per Share to raise $400,000 to Tittel or its nominees during December 2010, together with an additional 26,666,666 Shares at $0.003 raising $80,000 to assist with the payment of third party costs relating to the implementation of the Recapitalisation Proposal;

(c) The issue of up to 250,000,000 Shares under this Prospectus to raise $2,500,000; and

(d) The establishment of a new entity Narhex Life Sciences International Pty Ltd (**NLSI**) into which the Company transferred all of its assets being its shareholdings in Xian Hex Life Sciences Company Limited, Narhex Limited and Cavidi AB. NLSI is currently owned 50% by Narhex Life Sciences Development Limited (**NLSD**) and 50% by the Company.

In establishing NLSI, the Company also entered into a Shareholders Agreement substantially in the form annexed to the DOCA which governs the management and governance of NLSI. A summary of the Shareholder Agreement is set out in **Section 7.2.**

On 14 January 2011, all conditions of the DOCA were satisfied following which the DOCA terminated, the Administrators resigned and control of the Company reverted to the Directors.

Completion of the Recapitalisation Proposal through the capital raising the subject of this Prospectus restructures the Company's issued capital, provides net working capital and allows the Company to continue its existing activities and to pursue new projects by way of acquisition or investment.

3.2 RETAINED ASSETS AND CONTINUING OPERATIONS

As noted above all of the assets of the Company were transferred to NLSI which is owned as to 50% by the Company and 50% by NLSD. The management of NLSI is governed by the NLSI Shareholders Agreement summarised in Section 7.2, which provides for the operational management of NLSI by NLSD. The Company will continue with the assets that reside in NLSI through financial contributions to NLSI as governed by the NLSI Shareholders Agreement.

As such, the continuing operations of the Company centre on the Company's ongoing investment in NLSI. The assets of NLSI for which the Company will contribute funds to NLSI are discussed in more detail below.

3.2.1 Chinese Joint Venture and Development of DG-17

The Company's primary focus has been the development and commercialization of its anti-HIV protease inhibitor DG-17. DG-17 is the water-soluble pro-drug of the active anti-HIV drug DG-35.

Pre-clinical trials were conducted with positive results prior to the Company's initial listing. Funds were then raised for further clinical trials to achieve suitable medical approvals prior to commercial outcomes. Such approval process required included:

1. Ability to manufacture drug in suitable quantities to allow trials to take place.

   20 kilograms of DG-17 was successfully manufactured in and remains as asset of NLSI. The next stage of clinical trials may require the manufacture of new quantity of the drug - but NLSI now has that manufacturing capability.

2. Approval by medical ethics committees to approve the Phase II Trial design.

   This was achieved, and announced, during 2007 - though specific to Australian Phase II Trials that were planned at that point. However it indicates suitable Phase II Trial design, the majority of which will remain acceptable for planned clinical trials in China.

3. Establishment of a suitable Chinese Joint Venture within which would be included a research facility to conduct trials in China under approved Chinese trial designs.

   In October 2006 the Company announced the registration of a joint venture with China Shaanxi Dacheng International Trade Co. Limited ("Dacheng"), to form Xi'an Hex Life Sciences Co Ltd, (the "Xi'an Hex Joint Venture").

   Joint venture offices were established in China and key staff recruited. The Company's Director, Mr. Peter Nash, has remained in charge of this process since inception.

   The Xi'an Hex Joint Venture has been working towards Chinese approvals to commence clinical trials, whilst also completing a building project on a leasehold parcel of land in the Xi'an High Tech Zone which includes a laboratory, warehouse and office space.

   A summary of the Joint Venture Agreement is set out in **Section 7.3** of this Prospectus.

4. Approval by the Chinese Government for ongoing clinical trials

   China was deemed the most suitable country to conduct clinical trials of DG-17 due to:

   - the large population providing improved access to suitable numbers of patients for trial purposes;
   - an immediate end market as a result of Government funded programs to supply HIV inhibitors to its affected population; and
   - the substantially reduced cost of the trials.

   Prior to the Company being placed in Administration the Xi'an Hex Joint Venture had nearly concluded negotiations in respect of pre-clinical trials with the State Food and Drug Administration ("**SFDA**"). However, the constraint of funds and consequent pressure on the Xi'an Hex Joint Venture, together with some changes to the approvals processes, has resulted in NLSI being required to enter into new negotiations to complete pre-clinical trials in China. These negotiations have commenced, and whilst the pre-clinical trials will repeat work already concluded in Australia, it will also allow an accelerated pathway through the clinical trial stages.

   At this stage, the Xi'an Hex Joint Venture has a proposal from the Chinese Academy of Medical Sciences to conduct these pre-clinical trials.

   Apart from the pre-clinical and clinical trial studies in China the following tasks are also to be finished

for the declaration of DG-17 in China under the SFDA legislation:

a. Production and procurement of the starting raw material of DG-17 used in total synthesis;

b. Pharmaceutical studies of DG-17;

c. Non-clinical drug effect and safety evaluation studies of DG-17; and

d. Documentation and new drug declaration process.

5. Registration of patents to protect Intellectual Property

The Company has been granted patents for DG-17 and DG-35 (both held within NLSI through Narhex Limited, a company registered in Hong Kong). The jurisdictions in which the Company's anti-HIV drugs were protected include Australia, Canada, China, European Union, Japan, Korea, Mexico, New Zealand, Philippines, Taiwan and the United States. Many of these patents have been allowed to lapse, but the company retains the key patent in China, as well as patents in other countries.

A full report on the Intellectual Property held by Narhex Limited is set out in **Section 6** of this Prospectus.

The Company believes that NLSI's ongoing interest in the Xi'an Hex Joint Venture is the key asset of the group, and a significant portion of the funds to be raised through this prospectus are to be spent on the Company retaining its interest in NLSI.

3.2.2 Cavidi

In April 2006 the Company purchased the assets of Cavidi Tech AB, a Swedish biotechnology company, renaming it Cavidi AB. Cavidi AB is developing and selling viral load diagnostic products under the ExaVir brand, for HIV monitoring of treated or to be treated HIV patients. The flagship product is ExaVir Load, a robust, inexpensive assay for measuring HIV in patients and thereby assessing the efficacy of the HIV inhibitor that the patient may be prescribed - such that as the efficacy wanes, the patient may be prescribed an alternative HIV inhibitor. The product measures the amount of HIV in plasma - the "viral load" - and is essential for good management of HIV-infected patients, especially those receiving anti-HIV drugs (antiretroviral drugs).

The initial failure of sales to grow as strongly as planned, lead to a dilution in the Company's shareholding when Cavidi AB issued new shares to a group of investors including a US Venture Capital Fund and Cavidi AB staff. The ongoing need for Cavidi AB to access funding to maintain and develop its sales and marketing efforts in Africa and Eastern Europe further diluted the Company's equity in Cavidi AB to approximately 9%.

The World Health Organization (**WHO**) has recently recommended the use of accurate and regular tests to measure the HIV viral load as a means of improving treatment for patients with HIV. There is therefore a growing need for accurate tests that are cost efficient and easy to use. Cavidi AB's ExaVir Load Version 3 meets these needs, and, as a result, Cavidi expects sales to increase. To this end, Cavidi AB is aggressively investigating third party license agreements for product development and distribution to leverage the company's technology platform in the most promising markets.

It is NLSI's intent to maintain its equity in Cavidi AB.

3.3 FUTURE OPERATIONS

As noted above, pursuant to the DOCA, a new entity NLSI was formed into which the Company transferred all of its assets, being its shareholding in Xian Hex Life Sciences Company Limited, Narhex Limited and Cavidi AB. The Company currently owns 50% of NLSI.

As detailed in the NLSI Shareholders Agreement (summarised in **Section 7.2** of the Prospectus), the principal business activities of NLSI will be:

(a) Retention of its interest in the Xi'an Hex Joint Venture, to pursue:

- approval of DG-35 and its pro-drug DG-17 for use in China; and
- commercialisation of DG-35 and its pro-drug DG-17.

(b) Retention of its investment in Cavidi AB.

The principal business interest of the Company will be to support the funding requirement, together with NLSD, of NLSI. The funds to be raised through the recapitalisation process will therefore be utilised to fulfill the Company's obligations under the NLSI Shareholders Agreement for the above purposes, as well as the examination of alternative and additional investment opportunities.

3.4 INVESTMENT OPPORTUNITIES

A portion of the Company's assets will be comprised of cash. As such, disclosure is required regarding the expertise of the current Directors and more specifically, how this level of expertise will assist the Company in making investment decisions.

The Directors have a broad range of commercial and public company experience. The Directors also have broad experience in project development, finance and corporate transactions for various listed and non-listed entities, which will be relevant to the assessment of potential projects for the Company. The Directors consider that their contacts and relevant experience will provide assistance in attracting and securing new projects for investment and acquisition.

The Directors are committed to the highest standards of corporate governance and they will make themselves readily available to meet the requirements of the Company and its operations going forward. The Board will ensure that they devote sufficient time, attention and skill to the duties of this position and the Company's business.

Other than the proposed expenditure budget detailed in **Section 3.5**, and the development of the existing business in **Section 3.2** above, there is no specific investment plan currently in place regarding the Company's future intentions. Investment strategies may be adopted as and when suitable opportunities are identified by the Board. The Company may be subject to additional risks in the future relating to these investments that cannot be identified as at the date of this Prospectus.

3.5 EXPENDITURE BUDGET

In summary, the Company proposes to apply the funds raised from the Offer as set out below in relation to funding the Company's development of its existing technology, providing funding for the identification of other business opportunities and the expenses of the Offer and the recapitalisation of the Company.

Maximum Subscription

Use of Funds – Expenditure Budget	Year 1	Year 2	Total
Ongoing equity contributions under NLSI Shareholders Agreement for the development of DG-17 and Cavidi AB	$500,000	$750,000	**$1,250,000**
Identification and consideration of other business opportunities	$200,000	$100,000	**$300,000**
Repayment of Loan from Tittel	$125,000	-	**$125,000**
Expenses associated with the Offer and Recapitalisation Proposal	$612,500	-	**$612,500**
General working capital	$92,500	$120,000	**$212,500**
Total Funds Utilised	**$1,530,000**	**$970,000**	**$2,500,000**

Minimum Subscription

Use of Funds – Expenditure Budget	Year 1	Year 2	Total
Ongoing equity contributions under NLSI Shareholders Agreement for the development of DG-17 and Cavidi AB	$500,000	$500,000	**$1,000,000**
Repayment of Loan from Tittel	$125,000	-	**$125,000**
Identification and consideration of other business opportunities	$75,000	$75,000	**$150,000**
Expenses associated with the Offer and Recapitalisation Proposal	$582,500	-	**$582,500**
General working capital	$67,500	$75,000	**$142,500**
Total Funds Utilised	**$1,350,000**	**$650,000**	**$2,000,000**

On completion of the Offer the Directors believe the Company will have adequate working capital to meet its stated objectives.

Suite 329, [illegible]
Melbourne, Victoria 3004
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TECHNOLOGY MANAGEMENT

12 January 2010

The Directors
Narhex Life Sciences Limited
Level 24
44 St Georges Terrace
Perth, WA. 6000.

Dear Sirs

This report has been prepared at the request of the Directors of Narhex Life Sciences Limited ("NLS" or the "Company") for inclusion in a Prospectus to be issued by the Company on or about the 17 January 2011 for the issuance of 250 million shares at $0.01 to raise $2.5 million. NLS is involved in the development of a drug for the treatment of human immunodeficiency virus infection ("HIV") - HIV being the causative agent of acquired immunodeficiency syndrome ("AIDS"). NLS also has an interest in a company manufacturing diagnostic products for identifying and monitoring infection levels in AIDS patients ("Cavidi AB") though a report on that asset was not part of the scope of this report.

We understand that these interests are now held through NLS's 50% interest in Narhex Life Sciences International Limited.

The Directors requested a report on the markets for HIV treatments and competition for the Company's proposed drug, with an overview of the status of the current development program and the proposed route to market to confirm the Company's current direction.

1. HIV and AIDS

AIDS is a disease in which the immune system progressively deteriorates as a consequence of infection by a single-stranded RNA retrovirus, HIV, a member of the lentivirus subfamily. The virus is unique as it attacks the cells of the immune system. Failure of the immune system leads to life-threatening opportunistic infections.

Infection with HIV occurs by the transfer of blood, semen, vaginal fluid, pre-ejaculate, or breast milk.[1] Within these bodily fluids, HIV is present as both free virus particles and virus within infected immune cells. The four major routes of transmission are unsafe sex, contaminated needles, breast milk, and transmission from an infected mother to her baby at birth (perinatal transmission).

The introduction to the 2010 United Nations ("UN") Annual Report on AIDS begins with:[2] "*On the cusp of the fourth decade of the AIDS epidemic, the world has turned the corner - it has halted and begun to reverse the spread of HIV. The question remains how quickly the response can chart a new course towards UNAIDS' vision of zero discrimination, zero new HIV infections, and zero AIDS-related deaths through universal access to effective HIV prevention, treatment, care and support*".

[1] http://en.wikipedia.org/wiki/HIV_AIDS
[2] Global Report: UNAIDS Report on the Global AIDS Epidemic, 2010.

The UNAIDS Report points out that the number of new infections continues to fall from its peak in 1999. According to the UN there are an estimated 33 million people globally living with AIDS. In low- and middle-income countries where there are 15.2 million sufferers requiring treatment with around 5.2 million have access to some form of treatment.

The report goes on to point out that: "*In 33 countries, HIV incidence has fallen by more than 25% between 2001 and 2009. Of these countries 22 are in sub-Saharan Africa. The biggest epidemics in sub-Saharan Africa - Ethiopia, Nigeria, South Africa, Zambia, and Zimbabwe - have either stabilized or are showing signs of decline.*" "*However, several regions and countries do not fit the overall trend. In seven countries, five of them in Eastern Europe and Central Asia, HIV incidence increased by more than 25% between 2001 and 2009.*"

There is no cure for AIDS and the only means of fighting the condition is via prevention or management programmes.

The prevention programmes include needle exchange programmes for injecting drug users, and major campaigns for condom use for "safe sex" between men, during paid sex, and between long term couples. These work much better in the first world than in other regions.

Increasing evidence indicates that unprotected paid sex, sex between men, and the use of contaminated drug-injecting equipment by two or more people on the same occasion are significant factors in the HIV epidemics of several countries with generalized epidemics. Together, those modes of transmission are believed to account for about 33% of new HIV infections in Kenya and almost 40% in Ghana, for example. However, comparatively little funding is channelled into prevention services for populations at higher risk.

2. Pharmaceuticals in the Management of AIDS

It should be appreciated that no current drug kills HIV. Treatment consists of antiretroviral drugs that have to be taken every day for the rest of an infected person's life. The aim of antiretroviral treatment is to keep the amount of HIV in the body at a low level. The strategy aims to minimise any weakening of the immune system and allow it to recover from any damage that HIV might have caused already.

According to the UNAIDS report, the number of people receiving antiretroviral therapy has grown 13-fold, more than five million people in low- and middle-income countries, since 2004. In 2009 alone, 1.2 million people received HIV antiretroviral therapy for the first time. Expanding access to treatment has contributed to a 19% decline in deaths among people living with HIV between 2004 and 2009.

The HIV retrovirus mutates over time enabling it to circumvent the activity of drugs. It is not uncommon for resistance to develop quickly and for any particular drug to become ineffective in controlling viral levels. Taking two or more antiretrovirals, known as combination drugs, at the same time vastly reduces the rate at which resistance would develop, making treatment more effective in the long term.

There are five groups of antiretroviral drugs each of which attacks HIV in a different way:

Table 1: Drugs used for Treating AIDS Patients[3]

Antiretroviral Drug Class	Drug Names	Mechanism of Action
Nucleoside/Nucleotide Reverse Transcriptase Inhibitors (NRTISs)	Epivir (lamivudine), Ziagen (abacavir), Retrovir (zidovudine), Zerit (stavudine), Videx EC (didanosine), Emtriva (emtricitabine), Viread (tenofovir)	NRTIs interfere with the action of an HIV protein called reverse transcriptase, which the virus needs to make new copies of itself.
Non-Nucleoside Reverse Transcriptase Inhibitors (NNRTIs)	Rescriptor (delavirdine), Sustive/Stocrin (efavirenz), Intelence (etravirine), Viramune (nevirapine)	NNRTIs also stop HIV from replicating within cells by inhibiting the reverse transcriptase protein.
Protease Inhibitors (PIs)*	Agenerase (amprenavir), Lexiva/Telzir (fosamprenavir), Reyataz (atazanavir), Prezista (darunavir), Crixivan (indinavir), Kaletra/Aluvia (lopinavir + ritonavir), Viracept (nelfinavir), Norvir (ritonavir), Invirase (sequinavir), Aptivus (tipranavir)	PIs inhibit protease, another protein involved in the HIV replication process.
Fusion or Entry Inhibitors	Fuzeon (enfuvirtide), Celsentri/Selzentry (maraviroc)	Fusion or entry inhibitors prevent HIV from binding to human immune cells essential to entering the cell.
Integrase Inhibitors	Isenttress (raltegravir)	These drugs interfere with the integrase enzyme which HIV needs to insert its genetic material into human cells.

* NLS's DG17 and DG35 are protease inhibitors.

The most common drug combination given to those beginning treatment consists of two NRTIs combined with either an NNRTI or a "boosted" protease inhibitor. Ritonavir (in small doses) is most commonly used as the booster; it enhances the effects of other PIs so they can be given in lower doses. An example of a common antiretroviral combination is the two NRTIs zidovudine and lamivudine, combined with the NNRTI efavirenz.

The development of a prophylactic HIV vaccine has proven challenging because HIV attacks the immune system and rapidly mutates its antigens. Even after years of HIV research, many efforts to develop a vaccine against it have proved to be a failure.

[3] Source: AVERT, West Sussex, UK (http://www.avert.org)

3. The Market for Antiretroviral Drugs

3.1 Patients Treated

It is estimated by UNAIDS in its 2010 report that at the end of 2009, there were 33.3 million people in the world living with AIDS (within a range of 31.4 million to 35.3 million). This number is plateauing, but has not yet measurably peaked because the number of deaths has been reduced to below the number of new infections.

With improved prevention programmes the number of new infections is reducing – down to 2.6 million (2.3 to 2.8), lower by 21% from the peak of 3.2 million in 1997. With increasing treatments, the number of deaths reduced to 1.8 million in 2009, down from its more recent peak of 2.1 million in 2004.

According to UNAIDS, 5.2 million in low- and middle-income countries were receiving antiretroviral treatment at the end of 2009, an increase of 1.2 million or 30% from the number at the end of 2008, and an increase of over ten times over the last five years. In the last three years, the numbers being treated has increased by about one million people per annum, and the UN is hopeful that the pace of growth will accelerate or at least be maintained.

The growth in the number of people being treated has been driven not only by greater availability of money, but by a coordinated effort from activists, NGO's and governments of the poorer nations to reduce prices. They have succeeded, through a combination of negotiation, patent non registration and generic manufacturing. Today generics are the drugs of choice of most non first world countries, and where patented drugs need to be used, they are sold on a "tiered price basis" reflecting the per capita income of the country ie. lowest price for poorest country.

The World Health Organisation ("WHO") includes in its antiretroviral treatment guidelines the following two recommendations:[4]

- Use less toxic and more patient-friendly options: reduce the risk of adverse events and improve adherence by using less toxic drugs and fixed-dose; and
- Promote strategic use of laboratory monitoring: Use laboratory monitoring such as CD4 and viral load counts to improve the efficiency and quality of HIV treatment and care.

The first of these could have a beneficial effect on the demand for DG17, if it lives up to its clinical expectations of low dose and low side effects while the second recommendation is already having a positive effect on demand for the viral load count technology marketed by Cavidi AB, an investee company that is not covered by this report.

[4] Priority interventions: HIV/AIDS prevention, treatment and care in the health sector (2010 version). WHO 2010.

3.2 HIV/AIDS in China

There are a number of estimates of the number of AIDS sufferers in China. The Chinese Ministry of Health issued a statement in November 2010 reporting that the number of HIV/AIDS sufferers stood at 370,393 compared with an official health ministry estimate of 319,877 in the previous year, and that there had been about 20,000 deaths over the twelve month period.[5] The Ministry also estimated that there were 740,000 infected persons, in effect approximately 50% are unreported, half of whom are intravenous drug users.

However Wikipedia quotes epidemiology experts in reporting that 1.5 million is closer to the true figure.[6]

UNAIDS in its 2010 report estimated that, on average, 740,000 people were living with HIV in China, within the band of 540,000 to 1 million. Of these, only 84,000 are receiving treatment.

The numbers in China are unusual, in that over 52% of the total number of AIDS patients are in only five regions of the country. This reflects the prevalence of injecting drugs use coming over the border in the West from the 'Stans', eg. Kyrgyzstan, Afghanistan, etc - and the South from the Golden Triangle. A major infection centre exists in Henan Province which has been credited to an infected blood supply collection service in the early 1990's.

It is estimated that as many as 4.5 million people in Asia inject drugs, more than half of whom live in China. India, Pakistan, and Vietnam also have large numbers of people who inject drugs. In studies in Myanmar, up to 38% of the people who inject drugs have tested HIV-positive; with estimates of 30% - 50% in Thailand and more than half in parts of Indonesia. In Vietnam, between 32% and 58% of people who inject drugs are living with HIV in various provinces. In China, an estimated 7%–13% of the people who inject drugs are living with HIV.

3.3 Drug Revenues

According to data published by Business Insights, the HIV market in 2009 had total sales of US$13.8 billion at a year-on-year growth of 12%.[7] In terms of size, the US dominated the global HIV market, accounting for 57.1% of sales amounting to US$7.9 billion in 2009. Collectively, the leading pharmaceutical markets of the EU represented the second largest HIV market with 2009 sales of $4 billion and a market share of 29%.

Business Insights estimated that the share of revenue from the rest of the world will grow substantially as the numbers being treated rises at a rate of a million or more per annum; and the prices in the seven biggest markets will drop significantly as patents begin to expire from as early as 2011.

The NRTIs market in 2009 had sales of US$5.5 billion, the highest among all of the drug classes used for HIV demonstrating growth of 2.5% over the previous year. Sales were largely driven by Gilead's combination, Truvada™ (emtricitabine/tenofovir) which generated 2009 sales of US$2.5 billion capturing a market share of 44.9%.

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[5] http://health.yahoo.net/news/s/afp/healthchinaaids
[6] http://en.wikipedia.org/wiki/HIV/AIDS_in_the_People's_Republic_of_China
[7] The HIV/AIDS Market Outlook to 2015. Business Insights Report BI00022-082. Oct 2010.

In 2009, the PI market generated sales of US$3.9 billion at a year-on-year growth of 6.2%. Sales in this category were largely driven by Reyataz™, Kaletra™ and Prezista™, recording 2009 sales of US$1.3 billion, US$1 billion and US$502 million respectively.

The NNRTIs was the only class to have registered a decline of 5.6% over 2008, predominantly driven by the poor sales performance of Sustiva™, which recorded a decline of 26.8% to reach US$422 million in 2009. As compared to the PIs and NRTIs, this class had only a small market share of 7.9% in 2009.

Table 2: The Global HIV Market by Drug Class[7]

Drug class	Sales 2009 (US$m)	Growth 2008–09 (%)	Market share 2009 (%)
NRTIs	5,513	2.5	40.1
Protease inhibitors	3,904	6.2	28.4
Other HIV antivirals	3,257	57.0	23.7
NNRTIs	1,084	-5.6	7.9
Total	**13,758**	**12.0**	**100.0**

The top 10 brands had a high market share with NRTIs as the major contributor. The HIV market was dominated by Truvada™ and Atripla™ (efavirenz/emtricitabine/tenofovir) accounting for a market share of 18% and 17.5% and 2009 sales of US$2.5 billion and $2.4 billion respectively.

Table 3: Leading Antiretroviral Brands[7]

Product	Sales 2009 ($m)	Growth 2008–09 (%)	Market share 2009 (%)
Truvada	2,476	17.6	18.0
Atripla	2,414	53.6	17.5
Reyataz	1,338	10.7	9.7
Kaletra	1,054	-9.4	7.7
Epzicom	859	5.0	6.2
Isentress	668	111.4	4.9
Combivir	633	-14.5	4.6
Viread	625	10.0	4.5
Prezista	502	73.6	3.7
Norvir	483	13.5	3.5
Top 10 total	**11,051**	**20.0**	**80.3**
Others	2,707	-11.9	19.7
Grand Total	**13,758**	**12.0**	**100.0**

The average annual cost per person of (second line) treatment, according to Business Insights, varies from US$1,105 in the lowest income countries to US$2,192 to US$2,634 in middle income countries to over US$15,000 in the USA.

Clearly the market will be changing sharply from domination by first world generated revenue from branded drugs to a less distorted market with lower prices from generics across the world.

3.4 Revenue Potential in China

In 2009, the Chinese pharmaceutical market recorded sales of US$26.1 billion with growth of 28.5% from the previous year.[8] General anti-infectives was the leading therapeutic class of drugs in China with 2009 sales of US$7 billion and year-on-year growth rate of 24.4%, followed by alimentary tract and metabolism drugs at US$3.3 billion.

China currently represents about 0.1% of the global market for antiretroviral drugs with around US$17 million in sales in 2009 and a 5 year compound average growth rate of 15.6%.[7]

China's population of 1.3 billion and huge unmet medical needs offer many opportunities for vaccines and medicines, including the area of HIV/AIDS where infection numbers are growing and treatment rates are low.

In October 2010, the international donor community pledged US$11.7 billion to the Global Fund (to fight HIV/AIDS, tuberculosis, and malaria) for the years 2011-2013. However, the fund had hoped to raise US$20 billion. The shortfall in donations will put at risk the 2015 goal to eliminate HIV mother-to-child transmission worldwide. Additionally, the lack of funds will result in "treatment rationing" for the nearly 10 million people worldwide that require medication immediately. The important news for China is that it qualified for almost one billion dollars, and will have those funds to significantly increase its treatment of HIV/AIDS, tuberculosis, and malaria patients.

3.5 Drugs in Development

The global HIV pipeline represents a key development opportunity for drug development companies, with 297 compounds estimated to be in development.[7] Of this number, about 148 are in clinical trials and 54 awaiting regulatory approval. The remainder is pre-clinical. The potential for market success is largely attributable to a large patient population, which requires long term treatment, and significant unmet need. New drugs are required because of:

- Ever increasing need for treatments which will offer better tolerability, more convenience and will be less expensive;
- Increasing resistance to existing drugs has resulted in the search for new agents in classes that don't show cross-resistance, and also for new classes of drugs which will not be affected by resistance issues;
- An effective vaccine or an effective preventative measure will not be available for a considerable number of years, and the epidemic will therefore sustain itself in the endemic areas and will tend to increase in the new regions where the virus gets introduced.

These factors underpin the potential for DG17 and DG35.

[8] The Top 10 Companies in the Hospital Pharmaceutical Market in China. Growth strategies, performance and SWOT analyses. Business Insights Report BI00022-079. Sep 2010

4. Status of DG 17/35

4.1 Background

HIV uses many enzymes when it replicates itself in cells. Most of these are normal cellular constituents, but three of the enzymes are essential for replication and are unique to HIV. Two of these enzymes, the "reverse transcriptase" and the "protease" are targeted by antiretroviral drugs.

NLS's DG35 has been shown to be potent inhibitor of the HIV protease in the laboratory (*in vitro*) and, as such, at low concentrations can completely inhibit HIV replication. It was developed by Dr Damian Grobelny, a talented medicinal chemist formerly employed by NLS and now a member of its Scientific Advisory Board. DG35 is related to, but distinct from, some other protease inhibitors which are currently registered in Australia and many other countries for treatment of patients with HIV infection.

Although a potent inhibitor of the HIV protease *in vitro*, DG35 is poorly water soluble and, as such, not ideal for human administration. For that reason, Dr Grobelny phosphorylated DG35 to make it more water soluble; this compound (phosphorylated DG35) is termed DG17. DG17 is a "pro-drug" of DG35, and is inactive against HIV *per se*. However, once DG17 is absorbed in animals or humans, it is rapidly converted to the active compound. The strategy of making a pro-drug to facilitate absorption has been used with many other drugs, including acyclovir and penciclovir.

DG35's main therapeutic advantage is that it can achieve effective levels in the blood stream with considerably lower doses than its competitors. Doses as low as 200 mg/day, or even 100 mg per day are viewed as most likely to be required compared with the current dosage of 800 mg per day for the leading PI, Kaletra. The commercial advantage of DG35 flows from what should be a significantly lower cost of goods sold, and reduced side effects. At the same time, the therapeutic levels remain in the blood for what could be sufficient for a single daily dose, something the US Food and Drug Administration has only approved for two other PI to date.

In clinical trials, DG35 has been found to cross the blood/brain barrier, which enables anti HIV activity to occur in the central nervous system.

The manufacturing process has also now been developed. NLS initiated a contract in January 2006 with Dr Reddy's in Hyderabad, India, an internationally-recognized custom and generic pharmaceutical manufacturing firm, to develop a scaled-up process for DG17 and protocols adequate to meet mandatory Good Manufacturing Procedures ("GMP") guidelines. We have been advised that the Company has identified several manufacturers that are able to make the key starting materials for DG17 to agreed specifications and at reasonable cost.

NLS's DG17 and DG35 have undergone extensive preclinical testing, both *in vitro* and also in animals (*in vivo*), and these studies have validated, albeit preliminarily, the safety and efficacy of the drug.

However, many of these preclinical studies were conducted five to ten years ago, and current regulatory requirements are more stringent. As a result, additional *in vitro* and animal testing will be required if this drug is to be registered with OECD regulatory authorities such as Australia's Therapeutic Goods Administration and the FDA. We understand that the Chinese regulators will want full pre-clinical and clinical testing prior to approval in that country.

NLS also completed a number of human studies aimed at demonstrating safety and determining suitable dosage levels.

It is likely that a number of additional preclinical studies will be required before large-scale clinical trials such as Phase II and Phase III human trials can be undertaken. Phase II studies of antiretroviral drugs like DG17/35 normally require a minimum of 6 months of treatment in at least 100 patients, with an additional 100 patients serving as controls; Phase III studies require 100-150 patients and an equal number of controls, but treated for at least a year.

4.2 Development Path and Timeline for China

We have been advised by NLS that Xi'an Hex are negotiating around a 3-4 year timeline for preclinical trials and approval for human clinical trials in China. This program has a number of clinical milestones that need to be achieved, being:

- Completion and signing of the DG17 pre-clinical study contract;
- Manufacture of DG17 at scale;
- Medium scale test of the drug;
- Acute toxicity testing;
- Application and successful pharmaceutical testing;
- Application and successful drug efficacy and safety evaluation studies;
- Application and grant of approval for Clinical trials.

In most cases this is repeating prior work done, and so the results, costs and timelines should have a reasonable probability of being achieved.

The current best estimate is that the clinical trials will take at least another 3-4 years under the accelerated programme for Class 1.1 drugs in China, which includes all AIDS drugs.

The regulatory environment in China has changed substantially since NLS commenced discussions about clinical trials for DG 17 in 2006. That is why it now needs to replicate the pre-clinical studies in China, where this was not originally required. The regulatory environment in China may change again, with unpredictable effects on this timeline estimate.

5. Technical & Commercialisation Risks

It should be appreciated that all of the drugs for which we have presented sales data have been through development programs costing hundreds of millions of dollars. The sales values results from significant usage, but also high selling prices, achievable in developed nations, as drug companies attempt to recover their R&D expenditure. It has been estimated that more than 90% of newly approved drugs do not reach the estimated costs of their development. One statistic for drugs targeting infectious disease is an overall likelihood of transition from pre-clinical development though to market approval of less than 18%.[9]

[9] I Kola & J Landis. Nature Reviews: Drug Discovery 3:711, 2004.

The development of pharmaceuticals involves significant hurdles before final market acceptance. Preclinical testing, clinical trialling, manufacturing and marketing are subject to various regulatory authorities' approvals. The processes are both costly and protracted and there is no guarantee that regulatory approval will be obtained. In addition, many nations now mandate cost effectiveness analyses prior to placement on medical reimbursement lists which require demonstration that the product achieves the same outcome as existing treatment options at lesser cost, or achieves a superior outcome that justifies an increased cost.

There are many competing drug development programs targeting HIV as mentioned above. There are literally dozens of companies interested in antiviral drug discovery, and the overall research expenditure by any one of these could exceed hundreds of millions of dollars and their annual drug development budgets, billions of dollars. Even if the NLS product obtains marketing approvals the competition will be vigorous.

Many of NLS's competitors have substantially greater technical and financial resources, production and marketing capabilities, and experience in bringing drugs to market and obtaining regulatory approvals. The Company's strategy is, however, to partner development, at least in China, with a local company with regulatory expertise, manufacturing and distribution resources, and capital to complete the development program. This will both reduce costs to NLS and reduce risks.

At this stage the drug discovery program must be considered "early stage". The potential for failure during preclinical development or clinical trials is high although mitigated to some extent by testing already undertaken in Australia and Argentina.

The NLS HIV protease inhibitor DG35 and its pro-drug, DG17, are currently protected by granted patents in major countries including China, Mexico, New Zealand, Philippines, and USA. These patents expire between 2013 and 2014 and it is most unlikely that the company will have a product on the market before expiry. Although benefiting from a first to market advantage, possible protection of the route of synthesis and Chinese domestic regulations that will ensure a market monopoly for a number of years, the Company may find itself battling competition from generic versions of its own drug within a relatively short period.

The patents for most of the anti HIV protease inhibitors currently marketed will expire between 2010 and 2015, for example Abbotts' original Kaletra™ patents expire in 2012. Greater competition from generic competition may have the effect of constraining DG17 pricing.

The success of NLS's drug development program depends on many factors some of which are under the control of the Company but many of which rely on the markets and general business environment, and others which are the consequence of pursuing pharmaceutical discovery. We clearly cannot provide assurance that management will make appropriate and timely decisions and other than reporting on success rates for other antiviral drug development programs, it is not possible to categorically state that DG17 has a better than average chance of being safe and efficacious or that physicians will choose to prescribe the particular medication.

6. Other Matters

This report has been prepared using publicly available reports and information supplied to us by NLS. We have not had the opportunity to verify that all information concerning the Company's drug development program, including past research and the future development schedule and budgets, and regulatory requirements, are reliable, complete or accurate. We have no reason to believe that information supplied by the Company was incorrect or intended to be misleading. A draft of this report was issued to the Directors of NLS to verify technical accuracy and changes, not relating to our expressed views or opinions, were made in the report.

Neither Acuity Technology Management nor its principals have any pecuniary interest in NLS that could be regarded as affecting the ability to provide an unbiased opinion of the matters contained in this report. Other than this report, Acuity has not in recent years provided any services or advice to the Company.

The reader should be aware that Acuity does not hold an Australian Financial Services Licence and as such cannot provide investment advice. This report should not be construed as a recommendation to invest in NLS.

Acuity will receive a professional fee for the preparation of this report.

We have given our written consent to the issue of this report as appearing in the Prospectus being included in the form and context in which it appears. We have been involved only in the preparation of this report and not in the preparation of any other part of this Prospectus, and specifically disclaim liability to any person in respect of any statements included elsewhere in this Prospectus. We have not, other than as set out above, been involved in the preparation of or authorised or caused the issue of this Prospectus.

7. Experience & Qualifications

ACUITY Technology Management provides management consulting to technology based companies. The company is skilled in the development of business plans and the technical, commercial and financial analyses of engineering and science based projects. Biotechnology is a particular focus of the company

This report was undertaken by Acuity's Managing Director, David Randerson. Dr Randerson specializes in the analysis and valuation of intangible assets, and business entities whose main assets are intangibles, with particular expertise in intellectual property. Valuations have been performed for purposes of licensing, capital raising and investment, sale, depreciation and amortisation, impairment, purchase price allocation, consolidation, mergers, acquisitions, stock options and goodwill.

Dr Randerson has experience with evaluating pharmaceuticals, stem cells, medical devices, diagnostics, agriculture, biochemical and cell culture technologies and environmental products. In the fields of physical and applied sciences, he has reviewed technology in software, internet, electronics, telecommunications, mining and petrochemical projects, process engineering, production engineering and automotive technologies.

Dr Randerson has a Bachelor of Chemical Engineering (Monash University), Master of Science in Applied Science(UNSW) and a Doctorate of Philosophy in Biomedical Engineering (UNSW). He is a fellow of the Australian Institute of Company Directors and a member of the Institution of Chemical Engineers.

As principal of Acuity for 18 years, Dr Randerson has undertaken in excess of 200 valuations in biomedical sciences and 90 in applied sciences.

Yours sincerely

David Randerson BE, PhD, MAICD
Managing Director

William Buck

17 January 2011

The Directors
Narhex Life Sciences Limited
Level 24
44 St Georges Terrace
Perth, WA. 6000.

Dear Sirs

INVESTIGATING ACCOUNTANT'S REPORT FOR NARHEX LIFE SCIENCES LIMITED

Introduction

This Investigating Accountant's Report ('the Report") has been prepared at your request for inclusion in the Prospectus to be dated on or about 17 January 2011 to be lodged with the Australian Securities and Investment Commission, relating to the proposed issue of 250,000,000 shares at a price of one cent per share to raise $2,500,000.

The issue is not underwritten. Expressions and other terminology defined in the Prospectus have the same meaning in this Report.

Background Information

Narhex Life Sciences Limited ("Narhex") was admitted to the Official List of the ASX on 10 January 2005. The principal activity of the Company was the research and commercial development of drugs for the treatment of HIV/AIDS.

On 9 February 2010, Mr Richard Albarran and Mr David Ross (the "administrators") were appointed as joint and several administrators of the Company pursuant to Part 5.3A of the Corporations Act.

On 16 April 2010 an adjourned meeting of the Company's Creditors (the "Creditors") was convened pursuant to Section 439A of the Corporations Act to consider, amongst other matters, the execution of a Deed of Company Arrangement ("DOCA").

By resolution of the adjourned meeting of Creditors, the Creditors resolved that the Company execute the DOCA between the Administrators, the Company and Tittel Pty Ltd ("Tittel"); the DOCA was executed on 7 May 2010.

In accordance with the terms of the DOCA, the following have been undertaken (in the order set out below):

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PO Box 165, Toorak VIC 3142
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williambuck.com

- The Company established Narhex Life Sciences International Pty Ltd ("NLSI") as a wholly owned subsidiary of the Company;
- The Company transferred all its shares in the following companies to NLSI:
  - Narhex Limited, a Hong Kong corporation;
  - Xian Hex Life Sciences Company Limited, a Chinese corporation; and
  - Cavidi AB, a Swedish corporation.
- Tittel paid the sum of $125,000 to the Administrators and advanced the sum of $125,000 to the Company;
- The Company transferred half of its shares in NLSI to Tittel's assignee, Narhex Life Sciences Development Limited
- The Administrators appointed Mr Ian Reynolds and Mr Tony Say as directors of the Company, and reappointed David Mandel in addition to Peter Nash; and
- The Company entered into a Shareholders' Agreement substantially in the form annexed to the DOCA, which sets out the governance and management of NLSI.

At a meeting on 5 November 2010 the following resolutions were carried out by the members of the Company:

- A consolidation of the ordinary share capital of the Company on a 1 for 10 basis, effective on 15 November 2010;
- An issue of 133,333,000 Proponent Shares at an issue price of $0.003 (0.3 cents) per share to raise $400,000 for payment of the Deed Administrators' costs and Creditors Claims. The shares were issued to Tittel and its related parties, with Trident Capital to be nominee of Tittel for such proportion of the Proponent shares as separately agreed with Tittel. All Proponent Shares rank equally with all other existing shares. These shares were issued on 22 November 2010;
- An issue of 26,666,666 new shares at an issue price of $0.003 (0.3 cents) per share to Tittel and its nominees for no less than $80,000 in relation to third party costs for the Recapitalisation Proposal. The funds from the issue of these new shares are held in trust for the Company by Trident to be utilised in the costs of the reconstruction work. These shares were issued on 22 November 2010;
- An issue of up to 250,000,000 new shares for an issue price of $0.01 (one cent) per share to raise $2,500,000 through a Prospectus. The funds raised will be used to satisfy all costs associated with the implementation of the Recapitalisation Proposal and also applied towards the Company's ongoing business and to identify the acquisition and development of opportunities and other investments and to implement the Company's operational and expenditure plans (as set out in the prospectus);
- The governance and management of NLSI shared between Narhex and Tittel was ratified through the Shareholders' Agreements, dated 7 May 2010;
- The transfer of 50% of shares in relation to the ownership of NLSI to Tittel was also ratified; and
- A resolution was made regarding the loan from Tittel – in the event that the loan funds are not paid within 6 months following the date of the General Meeting, Tittel agrees to forgive the loan (including any interest) in consideration for the Company transferring its remaining interest in NLSI to Tittel or its nominee.

A resolution was also put to the members to change the company name to Narhex Limited. This resolution was not put to shareholders at the General Meeting.

The Company has determined its projected use of funds which have been included in the Prospectus at section 3.5.

A summary of the DOCA is provided in Section 7 of the Prospectus and further details on the Background and Company Overview are provided in Section 3 of the Prospectus.

Basis of Preparation

The report has been prepared to provide investors with information on historical results and the financial position of Narhex, and to provide investors with a pro forma statement of financial position of Narhex as at 31 December 2010 adjusted to include funds raised by this Prospectus and the completion of the execution of the Deed of Company Arrangement ("DOCA") as referred to in Note 2 of the Annexure.

This Report does not address the rights attaching to the Shares to be issued in accordance with the Prospectus, the risks associated with the investment, nor form the basis of an Expert's opinion with respect to a valuation of the Company or a valuation of the Share issue prices at both 0.3 cents and 1 cent per share respectively.

William Buck Audit (Vic) Pty Ltd ("William Buck") has not been requested to consider the prospects for Narhex nor the merits and risks associated with becoming a shareholder, and accordingly, has not done so, nor purports to do so. William Buck accordingly takes no responsibility for those matters or for any matter or omission in the Prospectus, other than responsibility for this report. Risk factors are set out in detail in Section 8 of the Prospectus.

Scope of report

William Buck has been requested to:

a) report whether anything has come to our attention which would cause us to believe that the historical financial information disclosed in the Annexure to this report is not fairly presented in accordance with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Narhex, and

b) report whether anything has come to our attention which would cause us to believe that the pro forma financial information disclosed in the Annexure to this report is not presented fairly in accordance with the basis of preparation and assumptions applied in preparing the financial information as set out in note 2 to the Annexure and with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Narhex.

Narhex has prepared, and is responsible for, the historical and pro forma financial information included in the Annexure to this report.

William Buck

Scope of the review

William Buck has not audited the financial statements of Narhex as at 31 December 2010. We have conducted our review of the historical financial information in accordance with Australian Auditing Standard ASRE 2405 *Review of Historical Financial Information Other Than a Financial Report.* We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- enquiry of directors, management and others;
- analytical procedures on the historical information;
- a review of work papers, accounting records and other documents; and
- comparison of consistency in application of the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Narhex.

The review procedures were substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards.

Having regard to the nature of the review, which provides less assurance than an audit, and to the nature of the historical and pro forma financial information, this report does not express an audit opinion on the historical and pro forma financial information included in the Annexure to this report.

Opinions

Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the historical financial information, as set out in the Annexure of this report is not presented fairly in accordance with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Narhex.

Pro Forma Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the pro forma financial information, as set out in the Annexure of this report is not presented fairly in accordance with the basis of preparation in the Annexure and applied in preparing the financial information as set out in note 2 to the Annexure with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Narhex.

William Buck

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(f) of the Annexure, there is inherent uncertainty whether the Company will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the consolidated statement of financial position.

Subsequent events

On 14 January 2011 the Deed of Company Arrangement ("DOCA") was effected by the Company's Administrators. Under the terms of the DOCA, all Creditors Claims against the Company were settled. Details of all Creditors Claims under the DOCA are disclosed in Note 5 of the Annexure.

With the exception of the above matter, there have been no events subsequent to balance date not already disclosed or accounted for in the pro forma financial information which are sufficiently material to warrant disclosure.

Independence

William Buck does not have any interest in the outcome of the listing of the shares, other than in connection with the preparation of this report for which normal professional fees will be received. William Buck was not involved in the preparation of any part of the Prospectus, and accordingly, makes no representations or warranties as to the completeness and accuracy of any information contained in any other part of the Prospectus. William Buck consents to the inclusion of this report in the Prospectus in the form and content in which it is included. At the date of this report, this consent has not been withdrawn.

Responsibility

Consent to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it appears has been given, but should not be taken as an endorsement of the Company or a recommendation by William Buck of any participation in the share issue by any intending investors. At the date of this report our consent has not been withdrawn.

William Buck

General Advice Limitation

This Report has been prepared and included in the Prospectus to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on this information contained in this Report. Before acting or relying on information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Yours faithfully

Jeffrey Luckins
Director
William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

Dated in Melbourne, Australia this 17th day of January 2011

William Buck

Historical and Pro-forma Financial Information
Annexure

Statements of Financial Position

	Notes	*Unaudited* Actual [31 December 2010]	Pro-forma [31 December 2010]
Current Assets			
Cash and cash equivalents	3	41,588	**1,800,015**
Other current assets		6,219	**6,219**
Total Current Assets		47,807	**1,806,234**
Non-Current Assets			
Investment in joint venture entity	4	125,000	**125,000**
Total Non-Current Assets		125,000	**125,000**
Total Assets		172,807	**1,931,234**
Current Liabilities			
Trade and other payables	5	836,387	**57,370**
Financial liabilities	6	129,073	**-**
Total Current Liabilities		965,460	**57,370**
Total Liabilities		965,460	**57,370**
Net (Deficiency)/Assets		(792,653)	**1,873,864**
Equity			
Issued capital	7	480,000	**2,367,500**
Accumulated losses	8	(1,272,653)	**(493,636)**
Total (Deficiency)/Equity		(792,653)	**1,873,864**

The Statements of Financial Position should be read in conjunction with the accompanying notes, with particular reference to the assumptions relating to the pro-forma Statement of Financial Positions set out in Note 2.

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

1. Summary of Significant Accounting Policies

Basis of preparation

The financial information included in this Annexure has been prepared in accordance with the measurement and recognition criteria of applicable Australian Accounting Standards, mandatory professional reporting requirements, the specific accounting policies detailed in this Note 1 and the adjustments and assumptions detailed in Note 2.

Certain disclosure requirements under the *Corporations Act 2001* and applicable Australian Accounting Standards have not been included where the information which would be disclosed is not considered material or relevant to potential investors.

The Company has adopted the accrual basis of accounting including the historical cost convention and the going concern assumption. All amounts have been presented in Australian dollars, which are the Company's functional and presentation currency. The significant accounting policies which have been adopted in the preparation of the historical and pro-forma historical financial information (collectively referred to as the "financial statements") are:

(a) Cash and Cash Equivalents

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

(b) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the report date and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(c) Financial Instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognized when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss.

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

1. Summary of Significant Accounting Policies *(continued)*

(c) Financial Instruments *(continued)*

Classification and subsequent measurement of financial liabilities

All financial liabilities of the Company are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated as a) the amount at which the financial liability is measured at initial recognition; b) less principal repayments; c) plus or minus the cumulative amortisation of the difference, if any, between the amounts initially recognised and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Financial instruments are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(d) Interest in Joint Venture Entity

The Company's interest in its joint venture entity is brought to account using the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition charge in the Company's share of assets in the joint venture entity. Profits and losses resulting from transactions between the Company and associate are eliminated to the extent of the Company's interest in the joint venture entity.

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

1. Summary of Significant Accounting Policies *(continued)*

e) Impairment

The carrying amounts of the Company's assets are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as follows:

The recoverable amount is the greater of the 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, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Critical Accounting Estimates and Judgements

The directors of the Company evaluate estimates and judgments incorporated into the financial statements of the Company based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the business.

Key judgement – Going concern

The directors have assessed the current cash balances available to the Company, along with the expenditure plans and expected obligations over the next 12 months and the likelihood of success of raising funds through the Prospectus issued together with this report and concluding its period under Administration. In assessing their expenditure commitments the directors included the DOCA arrangement which was effectuated in January 2011.

Based on this assessment the directors are satisfied that there will be sufficient resources available to the Company to meet its financial obligations as and when they become due over the next 12 months.

This Annexure does not include any adjustment relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

2. Assumptions Applied in Preparing the Financial Information

The pro-forma financial information has been included for illustrative purposes to reflect the position of Narhex on the assumption that the following transactions had occurred on 31 December 2010:

a) The issue of 250,000,000 ordinary shares at 1 cent each pursuant to the Prospectus to raise a gross $2,500,000;
b) The payment Corporate Expenses for the Recapitalisation Proposal and Capital Raising fees for funds expected to be $612,500;
c) Forgiveness of all Creditors Claims against the company under the DOCA; and
d) Repayment of the Tittel Loan (including accrued interest to 31 December 2010).

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

3. Cash and cash equivalents

	Unaudited Actual [31 December 2010] $	Pro-forma [31 December 2010] $
Cash at bank – 31 December 2010*	41,588	**41,588**
Issue of 250,000,000 ordinary shares pursuant to this Prospectus	-	**2,500,000**
Expenses associated with the Recapitalisation Proposal	-	**(612,500)**
Repayment of the Tittel loan	-	**(129,073)**
	41,588	**1,800,015**

*As at 31 December 2010 this cash was held in Trust to be used for third party payments for the Recapitalisation Proposal.

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

4. Investment in joint venture entity

	Unaudited Actual [31 December 2010] $	Pro-forma [31 December 2010] $
50% shareholding interest in Narhex Life Sciences International Limited	125,000	**125,000**
	125,000	**125,000**

5. Trade and other payables

Trade and other payables – 31 December 2010 subject to DOCA	1,179,017	**1,179,017**
Advance payment to Administrator to satisfy the DOCA arrangement	(400,000)	**(400,000)**
Net trade and other payables subject to DOCA	779,017	**779,017**
Trade and other payables – 31 December 2010 not subject to DOCA	57,370	**57,370**
Forgiveness of Creditors Claims subject to DOCA	-	**(779,017)**
	836,387	**57,370**

6. Financial liabilities

Loan from Tittel	129,073	**129,073**
Repayment of Tittel loan	-	**(129,073)**
	129,073	**-**

The Tittel loan is due to be repaid within 6 months of the 2010 General Meeting. Should the loan be not paid by this date, the Company's 50% interest in its Joint Venture with Narhex Life Sciences International Limited will be transferred to Tittel or its nominee. The Directors have stated that it is their intent to repay the Tittel Loan. Interest is payable at 5% per annum calculated daily.

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

7. Issued capital

	Unaudited Actual [31 December 2010] $	Pro-forma [31 December 2010] $
Issued capital – 31 December 2010	480,000	**480,000**
Issue of 250,000,000 shares pursuant to this Prospectus	-	**2,500,000**
Prospectus issue costs	-	**(612,500)**
	480,000	**2,367,500**
	Number of shares	**Number of shares**
Issued capital – 31 December 2010	180,117,350	**180,117,350**
Issue of 250,000,000 shares pursuant to this Prospectus	-	**250,000,000**
	180,117,350	**430,117,350**
	$	**$**
8. Accumulated losses		
Accumulated losses – 31 December 2010	(1,272,653)	**(1,272,653)**
Forgiveness of Creditor Claims	-	**779,017**
	(1,272,653)	**(493,636)**

Historical and Pro-forma Financial Information
Annexure

Notes to the Financial Information

9. Subsequent events

On 14 January 2011 the Deed of Company Arrangement ("DOCA") was effected by the Company's Administrators. Under the terms of the DOCA, all Creditors Claims against the Company were settled. Details of all Creditors Claims under the DOCA are disclosed in Note 5 of the Annexure.

With the exception of the above matter, there have been no events subsequent to balance date not already disclosed or accounted for in the pro forma financial information which are sufficiently material to warrant disclosure.

10. Contingent Liabilities and Commitments

At the date of our report, the Directors have not made any specific undertakings regarding any amounts which may become payable in the future. In the opinion of the directors there were no material contingent liabilities or assets as at 31 December 2010 and in the interval between 31 December 2010 and the date of this report.

11. Related parties

Refer to Section 9 of this prospectus for details of related party transactions and shareholdings.

DAVIES COLLISON CAVE
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In association with:
Davies Collison Cave Law
Intellectual Property

12 January, 2011

The Directors
Narhex Life Sciences Limited
Level 24, St Martins Tower
44 St Georges Terrace
Perth, WA, 6000

Our Ref: 31065797/MKR/MAL/RXS

Re: Patent Attorney's Prospectus Report for Narhex Life Sciences Limited

Dear Sirs,

We have been asked to prepare a Report on patents for inclusion in a prospectus to be issued by Narhex Life Sciences Limited. We have been advised that: (i) Narhex Life Sciences Limited owns 50% of the shares of Narhex Life Sciences International Pty Ltd; and (ii) Narhex Life Sciences International Pty Ltd owns a majority interest in Narhex Limited, the registered owner of the patents listed in the Report.

Background to the Patent System

A patent is a legally enforceable and exclusive right to commercially exploit an invention for a limited period of time. To qualify for patent protection in Australia the invention defined by the patent must, amongst other criteria, meet the requirements of novelty (newness), inventive step (non-obviousness) and usefulness. For example, patents may be granted in Australia in respect of new or improved products, compositions and processes in most areas of current scientific, commercial and industrial activity, including in relation to pharmaceuticals.

A patent must be obtained in each country where protection of an invention is required. The requirements for patentability and the nature of inventions that can be protected by patents vary from country to country.

In Australia and most other countries, patent rights are generally granted for a period of 20 years from the date of filing of the application on which the patent is granted. While the patent is in force the owner has the exclusive right to exploit the invention. In instances where the invention relates to a new pharmaceutical substance, it is possible in some jurisdictions (such as

Australia) to gain an extension beyond this 20 year term to compensate for regulatory delays, of up to a further 5 years. We are not aware of the existence of any extensions of term in respect of the patents listed in the Report.

In most countries patents can be enforced against infringers by initiating action in the courts. It is however generally possible either in a patent infringement suit or in a separate patent revocation or invalidity action for parties to seek revocation of a patent on the ground that one or more of the requirements for patentability have not been satisfied, and that the patent is therefore invalid. No assurance or guarantee can be given that the patents referred to in the Report are valid.

Freedom to Operate

The freedom of a party to operate in respect of a specific product or process can be restricted when the product or process falls within the scope of the claims of a patent or patents owned by another party. If commercial activities in relation to a product or process (such as manufacturing, importing, selling or offering the product for sale, working the process or importing a product of the process) fall within the scope of the claims of a valid and in force patent, action for infringement of the patent may be commenced in the courts by the patentee. In such circumstances the patentee may be entitled to relief such as damages or an account of profits or an injunction preventing the infringing activity.

The existence of a patent or patents covering a product or process does not mean that there may not be another patent in existence that could be infringed through conducting commercial activities in relation to the product or process. Searches need to be conducted to locate relevant third party patents. No assurance or guarantee can be given that products or processes falling within the scope of patents listed in the Report do not infringe a patent owned by a third party.

The Report

The Report comprises the accompanying Schedules I and II which list patents in the name of Narhex Limited.

Yours faithfully,
DAVIES COLLISON CAVE

Mark Roberts
Partner

SCHEDULE I

Title: Amine derivatives of oxo- and hydroxy-substituted hydrocarbons

Owner: Narhex Limited

Based on:

Australian Provisional Patent Application No. PL1304/92, filed on 11 March 1992 (priority application)

International Application No. PCT/AU93/00103, filed on 11 March 1993; (national/regional phase entered)

Granted Patents:

1. People's Republic of China – Patent No. ZL93119079.7, dated 11 March 1993; granted and in force

2. Mexico – Patent No. 233215, dated 11 March 1993; granted and in force

3. New Zealand – Patent No. 249789, dated 11 March 1993; granted and in force

4. United States of America – Patent No. 5,942,504, dated 25 July 1997; granted and in force

Note – It is currently expected that patents 1 to 4 above will expire after 11 March 2013, subject to the payment of any future annuity fees.

SCHEDULE II

Title: Polar-substituted hydrocarbons

Owner: Narhex Limited

Based on:

Australian Provisional Patent Application No. PM 1161, filed on 10 September 1993 (priority application)

Australian Provisional Patent Application No. PM 6446, filed on 24 June 1994 (priority application)

International Application No. PCT/AU1994/000538, filed on 12 September 1994 (national/regional phase entered)

Granted Patents:

1. People's Republic of China – Patent No. ZL94194114.0, dated 12 September 1994; granted and in force

2. Mexico – Patent No. 223228, dated 12 September 1994; granted and in force

3. The Philippines – Patent No. 48948, dated 12 September 1994; granted and in force

4. United States of America – Patent No. 5,888,992, dated 12 September 1994, granted and in force

5. United States of America – Patent No. 6,071,895, dated 22 February 1999; granted and in force

Note – It is currently expected that patents 1 to 3 above will expire after 12 September 2014, and patents 4 and 5 above are currently expected to expire after 11 March 2013, subject to the payment of any future annuity fees.

SECTION 7 MATERIAL CONTRACTS

7.1 SUMMARY OF MATERIAL CONTRACTS

Set out below is a summary of the material contracts to which the Company is a party that may be material in terms of the Offer for the operation of the business of the Company or otherwise may be relevant to a potential investor in the Company (**Material Contacts**).

The whole of the provisions of the agreements are not repeated in this Prospectus and any intending Applicant who wishes to gain a full knowledge of the content of the Material Contracts should inspect the same at the registered office of the Company.

7.2 NLSI SHAREHOLDERS' AGREEMENT

On or about 7 May 2010, the Company and Tittel entered into a Shareholders Agreement for the purposes of recording the terms for the operation of Narhex Life Sciences International Pty Ltd ("**NLSI**"). 'Shareholder' within the Shareholders Agreement is defined to mean Tittel or Narhex and any permitted successor in title of them. The registered shareholders of NLSI are the Company and Narhex Life Sciences Development Limited (**NLSD**).

The principal business activities of NLSI are:

(a) the commercialisation of DG-35 and its pro-drug DG-17;

(b) the approval of DG-35 and its pro-drug DG-17 for use in China;

(c) enhancing the value of the Xi'an Hex Joint Venture; and

(d) adding value to Cavidi AB and the investment in it.

NLSI has 100 ordinary fully paid shares on issue. The Company and NLSD each hold 50 Shares.

Unless the Shareholders otherwise agree, the minimum number of directors to comprise the board shall be 4, with 2 directors appointed by the Company and 2 directors appointed by NLSD.

NLSD are entitled to appoint the Chairman of NLSI and the Chairman shall have a second or casting vote on any issue considered by the Board.

No additional shares, equities or other securities are to be issued in NLSI. NLSI will not grant any right or option to subscribe for shares or other equity unless it is as by mutual agreement between the Shareholders.

The Board of NLSI will not, without prior written consent of the Shareholders, or the Directors of NLSI, authorise or cause the NLSI to suffer or commit to have done any of the acts, matters or things specified in Schedule 1 of the Agreement. Items of note in Schedule 1 include:

(a) investing in or acquiring a new business;

(b) any capital expenditure that exceeds $50,000 in aggregate that is not specifically budgeted for in NLSI's Annual Budget;

(c) disposal of substantially the whole of NLSI's assets or entering into an agreement, arrangement or undertaking to do so;

(d) consolidation or subdivision in any of NLSI share capital;

(e) issuing renounceable allotment letters; or

(f) doing, permitting or suffering to be done any act or thing where by the NLSI may be wound up.

The Shareholders agree that the Company and NLSD are to each subscribe for 200 Shares at an issue price of $2,500 per share ("**Further Shares**") at the times and in the tranches to be specified by the Board of NLSI. The Shareholders agree that NLSI must request that NLSD subscribe for, and NLSD actually subscribe for its allotment of Further Shares, before requesting the Company subscribe for its allotment of the Further Shares.

The failure to subscribe for the Further Shares when requested, grants the other Shareholder the right to apply for the shortfall. If NLSD subscribes for its allotment of the Further Shares, NLSI will issue 200 convertible notes at an issue price of $2,500 per note to NLSD, to convert when the Company subscribes for, or fails to subscribe for, its allotment of the Further Shares when required

The Company is not required to subscribe for the Further Shares until the expiry of 6 months from the date the DOCA is terminated.

The Shareholders grant each other an option ("**Shareholder Option**") to acquire up to 50 of the Shareholder's shares ("**Option Shares**") under the terms of the NLSI Shareholders Agreement. The Shareholders may only exercise the Shareholder Option if the other Shareholder fails to subscribe for Further Shares when required by the NLSI Shareholders Agreement. The exercise price of the Shareholder Option is $1.00 per share.

If a Shareholder wishes to sell, transfer or otherwise dispose of any or all of its Shares, or any right to benefits attaching to them, the transfer must be to either:

(a) a related body corporate; or

(b) a proposed purchaser, who must be disclosed to the other Shareholder, with the other Shareholder having the first right of offer with respect to those shares.

Each Shareholder has first right of offer with respect to future issues with shares and securities or convertible securities to shares.

The remaining terms of the NLSI Shareholders Agreement are considered standard for an agreement of this type.

7.3 XI'AN HEX JOINT VENTURE AGREEMENT

On or about 2 October 2006 the Company and Shaanxi Dacheng International Trade Co. Ltd (**Dacheng**) entered into a joint venture agreement forming the joint venture company named Xi'an Hex Life Sciences Company Limited, as amended by a deed of amendment dated 25 December 2009 (**Xi'an Hex Joint Venture Agreement**). Pursuant to the DOCA, the Company has subsequently transferred its interest in the Xi'an Hex Joint Venture Agreement to NLSI.

The principle activity of the joint venture shall be organizing, conducting and completing clinical trials of Narhex DG-35/17 protease inhibitor HIV/AIDS anti viral drug, as per the requirements of the State Food and Drug Administration of China.

Dacheng holds a 25% interest in the joint venture and NLSI holds a 75% interest.

The responsibilities of Dacheng include:

(a) handling applications for approval, registration, business license and other matters concerning the establishment of the joint venture from relevant departments in China;

(b) applying for land-use right to the authority in charge of land and pay all the expenditure;

(c) providing cash;

(d) assisting the Company in customs procedures of imported drug as its contribution and in transportation of such equipment inside China;

(e) assisting the joint venture in purchasing (or leasing) equipment, office necessities,

transportation, communication facilities;

(f) assisting the joint venture in recruiting local Chinese managers, workers and other need employees;

(g) assisting foreign employees in entry visa, work permit, going through procedures etc;

(h) handling other matters entrusted by the joint venture.

The responsibilities of NLSI include:

(a) providing cash, intellectual property and transporting its contributed material to China;

(b) purchasing material from overseas and transporting to China; and

(c) other matters entrusted by the joint venture.

The board of the joint venture consists of 4 directors, with 1 appointed by Dacheng and 3 appointed by NLSI. The board shall decide all major issues concerning the joint venture, with the matters requiring affirmative unanimous approval of all members of the board including:

(a) amendment to the Constitution;

(b) increase or reduction of the registered capital;

(c) dissolution of the joint venture company;

(d) mortgage of the assets of the joint venture company;

(e) the merger or consolidation or separation or management mechanism change of the joint venture company with any other economic organisation;

(f) and extension of the term of the joint venture company;

(g) distribution of dividends to the parties;

(h) any borrowing from banks or other financial institutions; and

(i) encumbrances of a party's interest in the joint venture company.

The duration of the joint venture company is 20 years.

The joint venture agreement is governed by the laws of the People's Republic of China.

Additional terms of the Xi'an Hex Joint Venture Agreement are considered standard for an agreement of this type.

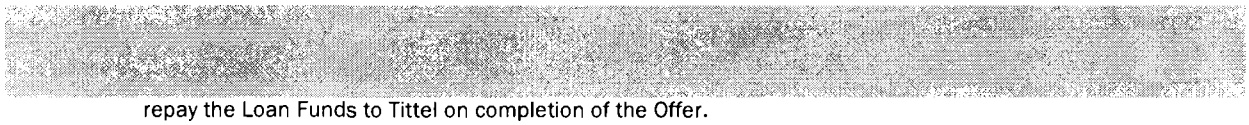
7.4 DEED OF COMPANY ARRANGEMENT

On 7 May 2010 the Administrators, the Company and Tittel entered into the Deed of Company Arrangement (**DOCA**).

The DOCA was terminated on 14 January 2011 following completion of the establishment of NLSI, the transfer of the Company's shares in Narhex Limited, Xi'an Hex Life Sciences Company Limited, and Cavidi AB to NLSI, the payment by Tittel of loan funds totaling $125,000 (**Loan Funds**) to the Company and a cash payment of $125,000 to the Administrators, the Consolidation, completion of the Proponent Raising and payment of additional funds to the Administrators.

Although the DOCA has been effectuated resulting in the extinguishment of all debts, liabilities and claims against the Company, under clause 7(g) of the DOCA as agreed by Tittel, in the event that the Loan Funds are not repaid within 6 months following the date of the General Meeting, Tittel agrees to forgive the Loan (including any interest) in consideration for which the Company agrees to transfer its remaining interest in NLSI to Tittel or its nominee.

As set out in the expenditure budgets in Section 3.5 of the Prospectus, it is the intention of the Directors to



repay the Loan Funds to Tittel on completion of the Offer.

SECTION 8 RISK FACTORS

There are numerous risks associated with investing in any form of business and with investing in the share market generally. There are also a range of specific risks associated with the Company's business.

This section identifies areas the Directors regard as major risks associated with an investment in the Company. Investors should be aware that an investment in the Company involves many risks, which may be higher than the risks associated with an investment in other companies. Intending applicants should read the whole of this Prospectus in order to fully appreciate such matters and the manner in which the Company intends to operate before any decision is made to subscribe for Shares pursuant to this Prospectus.

Applicants should be aware that there are risks associated with any share investment. The value of the Shares may be above or below the issue price under this Prospectus. The Shares allotted under this Prospectus carry no guarantee in respect of profitability, dividends or return of capital.

The Shares offered under this Prospectus should be regarded as speculative and investors should be aware that they may lose some or all of their investment. Investors should consider whether the Shares offered under this Prospectus are a suitable investment having regard to their own individual investment objectives, financial circumstances and the risk factors set out below. This list is not exhaustive and, if in any doubt, investors should consult their professional advisers before deciding whether to apply for securities pursuant to this Prospectus.

Specific risks include:

8.1 INTELLECTUAL PROPERTY RIGHTS

The ownership of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop technology to avoid patent technology in respect of which the Company has rights. The patents expire at the end of their terms, after which the Company no longer has exclusive protection.

The Company's business success will depend, in part, on its ability to:

- rely on patents in respect of which it has rights;
- maintain trade secret protection; and
- operate without infringing on the rights of third parties.

As patents can be uncertain and frequently involve complex and expensive legal and factual issues, neither the breadth of claims allowed in patents nor their enforceability can be predicted.

The major part of the Company's operation through its 50% interest in NLSI will be seeking approvals of the State Food and Drug Administration ("**SFDA**") of China with the medium term plan to commercialise the drug within China. China is a country with a poor, albeit improving, record of Intellectual Property protection. The risks identified above are increased as a result of the plans to operate within China.

Please refer to **Section 6** of this Prospectus for an evaluation of the Company's Intellectual Property.

8.2 GOVERNMENT AND REGULATORY POLICIES, LEGISLATION AND REGULATION

The business of developing, manufacturing and distributing vaccines and other drugs is increasingly exposed to significant legislative compliance issues including regulatory requirements by such authorities as Therapeutic Goods Administration ("**TGA**") Approval in Australia, the Food and Drug Authority Approval in the United States ("**FDA**") and the SFDA in China. The Company is required to comply with all applicable regulatory requirements in respect of its products.

Since commencing operations within China, the Company has already experienced certain changes in the regulatory approval processes in China. There remains risk that certain regulatory requirements could change during development and operation of the Company's business. The regulatory process requires substantive pre-clinical and clinical trials to establish efficacy and safety of the product. This process can take many years at significant cost. It is possible that the regulatory approval process could change, potentially impacting on the final cost and outcomes of the trials.

There is no assurance that the Company's products will prove to be safe and effective in clinical trials and hence the regulatory approvals to manufacture and market the products will be received.

Delays in obtaining regulatory approvals could:

- adversely affect the marketing of any products developed;
- impose significant additional costs;
- diminish any competitive advantages obtained; and
- adversely affect the ability to receive royalties and generate revenues and profits.

Failure to comply with regulatory approvals if they are received can result in official warnings, fines, injunctions, civil penalties, re-call and seizure of products, suspension of products from the market and/or criminal prosecution, again adversely affecting the Company's possible financial outcomes.

8.3 INSURANCE RISKS

The Company intends to adequately insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

Insurance of all risks associated with public companies is not always available and where available often the costs can be prohibitive.

8.4 COMPETITION RISK

The industry in which the NLSI is involved is highly competitive and subject to global competition by well financed multi-national drug companies. Whilst the NLSI will undertake all reasonable due diligence in its business decisions and operations, the NLSI will have no influence or control over the activities or actions of its competitors, whose activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

Please refer to **Section 4** of this Prospectus for additional information in relation to the competition within the industry.

8.5 DEVELOPMENT OF NEW DRUGS

The development of new drugs is subject to rigorous testing both in the laboratory and through different phases of clinical trials, both to prove the efficacy of the drug and to ensure that any adverse effects are minimal, or deemed acceptable relative to the positive outcomes of the drug being tested.

It is only following such trials that relevant drug authorities – the SFDA in China – will register the drug for commercial production and sales.

Clinical trials are lengthy, arduous and expensive. A drug may have satisfactory results through all aspects of the trials, and yet still not be approved by the relevant authority through flaws in trial design, different statistical interpretation, unacceptable side effects or many other reasons.

There are significant costs associated with the approval processes and significant risks that results will not be acceptable for the relevant authority to approve the commercial production and sales of the product.

Please refer to **Section 4** of this Prospectus for additional information in relation to the development of new drugs.

8.6 COMMERCIALISATION OF NEW DRUGS

If the drug has been approved for commercialisation by the relevant authority within the country in which commercial outcomes are being sought, there remain substantial risks in achieving suitable commercial outcomes. Commercial outcomes can require significant marketing costs, a superior product and access to suitable members of the medical profession willing to champion the product.

Risks include the possibility that the product may:

- be difficult or impossible to manufacture on a larger scale;
- be uneconomical to market;
- more expensive relative to outcomes than alternative products;
- achieve insignificant and non-commercial market share prior to the successful marketing of similar products by competitors;
- be impossible to market as they infringe on the proprietary rights of third parties; and
- not be as effective as an alternative treatment method.

NLSI believes it is mitigating, to an extent, the risks associated with Section 8.5 above and this Section 8.6 above through trials in China where the cost is less, and where, with a positive outcome from the trials, the Government may be willing to mandate the use of DG-17 for its citizens.

Please refer to **Section 4** of this Prospectus for additional information in relation to the commercialisation of new drugs.

8.7 JOINT VENTURE AGREEMENT

In October 2006 the Company registered a Joint Venture with Dacheng, forming the Xi'an Hex Joint Venture. The Company has invested funds in establishing offices in China and employing key personnel. The Xi'an Hex Joint Venture is now owned by NLSI. The purpose of the Xi'an Hex Joint Venture is ultimately to obtain approval to manufacture and sell NLSI's HIV pro-drug DG-17.

The Xi'an Hex Joint Venture continues to operate through NLSI. However without adequate funding and resources from its parent companies, NLSI may be unable to meet its obligations under the Joint Venture Agreement. Failure of NLSI to comply with these obligations may result in the dilution of its interest in the JV, or in Dacheng withdrawing from the Xi'an Hex Joint Venture. Such a withdrawal would negatively impact the development, potential clinical trials and potential development of DG-17. This would have a negative impact on the Company's financial performance.

Conversely it is possible that Dacheng may choose not to continue to fund its interest in the Xi'an Hex Joint Venture in which circumstance NLSI would be free to continue with the clinical trials, though continuance without a Chinese Joint Venturer may result in some operational difficulties.

8.8 NLSI SHAREHOLDER RISK

The financial circumstances of NLSD may change, or NLSD may chose to not continue to invest in NLSI, under either of which circumstances the Company would need to:

- increase its funding commitment to NLSI to ensure NLSI retain its interest in the Xi'an Hex Joint Venture, which would have the effect of the Company increasing its interest in NLSI;
- not increase its funding to NLSI which will impact NLSI's ability to fund its interest in the Joint Venture, and result in NLSI diluting its interest in the Joint Venture;
- seek an alternative and financial shareholder for NLSI; or
- also withdraw from funding NLSI with the consequent likely loss of any residual value in NLSI, with exception of its interests in Cavidi AB.

8.9 DEPENDENCE ON PERSONNEL

There is significant competition for qualified personnel in the biotechnology industry. There is a risk that the Company, NLSI and the Xi'an Hex Joint Venture may not be able to obtain or attract the qualified personnel necessary for the development of its business. A loss of the services of existing personnel and/or the failure to recruit key scientific, technical and management personnel required may harm critical trial programs as well as the Company's business.

8.10 UNCERTAINTY OF FUTURE PROFITABILITY

The Company has incurred significant losses in the past, ultimately resulting in the appointment of Administrators. It is not possible to evaluate the Company's future prospects based on past performance. The past performance should not impact the future opportunities for the Company. The Company does expect to make losses in the immediate future as it recommences funding through NLSI of pre-clinical and clinical trials of DG-17.

There remains significant risk in whether or not DG-17 will obtain the necessary regulatory approvals, and then whether or not the Xi'an Hex Joint Venture is able to identify a suitable development path, manage the development and growth strategies, and associated costs whilst being aware of, and managing the Company through the actions of competitors and regulatory developments.

A suitable path to commercialization may not be identified and that the Xi'an Hex Joint Venture may not be able to continue with its planned commercialization of the technology. As a result, the extent of future profits, if any, and the time required to achieve sustainable profitability, is uncertain. In addition, the level of any such future profitability cannot be predicted and may vary significantly from period to period.

8.11 FINANCIAL REPORTING RISKS

The Company was suspended from the official list of the ASX on 3 March 2008 and was subsequently placed in administration on 9 February 2010. The Company did not comply with its financial reporting obligations immediately prior to, and during the period of, its administration. On 30 September 2010 the Company received an order from the ASIC relieving the Company (until 31 March 2011) from the requirements to lodge its full year financial report for the year ending 30 June 2010. The Company is in the process of preparing its full year financial report for the year ending 30 June 2010 and will lodge this with the ASIC once completed. Technically, this failure to lodge the financial reports means that the Company is in breach of its financial reporting requirements under Chapter 2M of the Corporations Act. Shareholders should be aware that this breach may attract liability under the Corporations Act and/or affect the Company's operations going forward and may affect the Company's ability to be reinstated to ASX. The costs of preparing the accounts will be borne out the costs of the Recapitalisation Proposal. The Company has engaged William Buck to provide an Investigating Accountants' Report (please refer to **Section 5**) which sets out the Company's proforma balance sheet as at 31 December 2010.

8.12 ACQUISITIONS

In addition to the risks identified above, the Company has stated it will also review and consider other business opportunities. Consequently this strategy may result in the Company making acquisitions of, or significant investments in, complementary or alternative companies or assets. Any such transactions would be accompanied by the risks inherent in making acquisitions of companies and assets. For example, there may be liabilities in connection with such acquisitions which are not identified in the Company's due diligence or the acquisitions may not prove to be successful.

Further, risks associated with such acquisitions will also arise from the Company's ability to execute the acquisition and then to correctly manage the business operations and growth strategies moving forward. In addition, any acquisition may be subject to all or any shareholder and regulatory approvals, which may include re-compliance with Chapters 1 & 2 of the ASX Listing Rules.

8.13 RISK OF INTERNATIONAL OPERATIONS

In certain countries in which the Company and NLSI will have assets and operations, including Sweden and China, such assets and operations are subject to various political, economic and other uncertainties including, amongst other things, the risk of war and civil unrest, expropriation, renegotiation or nullification of existing concessions, licences, permits, approvals and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favour or require the awarding of contracts to local suppliers or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, in the event of a dispute arising from foreign operations, the Company may also be subject to the exclusive jurisdiction of foreign courts, and may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. It is not possible for the Company to accurately predict such developments or changes in laws or policy or to what extent any such developments or changes may have a material adverse effect on the Company's operations.

General risks include:

8.14 ECONOMIC AND GOVERNMENT RISKS

The future viability of the Company is also dependent on a number of other factors which may affect the performance of all industries, and associated performance of share markets including, but not limited to, the following:

- general economic conditions in Australia and its major trading partners;
- changes in Government policies, taxation and other laws;
- the strength of the equity and share markets in Australia and throughout the world;
- the ongoing strength of the Chinese economy;
- movement in, or outlook on, exchange rates, interest rates and inflation rates;
- natural disasters, social upheaval or war in Australia or overseas; and
- other factors beyond the control of the Company.

8.15 FUTURE CAPITAL NEEDS

Further funding of projects and potential acquisitions may be required by the Company to support its ongoing activities and operations. There can be no assurance that such funding will be available on satisfactory terms or at all. Any inability to obtain funding will adversely affect the business and financial condition of the Company and, consequently, its performance.

If the Company fails to obtain adequate funds when needed the Company may:

- delay or cease its research and development activities, or other aspects of its business;
- be forced to license or sell its technologies on unfavourable terms; and
- have to reduce or cease operations.

8.16 OTHER FACTORS

Since the Company's shares have ceased trading on the ASX, there has been no public market for the shares. It is important to recognize that, once the shares are quoted on the ASX, their price may rise or fall as they may trade the price below or above the application price. There can also be no assurance that an active trading market will develop with the shares.

Specific factors that may impact the Company's share price regardless of its operating and performance include:

- announcements of technological innovations via the company or its competitors;
- the issue of additional shares or securities, including the availability of additional shares for sale from time to time;
- the overall market perception of the biotechnology sector;
- developments in the companies relationships with industry partners;
- reports published by security analysts;
- developments in patents or other intellectual property of the company or its competitors;
- merger and acquisition activity;
- litigation of disputes involving the company or others;
- changes in Australian or relevant foreign tax laws which affect the company or its investors;
- changes in the companies key personnel; and
- changes to the regulatory environment which specifically impact upon the biotechnology industry or any publicity relating specifically to the biotechnology industry.

The Company's operating financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates and government fiscal monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates, could be expected to have a corresponding adverse affect on the companies operating financial performance.

SECTION 9 ADDITIONAL INFORMATION

9.1 COMPANY INFORMATION

The Company was incorporated on 13 September 2000 and was admitted to the Official List of ASX on 10 January 2005. The Company's Shares were suspended from trading on the ASX on 3 March 2008.

9.2 RIGHTS ATTACHING TO SHARES

Shares issued pursuant to the Offer will rank equally with all other fully paid ordinary shares on issue.

The rights attaching to the Shares are set out in the constitution of the Company. A broad summary (although not an exhaustive or definitive statement) of the rights attaching to the Shares are outlined below.

9.2.1 RANKING OF SHARES

At the date of this Prospectus, all Shares are of the same class and rank equally in all respects. Specifically, the Shares issued pursuant to this Prospectus will rank equally with Existing Shares.

9.2.2 VOTING RIGHTS

Subject to any special rights or restrictions (at present there are none), at any Shareholder meeting, each Shareholder present in person or by proxy has one vote on a show of hands, and on a poll has one vote for each share held.

9.2.3 DIVIDEND RIGHTS

Subject to any special rights (at present there are none), any dividends that may be declared by the Company are payable on all Shares in proportion to the amount paid up.

9.2.4 VARIATION OF RIGHTS

The rights attaching to the Shares may only be varied by the consent in writing of the holders of three-quarters of the Shares, or with the sanction of a special resolution passed at a general meeting.

9.2.5 TRANSFER OF SHARES

Subject to the constitution of the Company, the Corporations Act and other relevant laws, the Shares are freely transferable.

9.2.6 GENERAL MEETINGS

Each Shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be furnished to Shareholders under the Company's constitution, the Corporations Act and any other laws.

9.2.7 RIGHTS ON WINDING UP

If the Company is wound up, the liquidator may, with the sanction of a special resolution:

- divide among the Shareholders the whole or any part of the Company's property; and
- decide how the division is to be carried out between the Shareholders.

Subject to any special rights (at present there are none), any surplus assets (following full satisfaction of all creditors debts) on a winding up are to be distributed to Shareholders in proportion to the number of Shares held by them irrespective of the amounts paid or credited as paid.

9.3 PROFILE OF THE DIRECTORS

Brief profiles of the Directors are set out below.

Mr. Peter Christie - Chairman

Peter Christie graduated from Curtin University with a Bachelor of Business in 1983 and is a qualified Accountant and Tax Agent. He has 27 years of commercial experience and in that time has developed extensive business, hospitality and property interests. Mr Christie is also currently a non-executive director of Carnavale Resources Limited and Safety Medical Products Limited.

Mr. Peter Nash -Director

Mr Nash has advised Australian businesses in relation to mergers, acquisitions and financing in China and has an extensive network of contacts in China. Mr Nash was largely responsible for Moody International's foray into China through introducing it to CCIS State Inspection Authority. Mr Nash has been instrumental in setting up manufacturing plants in China for C.E.M. International Ltd, a cryogenic vessel manufacturer and Garwood International, a supplier of garbage compactor trucks.

Mr. David Mandel - Director

Mr Mandel has a BSc (Chemistry) in the UK and is also qualified as an Accountant (CIMA). Since returning to Australia he became a senior member of the Finance & Treasury Association (CFTP) and more recently a Member of the Institute of Company Directors (MICD). Mr Mandel worked for over twenty five years for multinational companies in Australia, the UK and the USA in a range of finance and commercial roles, rising to becoming the Managing Director of $100+ million revenue Australian packaging company (subsidiary of a USA based multinational). For the last 10 years, Mr Mandel has consulted to a number of biotech, technology based and manufacturing businesses.

Mr. Simon Lill -Director

Mr Lill is an Associate Director of Trident Capital. He has a BSc (Pharmacol.) and a Masters of Business Administration, both from The University of Western Australia. He has a background of over 25 years of stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries. Mr Lill is also currently a non-executive director of Safety Medical Products Limited.

9.4 CORPORATE GOVERNANCE

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable; the Company has adopted the Eight Essential Corporate Governance Principles and Best Practice Recommendations ("Recommendations") as published by ASX Corporate Governance Council.

The Company's Corporate Governance policy and its Share Trade Policy will be available on the Company's website. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

Principle 1 - Lay solid foundations for management and oversight

The Board and management have agreed on their respective roles and responsibilities and the functions reserved to the Board and management. The Board has established and adopted a Board Charter for this purpose.

Principle 2 - Structure the Board to add value

The Board ultimately takes responsibility for corporate governance, and will be accountable to the Shareholders for the performance of the Company. The functions and responsibilities of the Board are set out in the Company's Constitution and the Corporations Act. Due to the size of the Company, the Company has not established a separate Nomination Committee, with the functions of this committee carried out by the Board as a whole. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing these separate committees.

The Board has a majority of independent directors. The existing structure is considered appropriate given the small scale of the Company's enterprise and the associated economic restrictions this places on the Company. The existing structure is aimed at maximising the financial position of the Company by keeping its operating costs to a minimum.

Principle 3 - Promote ethical and responsible decision making

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Board has established a Code of Conduct to guide the Directors, managers, employees and officers of the Company with respect to matters relevant to the Company's legal and ethical obligations. The Board has established a Workplace Diversity Policy which will affirm the Company's commitment to promoting a corporate culture that is supportive of diversity and outlines strategies that the Board can undertake to encourage and promote a diverse working environment.

Principle 4 - Safeguard integrity in financial reporting

The Directors require the Chief Executive Officer and external company auditors to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

A separate audit committee has not currently been formed. However, the Company has adopted an Audit Committee Charter. The role of the audit committee is carried out by the full Board in accordance with the Audit Committee Charter. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate audit committee.

Principle 5 - Make timely and balanced disclosure

The Directors are committed to keeping the market fully informed of material developments to ensure compliance with the Listing Rules and the Corporations Act. The Directors have established a written policy and procedure to ensure compliance with the disclosure requirements of the Listing Rules.

Principle 6 - Respect the rights of Shareholders

The Directors have established a communications strategy to promote effective communication with Shareholders and encourage effective participation at general meetings. As well as ensuring timely and appropriate access to information for all investors via announcements to the ASX, the Company will ensure that all relevant documents are released on the Company's website.

Principle 7 - Recognise and manage risk

The Directors have established a Risk Management Policy regarding the oversight and management of material business risks.

Principle 8 - Remunerate fairly and responsibly

A separate remuneration committee has not been formed. The role of the remuneration committee is carried out by the full Board. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate committee.

The Board has provided disclosure in relation to Directors' remuneration in Section 9 of this Prospectus. Further disclosure will be given to investors annually in accordance with the Listing Rules and the Corporations Act.

Share Trade Policy

The Company has adopted a Trading Policy which sets out the following information:

- closed periods in which directors, employees and contractors of the Company must not deal in the Company's securities;
- trading in the Company's securities which is not subject to the Company's Trading Policy; and
- the procedures for obtaining written clearance for trading in exceptional circumstances.

The Company's Trading Policy will be available on its website.

9.5 CONTINUOUS DISCLOSURE AND MARKET PRICE OF SHARES

The Company is a "disclosing entity" for the purposes of Part 1.2A of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations which require it to disclose to the ASX any information which it is or becomes aware of concerning the Company and which a reasonable person would expect to have a material effect on the price or value of the securities of the Company. The Company's Shares are currently suspended and as such no market price is available.

9.6 INTERESTS OF DIRECTORS

Other than as set out below or elsewhere in this Prospectus, no Director has, or has had within two years before lodgement of this Prospectus with ASIC:

- any interest in the formation or promotion of the Company, or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer; and
- no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director, either to induce him or her to become, or to qualify them as a Director, or otherwise, for services rendered by him or her in connection with the formation or promotion of the Company or the Offer.

9.6.1 SHAREHOLDING QUALIFICATIONS

Directors are not required to hold any Shares under the constitution of the Company.

9.6.2 DIRECTORS' SECURITY HOLDINGS

Set out in the table below are details of the Directors' relevant interests in the Shares and Options of the Company as at the date of this Prospectus.

Directors and their Associates	Number Of Shares	Number of Options
Peter Nash	50,000	-
David Mandel	150,000	-
Simon Lill	4,000,000	-
Peter Christie	-	-
TOTAL	4,200,000	-

9.6.3 DIRECTORS' REMUNERATION

The Constitution provides that each Director is entitled to such remuneration from the Company as the Directors decide, but the total amount provided to all non-executive Directors must not exceed in aggregate the amount fixed by the Company in a general meeting or, prior to an amount being fixed in general meeting, an amount determined by the Directors. The current aggregate remuneration for all non-executive Directors (as set by the Company in general meeting) will be not more than $200,000 per annum (allowing for the appointment of future Directors) to be apportioned among the non-executive Directors in such a manner as they determine. At this stage no amounts have been paid or agreed to be paid to the Directors.

Mr Nash received $66,014.76 (net of PAYG tax) as a creditor pursuant to the DOCA for outstanding employee entitlements owed to him for the period between 31 March 2008 and 8 February 2010. In addition, Mr Nash was issued 3 million Shares (pre-consolidation) on 16 October 2009 in recognition of his achievements in China (with an estimated value of $0.01884 per share as at the date of issue).

Mr Mandel was issued 1.5 million Shares (pre-consolidation) on 16 October 2009 in recognition of and in consideration for services provided to the Company over an 18 month period (with an estimated value of $0.01884 per share as at the date of issue).

9.7 INTERESTS AND FEES OF PROFESSIONALS

Other than as set out below or elsewhere in the Prospectus, no expert, promoter, or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with has or has, within two years before lodgement of the Prospectus with ASIC:

- had any interest in the formation or promotion of the Company or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer; and
- not recorded any amounts or benefits or has not agreed to be paid benefits for services rendered by such persons in connection with the formation or promotion of the Company or the Offer.

Price Sierakowski has acted as Solicitors to the Offer. In addition, Price Sierakowski has performed other legal work in relation to the reconstruction of the Company over the last 6 months. Fees payable to Price Sierakowski in relation to this Prospectus and expenses associated with the reconstruction of the Company are approximately $100,000. Fees payable to Price Sierakowski have been charged in accordance with their normal rates.

Trident Capital has acted as corporate advisers to the Company. Trident Capital has also performed other work in relation to the reconstruction of the Company over the last 10 months including management of the recapitalisation process and preparation of documentation. Fees payable to Trident Capital in relation to this Prospectus and expenses associated with the recapitalisation of the Company are approximately $125,000. In addition, Trident Capital will be paid a management fee of 2% on all capital raised and a 4% capital raising fee on funds raised from its clients as set out in Section 1.4 of this Prospectus.

Tittel has provided corporate advisory and consulting services to the Company in relation to the recapitalisation process. Fees payable to Tittel for corporate service provided are approximately $125,000.

William Buck has acted as Investigating Accountant to the Offer and has assisted the Company with the preparation of accounts. Fees payable to William Buck for work done in relation to the Investigating Accountants Report is approximately $10,000 and approximately $16,000 for additional accounting work in relation to the preparation of accounts. William Buck has performed no other work in relation to the reconstruction of the Company. Fees payable to William Buck have been charged in accordance with their normal hourly rates.

Nexia ASR has acted as auditors to the Company and has assisted the Company with the review of the

Company's accounts. Fees payable to Nexia ASR for work done in relation to the accounting work is approximately $45,000. Nexia ASR has performed no other work in relation to the reconstruction of the Company. Fees payable to Nexia ASR have been charged in accordance with their normal hourly rates.

Davies Collison Cave has acted as patent and trade mark attorneys to the Company. Fees payable to Davies Collison Cave for work done in relation to the Intellectual Property Report is approximately $5,000. Davies Collison Cave has performed no other work in relation to the reconstruction of the Company. Fees payable to Davies Collison Cave have been charged in accordance with their normal hourly rates.

Acuity has acted as an Independent Expert and prepared the Independent Expert's Report contained in **Section** 4 of this Prospectus. Fees payable to Acuity for work done in relation to the Intellectual Property Report is approximately $7,500. Acuity has performed no other work in relation to the reconstruction of the Company. Fees payable to Acuity have been charged in accordance with their normal hourly rates.

Link Market Services Limited remains the Company's Share Registry and will be paid for these services on normal commercial rates.

9.8 CONSENTS

Each of the parties referred to in this **Section 9**:

- does not make, or purport to make, any statement in this Prospectus or on which a statement made in the Prospectus is based, other than as specified in this **Section 9**; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this **Section 9**.

Price Sierakowski has given, and has not before lodgement of this Prospectus withdrawn its written consent to being named in this Prospectus as Solicitors to the Issue in the form and context in which it is named, together with all references to it in this Prospectus. Price Sierakowski has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

Trident Capital has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as corporate advisor to the Issue in the form and context in which it is named, together with all references to it in this Prospectus. Trident Capital has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

Link Market Services has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named, together with all references to it in this Prospectus. Link Market Services has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry. Link Market Services has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

William Buck has given, and has not before lodgement of this Prospectus withdrawn its consent to be named in this Prospectus as Investigating Accountant and to the inclusion of the Investigating Accountants Report in Section 5 of this Prospectus. William Buck has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than its report and references to it.

Nexia ASR has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the auditor in the form and context in which it is named, together with all references to it in this Prospectus. Nexia ASR has had no involvement in the preparation of any part of this Prospectus other than being named as auditor. Nexia ASR has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

Davies Collison Cave has given, and has not before lodgement of this Prospectus withdrawn its consent to be named in this Prospectus as Patent Attorney and to the inclusion of the Intellectual Property Report in

Section 6 of this Prospectus in the form and context in which it is included, together with all references to that report in this Prospectus. Davies Collison Cave has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than its report and references to it.

Acuity has given, and has not before lodgement of this Prospectus withdrawn its consent to be named in this Prospectus as Independent Expert and to the inclusion of the Independent Expert's Report in Section 4 of this Prospectus in the form and context in which it is included, together with all references to that report in this Prospectus. Acuity has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than its report and references to it.

There are a number of persons referred to elsewhere in this Prospectus who have not made statements included in this Prospectus nor are there any statements made in this Prospectus on the basis of any statements made by those persons. These persons did not consent to being named in this Prospectus and did not authorise or cause the issue of this Prospectus.

9.9 EXPENSES

The expenses of the Offer and Recapitalisation Proposal are expected to comprise the following estimated costs and are exclusive of any GST payable by the Company.

Expenses Of The Offer	Minimum Subscription $	Maximum Subscription $
Corporate Advisory fees	$250,000	$250,000
Legal fees	$100,000	$100,000
Independent Expert's fees	$7,500	$7,500
Investigating Accountant's fees	$10,000	$10,000
Audit, Accounting and Tax	$67,000	$67,000
Printing and Design	$13,000	$13,000
ASIC and ASX fees	$10,000	$10,000
IP Report	$5,000	$5,000
Commissions associated with Capital Raising @ 6%	$120,000	$150,000
Total Estimated Expenses	**$582,500**	**$612,500**

9.10 LITIGATION

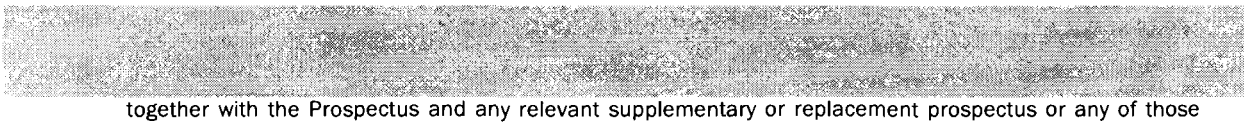
There is currently no past, present or pending litigation of which the Company is aware against either Company or the Company's Directors.

9.11 TAXATION

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them in relation to the Offer, by consulting their own professional tax advisers. Neither the Company nor any of the Directors accept any liability or responsibility in respect of the taxation consequences of the matters referred to above.

9.12 ELECTRONIC PROSPECTUS

Pursuant to Class Order 00/44, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus on the basis of a paper prospectus lodged with ASIC and the issue of shares in response to an electronic application form subject to compliance with certain provisions. If you have received this Prospectus as an electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company and it will send you free of charge either a hard copy or a further electronic copy of the Prospectus or both. The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided



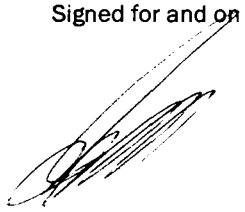
together with the Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application Monies shall be dealt with in accordance with section 722 of the Corporations Act.

SECTION 10 DIRECTORS' AUTHORISATION

This Prospectus is issued by the Company and its issue has been authorized by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf of the Company.



Simon Lill
Director

17 January 2011

SECTION 11 DEFINITIONS

Definitions used in this Prospectus are as follows:

Acuity	means Acuity Technology Management Pty Ltd (ACN 005 777 417)
Administrators	means Mr David Ross and Richard Albarran jointly and severally, in their capacity as deed administrators of the DOCA.
AUD $	means Australian dollars. All amounts in this Prospectus are in Australian dollars unless stated otherwise.
Applicant	means a person who submits an Application.
Application	means a valid application to subscribe for Shares under this Prospectus.
Application Monies	means the amount of money in dollars and cents payable for Shares pursuant to this Prospectus.
Application Form	means the Application Form attached to, and forming part of this Prospectus.
Associates	has the meaning given in the Corporations Act.
ASIC	means Australian Securities and Investments Commission.
ASX	means ASX Limited (ACN 008 624 691).
Business Day	means a day on which trading banks are open for business in Perth, Western Australia except a Saturday, Sunday or public holiday.
Board	means the Board of Directors of the Company.
Cavidi AB	means Cavidi AB, a Swedish corporation
CHESS	means ASX Clearing House Electronic Sub-register System.
Closing Date	means an indicative date only of 1 February 2011 or other such date and time as the Company may determine.
Company	means Narhex Life Sciences Limited (ACN 094 468 318).
Consolidation	means the 1 for 10 consolidation of the Company's issued capital as approved at the General Meeting.
Corporations Act	means the Corporations Act 2001 (Cth).
Dacheng	means China Shaanxi Dacheng International Trading Co Limited.
Deed Administrators	means David Ross and Richard Albarran jointly and severally, in their capacity as the deed administrators of the DOCA.
Directors	means the directors of the Company being Messrs Peter Nash, David Mandel, Simon Lill and Peter Christie.
DOCA	means the Deed of Company Arrangement executed on 7 May 2010 between the Deed Administrators and Tittel.
Existing Shares	means the 180,117,350 Shares in the Company on issue at the date of this Prospectus.
Existing Shareholder	means the holder of an Existing Share.
Exposure Period	means the period of seven (7) days after the date of lodgement of the Prospectus, which period may be extended by ASIC by not more than seven (7) days pursuant to section 727(3) of the Corporations Act 2001.
General Meeting	means the general meeting of Shareholders held on 5 November 2010.
Issue	means the issue of Shares in accordance with the Offer.
Joint Venture Agreement	means the joint venture agreement dated on or about 2 October 2006 between NLSI and Dacheng as summarised in **Section 7.3.**

Listing Rules	means the listing rules of ASX.
Loan	means the advance of Loan Funds to the Company by Tittel.
Loan Funds	means the sum of $125,000 advanced by Tittel to the Company in accordance with the DOCA as referred to in **Section 7.4**.
Minimum Subscription	means the raising of $2 million by the issue of 200,000,000 Shares pursuant to this Prospectus.
NLSD	means Narhex Life Sciences Development Limited (ACN 144 578 932).
NLSI	means Narhex Life Sciences International Pty Ltd (ACN 143 516 643).
NLSI Shareholders Agreement	means the agreement dated on or about 7 May 2010 between the Company and Tittel as described in **Section 7.2**.
Notice of Meeting	means the notice convening the General Meeting.
Offer	means the offer pursuant to this Prospectus of 250,000,000 Shares at an issue price of $0.01 each to raise $2,500,000.
Official List	means the official list of ASX.
Opening Date	means the first date for receipt of completed Application Forms which is 9:00am WST on 25 January 2011 or other such date and time as the Company may determine.
Proponent	means Trident Capital Pty Ltd (ACN 100 561 733).
Proponent Issue	means the issue of 160,000,000 Shares at an issue price of $0.003 each to raise $480,000.
Proponent Shares	means a fully paid ordinary share in the capital of the Company issued pursuant to the Proponent Issue.
Prospectus	means this prospectus dated 17 January 2011.
Quotation	means official quotation as defined in the Listing Rules.
Recapitalisation Proposal	means the proposal for the recapitalisation of the Company as described in **Section 3.1** of this Prospectus.
SFDA	means the State Food and Drug Administration in China.
Share(s)	means a fully paid ordinary share or shares in the capital of the Company.
Shareholder	means the holders of Shares registered in the Company's share registry.
Share Registry	means Link Market Services Limited (ACN 083 214 537).
Subscription Account	means the bank account that will be established by the Company for the purpose of depositing all the Application Monies until such time as they are eligible for withdrawal.
Tittel	means Tittel Pty Ltd (ACN 005 114 269).
Trident Capital	means Trident Capital Pty Ltd (ACN 100 561 733) and its associates.
WST	means Perth, Western Australian local time.
Xi'an Hex Joint Venture	means the registered Joint Venture between NLSI and Dacheng pursuant to the Joint Venture Agreement.

SECTION 12 APPLICATION FORM

APPLICATION FORM AND INSTRUCTIONS

Narhex Life Sciences Limited
Please read all instructions on the reverse of this form

Share Registrars Use Only	
Broker reference – Stamp only	
Broker Code	Adviser Code

A Number of Shares applied for
(Minimum of 200,000 Shares then multiples of 100,000 Shares)

[ ] at $0.01 per Share
You may be allocated all of the Shares above or a lesser number

B Total amount Payable by cheque(s) for Shares A$

C Full name details, title, given name(s) (no initials) and surname or Company name

D Tax File Number(s)
Or exemption category

Name of applicant 1

Applicant 1/Company

Name of joint applicant 2 or <account name>

Joint applicant 2/ Trust

Name of joint applicant 3 or <account name>

Joint applicant 3/ Trust

E Full postal address

Number/Street

Suburb/Town

State/postcode

F Contact Details

Contact Name

Contact Number ( )

G Chess HIN (if applicable)

H Cheque payment details please fill out your cheque details and make your cheque payable to "Narhex Life Sciences Limited - Subscription Account"

Drawer of Cheque	Cheque Number	BSB Number	Account Number	Total amount
				$

I You should read the Prospectus dated 17 January 2011 carefully before completing this Application Form. The Corporations Act prohibits any person from passing on this Application Form (whether in paper or electronic form) unless it is attached to or accompanies a complete and unaltered copy of the Prospectus and any relevant supplementary prospectus (whether in paper or electronic form).

I/We declare that:

(a) this Application is completed according to the declaration/appropriate statements on the reverse of this form and agree to be bound by the constitution of Narhex Life Sciences Limited; and
(b) I/we have received personally a copy of this Prospectus accompanied by or attached to the Application Form or a copy of the Application Form or a direct derivative of the Application Form, before applying for Shares.

Return of the Application Form with your cheque for the Application Monies will constitute your offer to subscribe for Shares in the Company. Please note that the Company will not accept electronic lodgement of Application Forms or electronic funds transfer.

Guide to the Application Form

This Application Form relates to the Offer of Shares in Narhex Life Sciences Limited. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus dated 17 January 2011. The Prospectus contains information about investing in the Shares of the Company and it is advisable to read this document before applying for Shares. A person who gives another person access to this Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary prospectus (if applicable), and a Application Form on request and without charge.

Please complete the all relevant sections of the Application Form using BLOCK LETTERS. These instructions are cross referenced to each section of the Application Form. Further particulars in the correct forms of resistible titles to use on the Application Form are contained in the table below.

A Insert the number of Shares you wish to apply for. The Application must be for a minimum of 200,000 Shares and thereafter in multiples of 100,000 Shares.

B Insert the relevant account Application Monies. To calculate your Application Monies, add the number of Shares applied for multiplied by 1c.

C Write the full name you wish to appear on the statement of shareholdings. This must be either your own name or the name of the Company. Up to three joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applicants using the wrong form of title may be rejected. Clearing House Electronic Sub-Register System (CHESS) participants should complete their name and address in the same format as that presently registered in the CHESS system.

D Enter your Tax File Number (TFN) or exemption category. Where applicable please enter the TFN for each joint Applicant. Collection of TFNs is authorized by taxation laws. Quotation for your TFN is not compulsory and will not affect your Application.

E Please enter your postal address for all correspondence. All communications to you from the Shares Registry will be mailed to the person(s) and address as shown. For Joint Applicants, only one address can be entered.

F Please enter your telephone number(s), area code, email address and contact name in case we need to contact you regarding your Application.

G Narhex Life Sciences Limited will apply to the ASX to participate in CHESS, operated by the ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of ASX Limited. In CHESS, the Company will operate an electronic CHESS sub register of securities holdings and an electronic issuer sponsored sub register of securities holdings. Together the two sub registers will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of securities allotted.

If you are CHESS participant (or are sponsored by a CHESS participant) and you wish to hold securities allotted to you under this Application in uncertified form on the CHESS sub register, complete Section G or forward your Application Form to your sponsoring participant for completion of this section prior to lodgement. Otherwise, leave Section G blank and on allotment, you will be sponsored by the Company and an SRN will be allocated to you. For Further information refer to the relevant section of the Prospectus.

H Please complete cheque details as requested.

Make your cheque payable to "Narhex Life Sciences Limited - Subscription Account" in Australian currency and cross it "Not Negotiable" Your cheque must be drawn on an Australian Bank.

The amount should agree with the amount shown in section B.

Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

I Before completing the Application Form the Applicant(s) should read the Prospectus to which the Application relates. By lodging the Application Form, the Applicant(s) agrees that this Application is for shares in Narhex Life Sciences Limited upon and subject to the terms of this Prospectus, and agrees to take any number of Shares equal to or less than the number of Shares indicated in Section A that may be allotted to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Applications

Return your completed Application Form with cheque(s) attached to:

In Person to:	OR	**By Post to:**
Narhex Life Scences Limited C/- Trident Capital Pty Ltd Level 24, St Martin's Tower 44 St Georges Terrace Perth WA 6000		Narhex Life Sciences Limited C/- Trident Capital Pty Ltd PO Box Z5183 St Georges Terrace Perth WA 6831

Application Forms must be received no later than 1 February 2011 which may be changed immediately after the Opening Date at any time at the discretion of the Company

Correct form of Registrable Title

Only legal entities are allowed to hold Shares. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname are required for each natural person. The name of the beneficiary or any other non-registrable title may be included by way of an account designation if completed exactly as described in the examples below:

Type of Investor	Correct form of Registrable Title	Incorrect form of Registra Title
Individual Use Names in full, no initials	Mr John Alfred Smith	JA Smith
Minor (a person under the age of 18). Use the name of a responsible adult, do not use the name of a minor.	John Alfred Smith <Peter Smith>	Peter Smith
Company - Use Company title, not abbreviations	ABC Pty Ltd	ABC P/L; ABC Co
Trusts - Use trustee(s) personal name(s), do not use the name of the trust	Mrs Sue Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates - Use executor(s) person name(s), do not use the name of the deceased	Ms Jane Smith <Est John Smith A/C>	Estate of Late John Smith
Partnerships - Use partners personal names, do not use the name of the partnership	Mr John Smith and Mr Michael Smith <John Smith and Son A/C>	John Smith and Son