Probiomics Limited

ABN 97 084 464 193

Proposed to be renamed

Bioxyne Limited

THE SECURITIES OFFERED PURSUANT TO THIS REPLACEMENT PROSPECTUS ARE NOT BEING OFFERED ON THE BASIS OF THE ELECTRONIC PROSPECTUS DISPLAYED AND SECURITIES WILL ONLY BE ISSUED AND ALLOTTED ON THE BASIS OF AN APPLICATION FORM TO BE ISSUED TOGETHER WITH THIS PROSPECTUS.

For a public offer of up to a maximum of 400 million Public Offer Shares at $0.011 each together with 1 attaching listed Public Offer Option for every 3 Public Offer Shares issued exercisable at $0.0165 per Public Offer Option and expiring on 31 March 2013, to raise up to a maximum of $4,400,000.

The Public Offer described in this Replacement Prospectus is conditional on the satisfaction of EACH OF:

- Shareholder approval of various matters at a general meeting of the Company's shareholders to be held on 7 February, 2012;
- the Company's Takeover Bid for Hunter Immunology Limited being declared Unconditional; and
- ASX confirming that it will re-admit the Company to the Official List, subject to the satisfaction of such terms and conditions (if any) prescribed by the Listing Rules,

as well as various other conditions as further described in this Replacement Prospectus.

THIS OFFER CLOSES AT 4.00 P.M. (AEDST) ON 6 FEBRUARY, 2012.

VALID ACCEPTANCES MUST BE RECEIVED BEFORE THAT TIME.

Please read this Replacement Prospectus and the instructions on the accompanying Application Form in full and carefully before accepting this offer.

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IMPORTANT NOTICE

General

This Replacement Prospectus is dated 21 December, 2011 and was lodged with ASIC on that date. It is a replacement Prospectus which replaces the Prospectus dated 13 December, 2011 and lodged with ASIC on that date ("**Original Prospectus**"). Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus.

The Public Offer is made through this Prospectus.

It is important that you read this Prospectus carefully and in full before deciding to subscribe for Public Offer Securities under this Prospectus. In particular, you should consider the risk factors that could affect the financial performance of the Company in light of your personal circumstances (including financial and taxation issues).

Expiry date

No Public Offer Securities will be issued on the basis of this Prospectus later than 12 January, 2013, being the date that is 13 months after the date of the Original Prospectus.

Investment Advice

This Prospectus does not provide investment advice and has been prepared without taking into account your financial objectives, financial situation or particular needs (including financial or taxation issues). You should seek professional investment advice before subscribing for Public Offer Securities under this Prospectus.

Foreign Jurisdictions

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify Public Offer Securities or to otherwise permit an offer of Public Offer Securities outside of Australia and New Zealand.

Electronic Prospectus

The Company proposes to make this Prospectus available on its website www.probiomics.com.au.

Any person accessing the electronic version of this Prospectus for the purpose of lodging an Application Form for Public Offer Securities must be an Australian or New Zealand resident and must only access the information from within Australia and New Zealand. Public Offer Securities will only be issued under the electronic version of the Prospectus on receipt of an Application Form issued together with the electronic version of this Prospectus. Persons who access the electronic version of the Prospectus should ensure they download and consider the full Prospectus. No person should pass onto any other person an Application Form unless it is attached to or accompanies a paper version of the Prospectus or a complete and unaltered version of this Prospectus.

The website and its contents do not form part of this Prospectus and are not to be interpreted as part of, nor incorporated into, this Prospectus, which should form the basis of your investment decision.

Exposure Period

The Corporations Act prohibits the Company from processing applications in the seven day period after the date of this Prospectus. This period is known as the "Exposure Period" or period of general availability. The Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants and other interested parties prior to the raising of funds.

Forward Looking Statements

This Prospectus may contain forward looking statements which have not been based solely on historical facts but on the Company's expectations about future events and results. You should consider that as such statements relate to future matters they are subject to various inherent risks, uncertainties and assumptions that could cause actual results or events to differ materially from expectations described in the forward looking statement. Neither the Company, the Directors, nor any other person named, with their consent, in this Prospectus can assure you that any forward looking statement or implied result will be achieved.

Investors are cautioned not to place undue reliance on the forward looking statements contained in this Prospectus.

Disclaimer

Investors should only rely on information contained in this Prospectus. No person is authorised to give any information or make any representation in connection with the Public Offer which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company or the Directors.

Privacy

By completing the Application Form accompanying this Prospectus, Applicants will be providing personal information to the Company (directly or via the Share Registry), the Lead Managers and their agents, contractors and third party service providers ("**Collecting Parties**"). The *Privacy Act 1988* (Cth) governs the use of a person's personal information and sets out principles governing the ways in which organisations should treat personal information. The personal information that the Collecting Parties collect from investors on the Application Form is used to evaluate Applications, and in the case of successful Applications, to provide services and appropriate administration in relation to the Applicant's security holdings in the Company. If the Collecting Parties are obliged to do so by law, Applicants' personal information will be passed on to other parties strictly in accordance with legal requirements. Once personal information is no longer needed, the Collecting Parties will destroy or de-identify it.

By submitting an Application Form, each Applicant agrees that each of the Collecting Parties may use the information provided by an Applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company and the Lead Manager and their related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers and to the ASX and other regulatory authorities.

If an Applicant becomes a security holder, the Corporations Act requires that the Company includes information about the security holder (including name, address and details of the securities held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a security holder. Information contained in the Company's registers is also used to facilitate dividend and distribution payments and corporate communications (including the Company's financial results, annual report and other information that the Company may wish to communicate to its security holders) and for the purpose of compliance with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Collecting Parties (as relevant) may not be able to accept or process your Application.

An Applicant has a right to gain access to the information that the Collecting Parties hold about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the relevant Collecting Party's registered office. Such requests to the Company and the Share Registry should be directed to:

Mr Ashok Jairath, Company Secretary
Suite 1A Level 2
802 Pacific Highway
Gordon NSW 2072

OR

c/- Computershare Investor Services Pty Limited
GPO Box 7045
Sydney NSW 2001

Defined terms

Some of the terms used in this Prospectus have defined meanings. These are capitalised and are defined in **Section 11**. Unless otherwise specified, a reference to a monetary amount is a reference to that amount in Australian dollars and a reference to a time is a reference to Australian Eastern Daylight Saving Time (AEDST).

References

This Prospectus contains statements which are made in, or are based on statements made in, published materials, including books, journals and public official documents. A list of references relied on in preparing this Prospectus is set out in **Section 12**. In-text references to these resources are notated by a number in square brackets ("[#]").

Photographs and diagrams

Photographs used in this Prospectus should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

This is an important document that should be read in its entirety before making any investment decision. You should obtain professional investment advice if you have questions about any of the matters contained in this Prospectus.

KEY INFORMATION

Key dates

Date of Replacement Prospectus	21 December, 2011
Opening Date of the Public Offer	6 January, 2012
Closing Date of the Public Offer	6 February, 2012 at 4.00 p.m. (AEDST)
Meeting of Shareholders	7 February, 2012
Notify ASX of results of Meeting of Shareholders	7 February, 2012
Lodge application to ASX for Re-admission of Probiomics securities	8 February, 2012
Close of Takeover Bid Period †	9 March, 2012
Expected Allotment Date of: • Bid Consideration, being Shares and Replacement Options; and • Public Offer Shares, Public Offer Options and Director Options	14 March, 2012
Last day for trading in Probiomics securities on a pre-Share Consolidation basis	14 March, 2012
Commencement of trading on a deferred settlement basis	15 March, 2012
Last day to accept registration of transfers of the Company's securities on a pre-Share Consolidation basis	21 March, 2012
Share Consolidation takes effect	21 March, 2012
Last day for trading on a deferred settlement basis	28 March, 2012
Company completes dispatch of new holding statements to Shareholders. Company to advise ASX prior to noon that the dispatch has occurred	28 March, 2012
Normal trading (i.e. with an obligation to settle on a trade date plus 3 business days) in Probiomics securities on a post-Share Consolidation basis commences.	29 March, 2012
Change of Company name becomes effective	30 March, 2012

Please note that some of the dates set out in the above timetable are likely to be varied in accordance with the Corporations Act and, where required, in consultation with ASX. Any changes to the above timetable will be released to ASX.

† In particular, and as is required under the Corporations Act, permission for Re-admission must be granted no later than 7 days after the end of the Takeover Bid Period (see **Section 19** in **Appendix 2** of the Bidder's Statement). As the Company has no effective control over if and when such permission is granted, the above stated date for the close of the Takeover Bid Period is only a "good faith" estimate by the Directors and may have to be delayed.

Unless otherwise indicated, all times are AEDST. The Company (in consultation with the Lead Managers) reserves the right to vary the dates and times of the Public Offer, including to close the Public Offer early or to accept late Applications, without notifying any recipient of this Prospectus or any Applicant. The Company also reserves the right not to continue with the Public Offer at any time before the allotment of Public Offer Shares or Public Offer Options to successful Applicants. Investors are encouraged to submit their Applications as soon as possible.

LETTER FROM THE CHAIRMAN

Dear Investor 21 December, 2011

I am pleased to invite you to participate in this offer by an emerging Australian biotechnology company, that is seeking to develop and commercialise its own intellectual property as well as acquire the opportunity to develop and commercialise promising technology in a complementary area of biotechnology.

The offer provides investors the opportunity to invest in Probiomics which it is proposed will merge with Hunter Immunology Limited (**Hunter**), a biotechnology company with a potentially promising treatment for Chronic Obstructive Pulmonary Disease (**COPD**), a serious lung disease that, over time, makes it hard for sufferers to breathe. COPD is often known by other names, like emphysema or chronic bronchitis.

In the creation of the merged entity, proposed to be re-named "Bioxyne Limited", the new merged business will present investors with opportunities spanning several segments:

- leveraging Probiomics' PCC® probiotic[1] strain – a novel and patent-protected strain of the naturally-occurring *Lactobacillus fermentum* bacteria, which has been shown in clinical studies to have a number of positive health benefits, with target market opportunities in the intestinal health, infant health, atopic dermatitis[2] and immune system health sectors – into a large global market, estimated to be valued at US$19.6 billion by 2013 [1]; and
- concluding Hunter's Phase IIb clinical trials which test whether Hunter's HI-164OV compounds, a drug compound designed to treat COPD, is effective at selected doses. The results of these clinical trials are expected to be available in the second quarter of calendar year 2012.

In addition to the proximity of a potentially significant shareholder value event through the trial results, Hunter also brings with it a capable management and board. Hunter's Managing Director, David Radford, has a track record of achievement in the Australian life sciences sector, most recently as the former CEO of ASX-listed company, Nanosonics. David has agreed to be the incoming Managing Director of the Merged Group after completion of the Hunter Acquisition.

Probiomics and Hunter have a common focus on the field of mucosal immunology, which is the study of immunity and inflammation of mucosal tissues that protect the body from invasion by bacteria and viruses. The business plan for the Company is two pronged: initially, it will focus on the imminent value enhancement step offered by Hunter's HI-164OV trials. In addition, the Company's management team will also be working to increase the level of sales of Probiomics' PCC® products, including Progastrim® and proTract® (both of which contain the PCC® probiotic strain), and potentially introduce other revenue generating lines of business in aligned segments.

In summary, the completion of the Hunter Acquisition, and this Public Offer to invest in the Company, offers existing Shareholders and new investors the following:

- a near term value step for investors, by way of trial outcomes from Hunter's HI-164OV Phase IIb trials, which are expected to be available in the second quarter of calendar year 2012;
- similar modes of action between Probiomics' PCC® strain and Hunter's HI-164OV compounds, and the opportunity to create an expanded company focused on probiotics and therapeutic technologies as currently exist within the Company and Hunter, under the guidance of an experienced management and Medical Advisory Board with material prior experience in probiotics and therapeutic treatments; and

[1] Probiotics are living natural microorganisms that have been shown to be supportive of health and well being. They support the immune system and are usually ingested in the form of fermented foods, such as yoghurt (see full definition in **Section 11**).

[2] Atopic dermatitis, or eczema, is a skin disease where inflammation causes rashes and itching. It is non-contagious and often associated with asthma (see full definition in **Section 11**).

- synergies through the Newcastle-based Hunter research facilities and leveraging the management of Hunter.

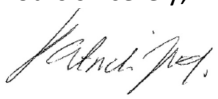
The next few years are expected to be an exciting period in the Company's development. I urge you to read this Prospectus carefully and seek advice from your advisor before deciding to invest in the Company.

Recommendations of Directors

Each of the current Directors – being myself, Simon Taylor and Simon O'Loughlin - unanimously recommend this Public Offer to you. However, when considering whether or not you want to participate in this Public Offer, I particularly refer you to **Section 10.9.7** that sets out the personal interests that each of the current Directors and one of the Proposed Directors has in the outcome of this Public Offer and the Takeover Bid.

On behalf of the board of directors I recommend this Public Offer to you.

Yours sincerely,



Patrick Ford
Chairman
Probiomics Limited

1 INVESTMENT OVERVIEW

1.1. Overview of the Transaction

1.1.1 Background

On 11 October 2011, the Company announced that it was seeking to expand its existing activities from its current focus of developing proprietary probiotic and biomolecular technology for commercial applications in consumer health, functional foods and pharmaceutical products, by seeking to incorporate the business activities of Hunter. Hunter is focused on development of an orally-administered vaccine to reduce the number and severity of exacerbations in patients with Chronic Obstructive Pulmonary Disease.

1.1.2 Merger Proposal

The merger is proposed to be effected by means of the Company making an off market takeover bid for all of:

- the Hunter Shares and any Hunter Shares that are issued pursuant to the conversion of a Hunter Convertible Note or the exercise of any Hunter Option, at any time from and including the Takeover Record Date to and including the last day of the Takeover Bid Period;
- the Tranche 1 Note Interests; and
- the Hunter Options,

(**Takeover Bid**).

It is proposed that, assuming a 100% acceptance of the offers made under the Takeover Bid, the Company will issue approximately 2.656 billion Shares and 150.3 million Options, as the consideration offered by the Company in the Takeover Bid to Hunter Securityholders will be:

- 9 Shares (prior to the Share Consolidation) for each 1 Hunter Share held;
- 9 Shares (prior to the Share Consolidation) for each 1 Tranche 1 Note Interest; and
- 9 Replacement Options (prior to the Share Consolidation) for each 1 Hunter Option,

The Takeover Bid values Hunter's total issued capital at approximately $29.23 million.

The Takeover Bid is subject to a number of Bid Conditions, the most significant of which include:

- the Company receiving acceptances in respect of no less than 90% (by number) of all the Hunter Shares, the Tranche 1 Note Interests and the Hunter Options;
- the cancellation or exercise of the Tranche 2 Notes, or their transfer to Probiomics;
- the passage of all Essential Resolutions at the Meeting – refer to **Section 1.1.4** below;
- subscription for the Minimum Subscription under this Public Offer; and
- ASX confirming that it will grant Re-admission, subject to the satisfaction of such conditions (if any) prescribed by the Listing Rules.

In addition to the above, there are a number of additional Bid Conditions that are set out in full in **Appendix 2** of the Bidder's Statement. The full terms of the Bid Conditions can be found in **Appendix 2** of the Bidder's Statement, which is available on the Company's website at www.probiomics.com.au.

1.1.3 Expected Benefits from Merger

Synergistic benefits

- Major benefits associated with a common focus upon building both therapeutic and consumer focused businesses that have a similar platform on which they can grow. The benefit of having an experienced board of directors and medical advisory board with material prior experience in probiotics and therapeutic treatments is expected to enable management to build a business that leverages cross business skills.
- The research facilities in Newcastle of Hunter can be utilised to enable the development of new probiotic opportunities for sale both in Australia and internationally.
- The merger will offer some synergies in the management of the businesses of the Company and Hunter.
- Greater liquidity in the Shares due to the increased number of Shareholders and volume of Shares on issue.

Technological Complementaries: set out below is a summary of the comparisons between Probiomics and Hunter that shows that the technologies and scientific approaches adopted by both are almost identical in their overall requirements and methodologies. It should also be noted that the commercialisation model for both businesses is very similar, with both businesses looking to develop a technology and then enter into a partnership or licence agreement with a significant global partner.

Comparator	Probiomics	Hunter
Muscosal immunology based science	✓	✓
Scientific skills required to manage the business and develop business partnerships	✓	✓
Core competency in the identification and development of bacteria to be used in products which are then commercialised by partners	✓	✓
Mechanism of action of products – absorption of bacteria through mucosa to trigger immune response at the Peyer's Patches[3]	✓	✓
Isolation and selection of bacteria using similar techniques of isolation/identification/characterisation	✓	✓
Fermentation for the culturing of bacteria, utilising outsource partners	✓	✓
Clinical evaluations to justify the clinical efficacy of products	✓	✓
Regulatory requirements for product claims and quality of manufacture	✓	✓

In addition, it is expected that the combination of resources and overlapping business strategies of the two groups will benefit Shareholders of the merged company, by providing greater access to capital markets, more liquidity and cost savings through consolidation of administrative functions.

[3] Peyer's Patches are dense collections of specific immune cells, i.e. lymphocytes, which act as staging posts for the initiation of immune reactions. They are found at a number of different sites in the body, such as in the walls of the small intestine.

Other expected benefits are:

- *Experienced Board and Management Team*: The Proposed Directors and Hunter management are experienced industry professionals with proven track records in identifying, acquiring, developing and operating assets in the health and research industries.
- *No Brokerage Fee or Stamp Duty:* No brokerage fees or stamp duty will be payable by any Applicant as a result of it participating in the Public Offer.

1.1.4 Matters requiring Approval at a Meeting of Shareholders

In light of the proposed Hunter Acquisition, the Company will be convening the Meeting on 7 February, 2012, to seek the approval by the Company's Shareholders of a number of resolutions. The Essential Resolutions that will be considered and voted upon by Shareholders at the Meeting relate to:

- the change of scale of the Company's activities as a result of the Takeover Bid;
- the issue of up to a maximum of 400 million Public Offer Shares and up to 133.34 million Public Offer Options pursuant to the Public Offer;
- the consolidation of the Shares in the ratio of 20 to 1 and the adjustment of the terms and conditions of any Options prior to Re-admission; and
- the appointment of David Radford as a Director of the Company.

The passing of each of the Essential Resolutions in accordance with their respective terms at the Meeting is both:

- a Bid Condition - in other words, if it is not satisfied, the Company may elect to withdraw the Takeover Bid; and
- a condition of the Public Offer.

A summary of all Resolutions that will be put to and voted upon by Shareholders at the Meeting is set out in **Section 10.7**.

1.1.5 Suspension and re-admission of the Company to ASX

As contemplated by the first Essential Resolution described above, it will be necessary for the Company to apply to ASX, immediately prior to the convening of the Meeting, for the suspension of the Official Quotation of its Shares. That suspension will commence after the close of the market operated by ASX on the day immediately preceding the day of the Meeting and hence, occur during the Takeover Bid Period.

Promptly after the Meeting, and irrespective of whether or not the Essential Resolutions are passed at the Meeting, the Company will apply to ASX for the Shares to be re-admitted to the Official List and for the termination of that suspension. Probiomics will also be applying for the Official Quotation of all Public Offer Options. However, ASX may not grant quotation of the Options if there is not sufficient spread of the Optionholders.

If the Essential Resolutions are passed at the Meeting and the Minimum Subscription is received by the Company prior to the Closing Date, it is intended that the Closing Date will occur immediately prior to the Meeting, although the Company reserves the right to extend the Public Offer Period beyond the date of the Meeting. An application will be made to ASX within seven days of the date of this Prospectus for Official Quotation of the Public Offer Shares and the Public Offer Options. However, Applicants should be aware that ASX will not commence the Official Quotation of the Public Offer Shares or the Public Offer Options until the Company has complied with Chapters 1 and 2 of the Listing Rules. As such, there is a risk that the Public Offer Shares and the Public Offer Options will not be able to be traded for some time after the close of the Public Offer Period. It is expected that Re-admission will occur approximately 20 Business Days after the date of the Meeting, although the period of suspension from the Official Quotation of any of the Company's

Shares or Options may be longer. Re-admission will only occur when and if ASX has accepted that all the applicable requirements of Chapters 1 and 2 of the Listing Rules have been satisfied.

If the Essential Resolutions are not passed at the Meeting or the Minimum Subscription is not received by the Company prior to the Closing Date, then the Takeover Bid will be withdrawn and the Company's application for Re-admission will not be required to satisfy the requirements of Chapters 1 or 2 of the Listing Rules, as no significant change in its scale will have taken place. In those circumstances, it is expected that Re-admission would occur quite quickly.

1.2 Business Overview of Probiomics and Hunter

Probiomics

Probiomics is an Australian biotechnology company developing commercial applications in consumer health based on its proprietary probiotic strain. Its flagship products include treatments for irritable bowel syndrome[4], diarrhoea, intestinal health and atopic dermatitis in infants.

Probiomics' proprietary probiotic strain PCC® has been patented in various countries (see **Section 1.2.2**). There is strong evidence that PCC® maintains intestinal health by inhibiting harmful micro-organisms, restoring a healthy balance of friendly bacteria and boosting the immune system. By way of background, Probiomics' probiotic strain PCC® is absorbed through the Peyer's Patches in the human gut, which then activates an immune response targeting ailments such as those indicated above.

Probiomics also has a global distribution agreement with Chr. Hansen A/S of Horsholm, Denmark to manufacture, market, supply and distribute its proprietary probiotic strain, *Lactobacillus fermentum* PCC® globally in dietary supplements, OTC drugs, sports nutrition, slimming products, clinical nutrition, beverages, and dairy products.

Hunter

Hunter is an Australian biotechnology company that is focused upon developing a treatment for Chronic Obstructive Pulmonary Disease (**COPD**) at Phase IIb trial stage.

Probiomics has recently entered a Memorandum of Understanding to acquire Hunter. Like Probiomics, Hunter's compound in focus, HI-164OV, is absorbed through the body's Peyer's Patches. Where Probiomics' focus has been on treatment for more common ailments such as irritable bowel syndrome and digestive health, the emphasis of Hunter's work is the trial of its lead compound on assisting the immune response of moderate to severe sufferers of COPD to a particularly harmful bacteria, *Haemophilus influenzae* (*H. influenzae*).

COPD is the world's fourth leading cause of death [2]. One of the most commonly noted COPD afflictions is emphysema, but recently the level of COPD affliction in the general population has been increasing due to factors such as pollution [2].

Severe sufferers of COPD will regularly experience a 'flare up', or 'exacerbation' in their condition related to the *H. influenzae* bacteria, and very often this will result in hospitalisation. Clearly, a reduction in the incidence of hospitalisation and usage of antibiotics from this affliction will improve the lives of sufferers of COPD, and have significant cost savings implications to the health systems of countries globally, where a visit to an intensive care ward can cost thousands of dollars per day.

Hunter's treatment for COPD is currently in the midst of Phase IIb trials with 320 patients enrolled in the study. Results on the Phase IIb trials are expected to be released in the second quarter of calendar year 2012. Hunter's focus from that point onwards will be on the sale or licensing of this technology to a pharmaceutical company.

[4] Irritable bowel syndrome is a functional disorder characterised by chronically recurring abdominal pain or discomfort and altered bowel habits (see full definition in **Section 11**).

Earlier, smaller Phase IIa[5] trials of Hunter's HI-164OV compound showed a reduction in hospitalisation amongst moderate to severe sufferers of COPD of up to 90%, with attendant significant reductions in the usage of antibiotics in the patient population.

1.2.1 Business Strategy after completion of the Hunter Acquisition

After the completion of the Hunter Acquisition, the merged company – proposed to be then called "Bioxyne Limited" – will pursue a two pronged strategy:

- focus on the value enhancement step offered by Hunter's HI-164OV trials. The combined entity will be able to focus upon completion of the HI-164OV Phase IIb trial and subsequent expected commercialisation of HI-164OV upon completion of the relevant clinical trials, assuming that they are successful. In parallel, the Company will be seeking to expand the existing Probiomics product range and distribution channel in order to provide the business with an opportunity to effectively become "self sustaining" at some stage in the near future. It is the Company's ultimate goal to develop a business model that offers Shareholders an investment with diversified and reduced risk, when compared to pure research and development business models; and
- increase the level of sales of the Probiomics PCC® product, and potentially introduce other revenue generating lines of business in aligned segments.

Essentially, the business plan for the proposed merged company involves the merger of the existing Probiomics business with the activities of Hunter and is directed at establishing a research and development biotechnology company.

1.2.2 Current IP Developments of Probiomics

The Company's proprietary probiotic strain PCC® has been patented in Australia, Belgium, Brazil, Canada, China, Switzerland, Germany, Denmark, Spain, France, UK, Ireland, Italy, The Netherlands, Sweden, and Singapore.

There is evidence that PCC® maintains intestinal health by inhibiting harmful micro-organisms, restoring a healthy balance of friendly bacteria, and boosting the immune system.

In addition, PCC® relieves symptoms of gastrointestinal disorders which are triggered by underlying disease-causing microorganisms. Thus, the PCC® products are applicable to the gastrointestinal therapeutic market.

Irritable Bowel Syndrome Market

Irritable Bowel Syndrome (**IBS**) is a common and significant disorder that involves daytime abdominal pain, bloating and discomfort and altered bowel habits without progressive deterioration or detectable structural, mechanical, biochemical or overt inflammatory abnormalities.

The annual direct and indirect medical costs of IBS management in the US have been reported to be as high as US$ 8 billion and US$ 25 billion respectively [3].

It afflicts 12% of adults in the US, and has an incidence among women twice as high as men [3].

Atopic Dermatitis Market

GlobalData, the industry analysis specialist, has released its new report, "Atopic Dermatitis - Pipeline Assessment and Market Forecasts to 2017". According to an article in www.articlesnatch.com, the report identifies the key trends shaping and driving the global atopic dermatitis therapeutics market. The article also notes that the report provides insights into the competitive landscape and the emerging players expected to alter significantly the positions of

[5] Phase IIa trials are clinical trials in patients conducted for the purpose of identifying the most appropriate dosage of a drug.

the existing market leaders. Most importantly, the report provides valuable insights into the pipeline products within the global atopic dermatitis sector [4].

A summary of the above report found at www.articlesnatch.com [4]:

- estimated that the global atopic dermatitis therapeutics market was valued at US$728 million in 2009. It is expected to grow to US$942 million at a compound annual growth rate of 3.3% by 2017. This growth is primarily attributed to an increase in competition among existing products and the presence of a strong pipeline with more emerging therapies. Globally, the US remains the largest market for atopic dermatitis therapeutics, and was valued at US$415 million in 2009. However, with most of the demand expected to come from developed economies, the centre of global atopic dermatitis therapeutics market activity is potentially due for a paradigm shift;
- referred to data that in 2009, there were approximately 35 million cases of atopic dermatitis reported within US, UK, Germany, France, Spain, Italy and Japan. This equated to a prevalence of approximately 5% of the collective population of those countries;
- estimated that the number of atopic dermatitis patients is forecast to increase to about 42 million by 2017, representing an increase in prevalence. Some of the factors associated with an increased risk of atopic dermatitis include small family size, higher socio-economic and educational levels regardless of ethnicity, movement from a rural to an urban environment and an increased use of antibiotics. A higher number of cases would involve the increased uptake of therapeutics, thereby increasing the growth of the market; and
- argued that the global atopic dermatitis market is heavily fragmented, with numerous generic products at relatively low prices. The patent expiry of marketed products such as Protopic and Elidel in the period 2012 – 2015 would allow the further entry of generic products at cheaper prices, causing market growth.

1.2.3 Current IP Developments of Hunter

COPD is characterised by progressive and irreversible damage to the airways caused by chronic inflammation due to smoking or by air pollution leading to narrowing of the airways and destruction of the lung. It is expected to become the world's third largest cause of death by 2020 [2].

Patients with COPD often suffer "flare-ups" or exacerbations requiring increased drug treatment, including antibiotics and in many cases, hospitalisation for a week or more.

In 2004 - 5, some 590,000 Australians had COPD and, by 2008, the cost of hospitalisation of patients with COPD was A$473.1 million [5, 6]. In the US, the cost of COPD to the health system was estimated to be approximately US$49.9 billion in 2010 [7].

Hunter is striving to reduce the impact of COPD on patients and the cost of treatment of this disease on the community. HI-164OV, Hunter's lead product is being developed with the objective of reducing the number and severity of exacerbations in patients with moderate to severe COPD, resulting in improved quality of life for patients and reduced costs to health care systems and the patients.

Hunter has now conducted 3 clinical trials of HI-164OV, the results of which suggest HI-164OV may be beneficial in patients with moderate to severe COPD. However, these trials need confirmation by a larger Phase IIb study.

In January 2011, Hunter began a Phase IIb clinical trial of HI-164OV in up to 320 patients with moderate to severe COPD as detailed in **Section 1.4** below.

Provided that the trial results support the further development of HI-164OV, it is Hunter's intention to either partner, license or sell this product to a large biotechnology or pharmaceutical company. This strategy is expected to provide earlier returns to Shareholders and/or develop a

further product based on our mucosal immunology platform with less risk than would be the case by continuing its development internally.

1.3 Reasons for the Offer and Future Plans

The purpose of this Public Offer is to raise sufficient funds to enable the merged company to complete Phase IIb clinical trials for Hunter's compound HI-164OV, an enteric-coated tablet containing killed bacteria (*H. influenzae*) that demonstrated in Phase IIa trials positive results, particularly on patients with moderate to severe COPD.

It will also allow the merged company to pursue further applications of Probiomics' proprietary strain of *Lactobacillus fermentum* PCC® in vaccines, veterinary and OTC products.

1.4 Investment Highlights

COPD is a serious progressive disease with no cure

COPD is a serious progressive disease with no cure. As lung function declines with age, it becomes harder for air to flow back and forth into the lungs. This is barely noticed in healthy people. However, in patients whose airways have been damaged by COPD, the flow of air through the airways is further restricted, which can lead to increased shortness of breath, wheezing and coughing.

COPD is characterised by chronic inflammation of the airways causing irreversible damage which progressively gets worse. People with COPD are susceptible to sudden flare-ups (or exacerbations) which may be caused by infections and result in increased use of drugs such as corticosteroids[6], administration of antibiotics and often, hospitalisation.

COPD is largely caused by smoking or in some cases by air pollution [6]. A global study in 2007 by Mannino and Buist showed that tobacco smoke remains the most important cause of COPD in the world, with up to 50% of smokers developing the disease. The study also showed that exposure to occupational dust and vapours accounted for 19.2% of COPD cases in the USA, and, in developing countries, 35% of patients developed COPD after exposure to smoke from biomass fuels [8].

There are gradations in the severity of COPD, which are defined by well-accepted measures of the extent of narrowing of the airways. In general, the severity of COPD is positively correlated with the degree of narrowing of the airways, as the greater the degree of narrowing, the greater is the restriction to air flow.

Most modern treatments for COPD, such as bronchodilator drugs, assist in reducing the symptoms of COPD by forcing the airways open. Whilst there are no treatments which can cure COPD, they can reduce exacerbations of the disease, which in turn can slow its progression.

The world market for drugs to treat COPD in 2009 was US$7.2 billion [9]. In 2010, the cost of COPD to the US economy was estimated to be approximately US$49.9 billion, including US$29.5 billion in direct health care expenditures, US$8.0 billion in indirect morbidity costs and US$12.4 billion in indirect mortality costs [7]. COPD is a major cause of hospitalisation in Australia. In 2003-04, there were 54,281 hospitalisations for COPD with an average length of stay of 7.5 days [10].

Hunter has obtained positive Phase IIa clinical trial data

A Phase IIa clinical trial of HI-164OV on 38 patients with moderate to severe COPD has demonstrated a significant reduction in the severity of exacerbations. Hospitalisation of patients was reduced by 90%, whilst the use of corticosteroids and antibiotics were both reduced by more than 50%. There has been no pattern of adverse safety events linked to treatment with HI-164OV. An earlier study encompassing a wider range of patients demonstrated no significant

[6] Corticosteroids are long established drugs which control inflammation derived from natural hormones.

difference between patient groups. Hence the current Phase IIb trial is designed to review the "moderate to severe COPD" patient groups in which the Phase IIa trial demonstrated benefits.

New Phase IIb trial well advanced with results expected in the near term

In January 2011, Hunter began a Phase IIb clinical trial of HI-164OV with 320 patients fully enrolled and dosed in a 21 centre double blinded study with moderate to severe COPD. This trial has attracted the support of 23 of Australia's leading respiratory physicians who are participating in the trial. This trial is on track to report results during the second quarter of calendar 2012. The Company anticipates that, after completion of the Hunter Acquisition and the Public Offer, approximately $2,000,000 from the funds raised under this Public Offer will be used to complete the trial and associated activities (see **Sections 2.3 and 2.4** for further details).

A successful result in this trial is viewed as a potential trigger to a commercialisation event with an international partner.

Low competition

Current therapies focus upon treatment of the exacerbations, rather than prevention or minimisation of these events. HI-164OV represents a novel approach to reducing the severity and frequency of exacerbations by lowering the bacterial colonisation of the airways. No competitive vaccines for *H. influenzae* in COPD have been identified.

Broad intellectual property protection

Hunter is protecting HI-164OV with a multifaceted patent strategy aimed at protecting all aspects of the use of oral immunotherapy with *H. influenzae* in COPD and severe allergic asthma. Patents have been applied for to protect the means of selection of suitable *H. influenzae* strains, the specific isolate HI-164, the use of HI-164OV in preventing exacerbations in COPD and the use of HI-164OV in the treatment of allergic asthma. Hunter's key patent (HI-164OV Isolate-PT011) expires in 2029. Further details of these patents and the state of their application for registration is set out in **Section 9**.

Hunter is at a key value inflection point

Pharmaceutical companies have traditionally been prepared to consider investing in technologies at the stage of a biotechnology company's life cycle, where it receives positive results from adequately defined Phase II trials. To date, several multi-national pharmaceutical companies are showing potential interest in the commencement of commercial discussions pending release of successful Phase IIb data.

1.5 Summary of Key Risks

Probiomics is operating in a highly competitive, rapidly changing and complex environment and therefore faces many different and significant risks. In addition, Probiomics faces general risks common to small publicly listed companies, as well as specific risks relating to the existence of strong competition and a rapidly changing technical environment.

Investment in Public Offer Shares and Public Offer Options under this Prospectus should be considered as speculative because of the inherent risks associated with research and development projects in the biotechnology and healthcare sector.

The following summarises and explains the key risks associated with the Company and an investment in its securities. The key risks have been identified having regard to the likelihood of them occurring, their potential impact on the Company and the Merged Group and their relevance to prospective investors. A more complete discussion of the risk factors is set out in **Section 5**.

- **Research and Development and results of Phase IIb clinical trial:** There are many risks inherent in the development of novel medical products, particularly where they are in an early stage of development. A failure of the Phase IIb clinical trial to demonstrate statistically-significant benefits in the HI-164OV compounds may result in a less attractive, or potentially unattractive, offering to a potential trade partner. This could have a material negative effect on the value of the Company.

- **Intellectual Property Rights:** Securing rights to intellectual property, and in particular to patents, is an integral part of securing potential product value in the outcomes of biotechnology research and development. Competition in retaining and sustaining protection of intellectual property and the complex nature of intellectual property can lead to expensive and lengthy patent disputes for which there can be no guaranteed outcome.

  The Company's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties.

  Because the patent positions of medical technology companies can be highly uncertain and frequently involve complex legal and scientific evaluation, neither the breadth of claims allowed in diagnostic screening nor their enforceability can be predicted. There can therefore be no assurance that any patents that the Company or Hunter may own or control or licence now and in the future will afford the Company commercially significant protection of its intellectual property or its projects or have commercial application. Further, there is always a risk of third parties claiming involvement in technological and medical discoveries. If any such issues or disputes arise, these could materially adversely affect the Company's future attractiveness to potential development partners.

- **Regulatory Issues & Government Regulation:** Products derived from the research and development of the Company and Hunter's products may be subject to numerous government regulatory approvals and controls throughout the world (see **Section 4.2.7**) and these will affect both the timing and the cost of bringing these products to market. Delays or failures in obtaining regulatory approval for a product would be likely to have a serious adverse effect on the value of the Company and have a consequent impact on the financial performance of the Company and the value of its securities.

- **No Profit to Date and Uncertainty of Future Profitability:** Because the Company has made immaterial profits or losses to date, it is not possible to evaluate its future prospects based on past performance, due to the large number of possible variables noted herein. The Company's ability to operate profitably in the future will depend on its ability to commercialise its products with other organisations on commercial terms for onward sale to customers. This will depend on the ultimate demand for its products by consumers, which cannot be guaranteed. There is no certainty that the Company can successfully commercialise its projects. Accordingly, the extent of future profits of the Company, if any, and the time required to achieve a sustained profitability, is uncertain.

- **Development Risk:** Hunter is in Phase IIb clinical stage development of its lead product HI-164OV. There are inherent risks involved with the ongoing development of pharmaceutical products, including failure during clinical trials due to poor safety or efficacy of the product. Should the current clinical trial demonstrate equivocal results, there is a risk that a potential partner may make a decision not to partner through to a Phase III trial, with its attendant costs and timeframes for finalisation of the study. In those circumstances, it is unlikely that Hunter would be able to successfully fund a Phase III trial without significant capital from either a capital raising or a partnership deal.

Before submitting their applications, potential investors should read this Prospectus in full and consult their professional advisers if they require further information on the risks associated with investing in the Company.

1.6 Financial information and capital structure of merged company

Key financial metrics* (**for year ended 30 June, 2011**)	
Net profit/(loss) after tax	($3,928,602)
Earnings/(loss) per Share (prior to Share Consolidation)	($0.0012)
Gearing ratio	0.09
Interest cover ratio	Not Applicable
Working capital ratio	7.51

**The above information and ratios are based on the Current Directors' belief of what will be applicable in respect of the merged company after the completion of the Hunter Acquisition and this Public Offer.*

1 The gearing ratio (pro forma total liabilities of the merged company divided by pro forma total assets of the merged company) indicates the extent to which the Company is funded by debt. The calculations assume pro forma total liabilities of $892,747 and pro forma total assets of $9,864,176 (see **Section 7**).

2 The interest cover ratio (net income before tax, including finance cost, divided by finance cost) indicates the Company's ability to meet its interest payments from earnings. As at the date of this Prospectus, the interest cover ratio is not applicable to the Company as the Company will be wholly funded by equity on completion of the Hunter Acquisition and the Public Offer, and accordingly will have no debt.

3 The working capital ratio (pro forma current assets of the merged company divided by pro forma current liabilities of the merged company) indicates whether the Company has sufficient short term assets to meet short term debts. The calculations assume pro forma current assets of $6,708,757 and pro forma current liabilities of $892,747 (see **Section 7**).

Capital structure

	Minimum Subscription	**Maximum Subscription**
Current Probiomics Shares on issue	327,568,410	327,568,410
Total number of Shares to be issued to Hunter Securityholders assuming 100% acceptance of the Takeover Bid	2,656,928,206	2,656,928,206
Total number of Public Offer Shares issued under the Public Offer	200,000,000	400,000,000
Total number of Shares on issue on completion of the Public Offer and Takeover Bid	**3,184,496,617**	**3,384,496,617**
Post 20:1 Share Consolidation		
Post Share Consolidation number of Shares	159,224,831	169,224,831
Equivalent post 20:1 consolidation Share price	$0.22	$0.22
Market Capitalisation at the Public Offer Price	$35,029,463	$37,229,463

*The above calculations in the above table assume the conversion of the Tranche II Notes and allotment of Hunter Shares in exchange for accrued interest on the Tranche I Notes and Tranche II Notes on 31 January 2012. Should the date of conversion of the Hunter Convertible Notes be later than this date, additional Hunter Shares will be issued as a consequence of the additional interest accruing on the Hunter Convertible Notes. The rate at which additional Hunter Shares would need to be issued is set out in **Section 10.3** in respect of both Tranche I Interests and Tranche II Notes.*

In addition the following Options will have been issued and held after the Public Offer:

Category	Expiry Date	Pre Share Consolidation		Post Share Consolidation	
		Options	Exercise Price	Options	Exercise Price
Existing Probiomics Options	25/11/2013	15,000,000	$0.020	750,000	$0.40
	3/12/2013	2,000,000	$0.010	100,000	$0.20
	24/5/2014	2,500,000	$0.020	125,000	$0.40
Director Options	31/3/2013	20,000,000	$0.020	1,000,000	$0.40
Replacement Options	30/9/2012	4,730,400	$0.035	236,520	$0.70
	21/12/2012	8,100,000	$0.039	405,000	$0.78
	31/3/2013	17,258,679	$0.035	862,934	$0.70
	31/3/2013 [2]	45,000,000	$0.035	2,250,000	$0.70
	1/9/2013	21,240,000	$0.012	1,062,000	$0.24
	14/5/2014	54,000,000	$0.035	2,700,000	$0.70
Public Offer Options [1]	31/3/2013	133,333,333	$0.0165	6,666,667	$0.33
		323,162,412		**16,158,121**	

1 *Assumes that the Maximum Subscription Amount is subscribed under the Public Offer. If the Minimum Subscription Amount is subscribed under the Public Offer, then the Public Offer Options issued would reduce to 66,666,667 (reducing in number to 3,333,333 after the proposed Share Consolidation).*

2 *Hunter proposes to issue 5,000,000 Hunter Options exercisable at $0.35 on or before 31 March, 2013 (**MPS Options**) to Martin Place Securities Pty Limited after, and conditional upon, the passage of all the Essential Resolutions at the Meeting. The MPS Options are to be issued in payment for advisory and other professional services provided by Martin Place Securities Pty Limited to Hunter.*

See also **Section 2.1.1** for a more complete presentation of the merged company's capital structure, both before and after the Share Consolidation is effected.

1.7 Dividend Policy

Due to the capital requirements anticipated to develop the Hunter and Probiomics businesses, it is not considered likely that dividends will be paid by Probiomics for at least the year ending 30 June 2012. It should also be noted that to the extent that Probiomics' (and possibly Hunter's) carried forward income tax losses are available to be recouped against future taxable income, any dividends paid by Probiomics would be unfranked.

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend upon the availability of distributable earnings, the operating results and financial condition of the Company, future capital requirements, general business and other factors considered relevant by the Directors. No assurances in relation to the payment of dividends, or the franking credits attached to such dividends, can be or are given.

1.8 Directors and Key Managers

It is proposed that after the completion of the Hunter Acquisition, the Directors of the merged company will be:

- Ian Mutton (Non Executive Chairman);
- David Radford (Managing Director);
- Jeremy Curnock Cook (Non Executive);
- Douglas Wilson (Non Executive);
- Glenn Crisp (Non Executive);
- William Harrison (Non Executive); and
- Patrick Ford (Non Executive).

Details of each of these individuals and members of the Advisory Board to the Company are set out in **Section 6.2**.

1.9 Interests, Benefits and Related Parties

Details of the material personal interests on each of Patrick Ford (current Chairman of the Company), Simon Taylor (current non-executive director of the Company), Simon O'Loughlin (current non-executive director of the Company) and David Radford (current Chief Executive Officer of Hunter and proposed Chief Executive Officer of the Merged Group) are set out in **Section 10.9.6** and **Section 10.9.7**.

1.10 Summary of the Public Offer

Item	Summary	Further information
Who is the issuer of this Prospectus?	Probiomics Limited ABN 97 084 464 193, a company originally admitted to the Official List of the ASX on 14 December 2010. However, the Company will need to seek suspension of that admission and Re-admission, as a result of the proposed Hunter Acquisition.	**Section 1.1.5**
What is being offered and at what price?	Under the Public Offer a minimum of 200 million and a maximum of 400 million Public Offer Shares are being offered to the public for subscription at an issue price of $0.011 per Share payable in full upon subscription, together with 1 attaching Public Offer Option for every 3 Public Offer Shares issued, for no additional cash consideration and exercisable at $0.0165 each and expiring at 5.00 p.m. (AEDST) on 31 March 2013. Investors should note that the Company is seeking Shareholder approval at the Meeting for a consolidation of its share capital on a 20 to 1 basis. Assuming that approval is given, all Public Offer Shares and Public Offer Options issued pursuant to the Public Offer are to be issued on a post-Share Consolidation basis. No less than 10% of the maximum number of Public Offer Shares offered under the Public Offer will be subject to a priority entitlement for Existing Shareholders (on a collective basis) under the Priority Offer. Hunter Securityholders will not be entitled to participate in the Priority Offer but will otherwise be entitled to participate in the Public Offer. The Public Offer is not underwritten.	**Section 2.1.1**
How much is being raised in the Public Offer?	A minimum of $2,200,000 and a maximum of $4,400,000. These amounts include the expenses associated with the Public Offer that are expected to be $1,400,00 (excluding GST) in respect of a Maximum Subscription and $1,200,000 (excluding GST) in respect of a Minimum Subscription.	**Section 2.1.1**
What are the terms of	All Public Offer Shares issued under the Public Offer will	**Section 10.1**

Item	Summary	Further information
the Public Offer Shares?	rank equally in all respect with currently issued Shares.	
What are the terms of the Public Offer Options?	*Exercise Price* - $0.0165 per Public Offer Option *Term* – expiring after 5.00 p.m. (AEDST) on 31 March, 2013 *Issue Price* – nil cash consideration *Entitlement* – one Share per duly exercised Public Offer Option	**Section 10.2.1**
Are there any conditions of the Public Offer?	However, the Public Offer is conditional upon the offers made under the Takeover Bid being declared Unconditional. The making of that declaration is subject to a number of conditions, including: (a) minimum acceptance of more than 90% (by number) of all Hunter Shares, all Tranche 1 Note Interests and all Hunter Options; (b) the cancellation, exercise or transfer of the Tranche 2 Notes to Probiomics; (c) the passage of all the Essential Resolutions at the Meeting; (d) a successful Public Offer under which Probiomics receives no less than $2,200,000; (e) ASX consenting to the Re-admission; (f) no material adverse change occurring in respect of the Hunter Group or any member of the Hunter Group; (g) no new material commitments being made by any member of the Hunter Group; (h) non-existence or non-exercise of certain rights in relation to the Hunter Group; (i) the Hunter Group not undertaking certain conduct, such as declaring or distributing any dividends, altering their capital structure or making any change to their constitutions, without the consent of Probiomics; (j) the S&P/ASX 200 Index published by ASX being, for not more than 2 consecutive trading days during the Takeover Bid Period, below the level of 3650; (k) no material litigation being commenced against any member of the Hunter Group; (l) Hunter Shareholder approval of the issue of Hunter Shares to David Radford (see **Section**	**Section 1.1.2** and **Appendix 2** of the Bidder's Statement

Item	Summary	Further information
	10.9.6 for further details); and (m) certain other prescribed occurrences not occurring. For a complete description of these Bid Conditions, please see **Appendix 2** of the Bidder's Statement. Accordingly, the Public Offer being made pursuant to this Prospectus is effectively subject to conditions that include: • receipt of Shareholder approval for all the Essential Resolutions at the Meeting; • each of the above Bid Conditions being satisfied or waived; • achieving the Minimum Subscription; and • ASX granting Re-admission of the Company to the Official List, subject to the satisfactions of terms and conditions (if any) required by ASX. Accordingly, although indirectly, the Public Offer is effectively subject to each of the Bid Conditions being satisfied or, if permissible, waived by the Company.	
Who is eligible to participate in the Public Offer?	The Public Offer is to be conducted in Australia and New Zealand. Only residents of Australia and New Zealand are eligible to participate in the Public Offer.	**Section 2.15**
Who is eligible to participate in the Priority Offer?	To participate in the Priority Offer, you must be an Existing Shareholder who is an Australian or New Zealand resident.	**Section 2.8.2**
What are the key dates of the Public Offer?	Please refer to the Key Information Section for key dates of the Public Offer.	
How will the proceeds of the Public Offer be used?	Together with the existing cash reserves of approximately $3,300,000, the proceeds of the Public Offer (assuming the Minimum Subscription is achieved and all other conditions attaching to the Public Offer are satisfied or waived) will be applied to: ***A$000s*** • Completion of Phase IIb clinical trial, including related research and development — 2,000 • Completion of a regulatory package (includes manufacturing profile) — 300 • Commercialisation — 400 • Costs of Hunter Acquisition and Public Offer — 973 • Administration and working capital — 1,827 **Total** — **5,500**	**Section 2.3**

Item	Summary	Further information
What is the minimum investment size under the Public Offer?	The minimum Application is $2,200. Applications over $2,200 should be in multiples of $550. The Company, in consultation with the Lead Managers, reserves the right to reject any Application or to allocate a lesser number of Shares than that applied for.	**Section 2.7**
Will I be guaranteed a minimum allocation under the Public Offer?	No. The Company is not in a position to guarantee a minimum allocation of any Public Offer Shares or Public Offer Options under the Public Offer.	**Sections 2.8 and 2.9**
Will my Public Offer Shares be escrowed?	None of the Public Offer Shares or the Public Offer Options will be subject to an escrow requirement by the ASX. Please refer to **Section 10.6** in relation to escrow arrangements that are expected to be applicable in relation to the Bid Consideration and other Shares to be issued to or that are held by Existing Shareholders and proposed Shareholders.	**Section 10.6**
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on an acquisition of Public Offer Shares or the Public Offer Options under the Public Offer. However, the Company will be required to pay stamp duty of approximately $176,000 in connection with the Hunter Acquisition.	
What are the tax implications of investing in Shares?	Shareholders will be subject to Australian tax on dividends and possibly capital gains tax on a future disposal. The tax consequences of any investment in Public Offer Shares or Public Offer Options under the Public Offer will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to investing.	**Section 2.14**
Where can I find more information?	• Read this Prospectus in full. • For investment advice, contact your stockbroker, solicitor, accountant or other independent professional adviser. • By calling the Share Registry on 1300 369 702 (within Australia) or on + 61 3 9415 4283 (outside Australia). • By visiting the Probiomics website. • By calling either of the Lead Managers on: Veritas Securities Limited – +61 2 8252 3200; or Taylor Collision Limited – +61 2 9377 1500. The website and its contents do not form part of this Prospectus and are not to be interpreted as part of, or incorporated into, this Prospectus.	

2 DETAILS OF THE PUBLIC OFFER

2.1.1 Public Offer

The Public Offer comprises the offer by the Company of a minimum of 200 million Public Offer Shares - and up to a maximum of 400 million Public Offer Shares – at $0.011 per Public Offer Share - together with 1 attaching listed Public Offer Option for every 3 Public Offer Shares issued for no cash consideration and exercisable at $0.0165 and expiring at 5.00 p.m. (AEDST) on 31 March 2013.

Based on the Public Offer Price of $0.011 per Share, the gross minimum proceeds of the Public Offer will be $2,200,000 and gross maximum the proceeds will be $4,400,000. All Public Offer Shares being offered under this Prospectus will rank equally with each other and will rank equally with all Existing Shares.

Existing Shareholders will be entitled, on a collective basis, to a priority entitlement of no less than 10% of the Public Offer Shares. Hunter Securityholders will not be entitled to participate in the Priority Offer but will otherwise be entitled to participate in the Public Offer. For further details refer to **Section 2.5** below.

2.1.2 Capital Structure after completion of the Public Offer

The tables below show the capital structure of the Company on completion of this Public Offer, assuming:

- completion of the Hunter Acquisition;
- all Resolutions are approved at the Meeting; and
- the maximum number of securities approved pursuant to the Resolutions being issued:

The table below summarises the Shares on issue before and after completion of this Public Offer.

	Minimum Subscription under Public Offer	**Maximum Subscription under Public Offer**
Current Probiomics Shares on issue	327,568,410	327,568,410
Total number of Bid Consideration Shares to be issued to Hunter Securityholders assuming 100% acceptance of the Takeover Bid[†]	2,656,928,206	2,656,928,206
Total number of Public Offer Shares issued under the Public Offer	200,000,000	400,000,000
Total number of Probiomics Shares on issue on completion of the Takeover Bid and Public Offer	**3,184,496,617**	**3,384,496,617**
Post 20:1 Share Consolidation		
Post Share Consolidation number of Probiomics Shares	159,224,831	169,224,831
Equivalent post 20:1 consolidation Probiomics Share price	$0.22	$0.22
Market Capitalisation at the Public Offer Price	$35,029,463	$37,229,463

*The calculations in the above table assume the conversion of the Tranche II Notes and allotment of Hunter Shares in exchange for accrued interest on the Tranche I Notes and Tranche II Notes on 31 January 2012. Should the date of conversion of the Hunter Convertible Notes be later than this date, additional Hunter Shares will be issued as a consequence of the additional interest accruing on the Hunter Convertible Notes. The rate at which additional Hunter Shares would need to be issued is set out in **Section 10.3** in respect of both Tranche I Interests and Tranche II Notes.*

In addition the following Probiomics Options will be on issue immediately after the Re-admission Notification Date:

	Pre Share Consolidation		Post Share Consolidation	
Expiry	**Exercise Price**	**Closing Balance**	**Exercise Price**	**Closing Balance**
Replacement Probiomics Options				
30/09/2012	$0.0350	4,730,400	$0.700	236,520
21/12/2012	$0.0390	8,100,000	$0.780	405,000
31/03/2013	$0.0350	17,258,679	$0.700	862,934
31/03/2013††	$0.0350	45,000,000	$0.700	2,250,000
01/09/2013	$0.0120	21,240,000	$0.240	1,062,000
14/05/2014	$0.0350	54,000,000	$0.700	2,700,000
Probiomics Options				
25/11/2013	$0.0200	15,000,000	$0.400	750,000
3/12/2013	$0.0100	2,000,000	$0.200	100,000
24/05/2014	$0.0200	2,500,000	$0.400	125,000
31/03/2013	$0.0200	20,000,000	$0.400	1,000,000
31/03/2013	$0.0165	133,333,333†	$0.330	6,666,667†
		323,162,412		16,158,121

† *Assumes that the Maximum Subscription Amount is subscribed under the Public Offer. If the Minimum Subscription Amount is subscribed under the Public Offer, then the Public Offer Options issued would reduce to 66,666,667 (reducing in number to 3,333,333 after the proposed Share Consolidation).*

†† *Hunter proposes to issue 5,000,000 Options exercisable at $0.35 on or before 14 May 2014 (**MPS Options**) to Martin Place Securities Pty Limited after, and conditional upon, the passage of all the Essential Resolutions at the Meeting. The MPS Options are to be issued in payment for advisory and other professional services provided by Martin Place Securities Pty Limited to Hunter. The terms and conditions of issue of the MPS Options will, for all practical purposes, be identical to the terms and conditions of issue of the Replacement Options – see **Section 10.2.3** below*

The maximum amount raised by the Company if all the above Options outlined above were exercised is approximately $7,775,398. This amount has not been included by the Company in calculating any cash flows and excludes any monies raised in the Public Offer.

For a description of the material terms of each of the:

- Public Offer Options – refer to **Section 10.2.1**;
- Director Options – refer to **Section 10.2.2**; and
- Replacement Options and MPS Options – refer to **Section 10.2.3**; and
- Existing Probiomics Options – refer to **Section 10.2.4**.

2.2 Purpose of the Public Offer

The purposes of the Public Offer are to enable the merged company, after completion of the Hunter Acquisition, to:

- complete a Phase IIb clinical trial on its lead product HI-164OV on 320 patients with moderate to severe COPD;
- develop and finalise the assembly of a regulatory package that will provide both Australian and international regulatory authorities clarity on future trial requirements. This may include completion of the manufacturing profile pending capital raised;
- negotiate a commercial arrangement with a pharmaceutical or biotechnology company for the further development and commercialisation of HI-164OV;
- conduct additional research and development as required;
- pay for the costs associated with the Hunter Acquisition and the Public Offer; and
- provide working capital for the Company in the development of new sources of revenue, including the development of the existing probiotic revenue stream.

2.3 Use of Public Offer Funds

Probiomics intends to raise a minimum of $2,200,000 and up to a maximum of $4,400,000 from the issue of Public Offer Shares and Public Offer Options under this Public Offer. The funds, together with current cash reserves of the Company and Hunter, will be used as described in the table below:

	Minimum Subscription	Maximum Subscription
Source of funds	**$A 000s**	**$A 000s**
• Existing cash	3,300	3,300
• Funds from the Public Offer	2,200	4,400
	5,500	**7,700**
Use of funds		
• Completion of Clinical Phase IIb trials, including research and development	2,000	2,000
• Regulatory package completion (includes manufacturing profile)	300	1,600
• Commercialisation	400	1,000
• Costs of Hunter Acquisition and Public Offer	973	1,229
• Administration and working capital	1,827	1,871
	5,500	**7,700**

If and to the extent that the Company fails to receive the Maximum Subscription, the Company will complete the Phase IIb clinical trial and focus upon commercialising the HI164OV without a completed manufacturing profile. It is expected that the ability of the Company to complete this profile would be viewed positively by potential commercialisation partners.

The actual expenditure incurred may vary from the anticipated expenditure at the discretion of the Company as the results of pre-clinical and clinical work become available.

2.4 Public Offer Details

Who can apply?	A resident of Australia or New Zealand.
How many Public Offer Shares are subject to the Public Offer?	A minimum of 200 million and a maximum of 400 million Public Offer Shares - which includes a minimum of 20 million and a maximum of 40 million Public Offer Shares that will be the subject of the Priority Offer - together with 1 attaching listed Public Offer Option for every 3 Public Offer Shares issued for no cash consideration and exercisable at $0.0165 and expiring on 31 March 2013.
How to apply for Shares under the Public Offer?	Applicants who wish to be eligible under the Public Offer may apply by completing and returning the Public Offer Application Form with accompanying payment to the Share Registry. There are instructions set out on the Application Form to help you complete it. Application Monies must be received by the Share Registry by 4.00 p.m. (AEDST) on 6 February, 2012. Please pay by cheque drawn in Australian Dollars and make cheques payable to "**Probiomics Limited - Share Subscription A/C**" and crossed "**Not Negotiable**". By completing the Public Offer Application Form and attaching your cheque for the Application Monies you will be taken to have declared that all details and statements made by you are complete and accurate, that you have received personally the Prospectus with the Public Offer Application Form and the Application complies with the terms of the Prospectus.
Minimum application amount	Applications under the Public Offer must be for a minimum of $2,200 worth of Public Offer Shares (200,000 Public Offer Shares) and thereafter in multiples of $550 worth of Public Offer Shares (50,000 Public Offer Shares).
No Guaranteed allocation of Public Offer Shares	Other than as provided for in the Priority Offer, there is no guaranteed allocation of Public Offer Shares or Public Offer Options.
Address for return of Application Forms and	Applications submitted via post must be mailed to: c/- Computershare Investor Services Pty Limited GPO Box 2115 Melbourne VIC 3001
Closing Date of the Public Offer	4.00 p.m. (AEDST) on 6 February, 2012 Applications and Application Monies must be received by the Share Registry by no later than 4.00 p.m. (AEDST) on 6 February, 2012, unless the Company elects to close the Public Offer or any part of it early, extend the Public Offer or any part of it, or to accept late Applications either generally or in particular cases. The Public Offer or any part of it may be closed at any earlier date and time, without notice. Applicants are encouraged to submit their Applications as early as possible.
What happens if there are insufficient applications for Public Offer Shares under the Public Offer?	If the Company fails to receive Applications and Application Monies at least equivalent to the Minimum Subscription, being valid Applications and Application Monies for at least 200 million Public Offer Shares to raise $2,200,000 during the Offer Period, the Company may determine to withdraw the Public Offer.

	In addition, because achievement of the Minimum Subscription is a Bid Condition under the Takeover Bid, failure to receive the Minimum Subscription will entitle, but not oblige, the Company to withdraw the Takeover Bid.
How to obtain a copy of this Prospectus and Application Form?	Prospective investors can obtain a copy of the Prospectus by: • downloading a Prospectus from the Company's website, www.probiomics.com.au, or requesting a Prospectus by contacting the Company on 02 9844 5422 (toll free) (within Australia) or +61 2 9844 5422 (outside Australia); or • contacting any one of the Lead Managers – please see Corporate Directory for contact details.

2.5 Priority Offer Details

Who can apply?	Existing Shareholders who are Australian and New Zealand residents who submit their valid Application and Application Monies on or before 4.00 p.m. (AEDST) on 6 February, 2012.
Existing Shareholders	A person who is an Existing Shareholder, being a Shareholder as at the date of this Prospectus. Hunter Securityholders who acquire Shares by virtue of their acceptance of the Takeover Bid will not be entitled to participate in the Priority Offer.
How many Public Offer Shares are subject to the Priority Offer?	A minimum of 20 million and maximum of 40 million Public Offer Shares will be the subject of the Priority Offer.
Will Public Offer Options be offered under the Priority Offer?	Public Offer Options will be issued along with Public Offer Shares issued under the Priority Offer on the same basis as offered under the Public Offer, being 1 Public Offer Option for every 3 Public Offer Shares issued, for no additional cash consideration.
How to apply for Public Offer Shares under the Priority Offer?	Eligible Shareholders who wish to apply under the Priority Offer may apply by completing and returning the personalised Priority Offer Application Form (accompanying this Prospectus) with accompanying payment to the Share Registry. There are instructions set out on the Priority Offer Application Form to help you complete it. Application Monies must be received by the Share Registry by 4.00 p.m. (AEDST) on 6 February, 2012.
Minimum application amount	Applications under the Priority Offer must be for a minimum of $2,200 worth of Public Offer Shares (200,000 Public Offer Shares) and in multiples of $550 worth of Public Offer Shares (50,000 Public Offer Shares) thereafter.
Guaranteed amount of Public Offer Shares under the Priority Offer	There is no guaranteed allocation of Public Offer Shares or Public Offer Options under the Priority Offer. It is the Company's intention that, subject to oversubscriptions, it will allot of a minimum of $2,200 worth of Public Offer Shares and the appropriate number of Public Offer Options to each participating eligible Shareholder under the Priority Offer.

2.6 Conditions of the Public Offer

In addition to the general discretion of the Company in regard to the termination of the Public Offer – as set out more fully in **Section 2.11** below - the Public Offer is conditional on each of:

- Shareholders passing the Essential Resolutions at the Meeting – please see **Section 10.7** for further details of the Resolutions to be considered at the Meeting. A copy of the Notice of Meeting is available on the Company's website at www.probiomics.com.au;
- the Company receiving the Minimum Subscription before the close of the Public Offer Period;
- the Takeover Bid being declared Unconditional – please refer to **Appendix 1** and **Appendix 2** of the Bidder's Statement for a complete statement of the terms and conditions of the Takeover Bid; and
- Re-admission Notification Date occurring.

If any of the above conditions are not satisfied then the Public Offer will not proceed and no Public Offer Shares or Public Offer Options will be issued.

2.7 How to Apply for Public Offer Shares and Public Offer Options

Applicants who wish to be eligible under the Public Offer may apply by completing and returning the relevant Application Form with accompanying payment to the Share Registry. There are instructions set out on the relevant Application Form to help you complete it. Photocopies of the Application Form may not be accepted.

Application Monies must be received by the Share Registry by 4.00 p.m. (AEDST) on 6 February, 2012.

Applications must be accompanied by payment in full in Australian currency of 1.1 cent ($0.011) for each Public Offer Share applied for. Please pay by cheque drawn in Australian Dollars and make cheques payable to "**Probiomics Limited- Share Subscription Account**" and crossed "**Not Negotiable**". Please post your completed Application Form and cheque for Application Monies in Australian dollars to the Share Registry, at the address set out below:

Computershare Investor Services Pty Limited
GPO Box 2115
Melbourne VIC 3001

By completing the relevant Application Form and attaching your cheque for the Application Monies, you will be taken to have declared that all details and statements made by you are complete and accurate, that you have received personally the Prospectus with the relevant Application Form and the Application complies with the terms of the Prospectus.

To participate in the Public Offer you will need to complete the Public Offer Application Form attached to this Prospectus. The minimum number of Shares that you may apply for is 200,000 Shares ($2,200).

If you are an eligible Shareholder and wish to participate in the Priority Offer, you will need to complete the personalised Priority Offer Application Form accompanying this Prospectus. The minimum number of Shares that you may apply for is 200,000 Shares ($2,200).

Application Monies will be held in trust in a subscription account until allotment of the Public Offer Shares and Public Offer Options or, where applicable, it is repaid to the Applicants. The subscription account will be established and kept by the Company on behalf of all Applicants. All interest earned on all Application Monies (including those which do not result in allotments of Public Offer Shares and Public Offer Options) will be retained by the Company

If the Public Offer is not able to be completed then all Applications will be dealt with in accordance with the Corporations Act and Application Monies will be refunded without interest.

2.8 Allocation of Public Offer Shares and Public Offer Options

2.8.1 General

The allocation of Public Offer Shares and Public Offer Options under the Public Offer (including the Priority Offer) will, subject to the provisions of the Priority Offer, be determined by the Company in its absolute discretion.

There is no guaranteed allocation of Public Offer Shares or Public Offer Options under the Public Offer.

2.8.2 Priority Offer

It is the Company's intention that subject to it receiving a sufficient number and amount of subscriptions, it will allocate a minimum of $2,200 worth of Public Offer Shares, and the applicable number of attaching Public Offer Options, to each Applicant eligible under the Priority Offer. In the event that the Priority Offer is oversubscribed, Applications may be scaled back at the absolute discretion of the Board.

There is no guaranteed allocation of Public Offer Shares or Public Offer Options under the Priority Offer.

In any event, the Company will limit the number of Public Offer Shares it issues to a Shareholder under the Priority Offer to the higher of:

- 5% of the total Public Offer Shares subject to the Priority Offer; and
- the number of Public Offer Shares that the Shareholder would be entitled to under a pro rata issue of the Public Offer Shares subject to the Priority Offer.

Any Applications received in excess of this limit will be subject to scale-back, with any excess being added to the general pool of Applications under the Public Offer.

If the number of Public Offer Shares applied for by eligible Shareholders under the Priority Offer within the first 14 days of the Public Offer opening exceeds 40 million, the Public Offer Shares the subject of the Priority Offer will be allocated on a "first come, first served" basis. Those Applications from eligible Shareholders that were not accepted and satisfied under the Priority Offer, will be added to the general pool of Applications and will be subject to any scale-back.

Public Offer Options will also be granted along with Public Offer Shares issued under the Priority Offer on the same basis as otherwise offered under this Prospectus, being 1 Public Offer Option for every 3 Public Offer Shares issued.

2.9 Acceptance of Applications

The Company, in consultation with the Lead Managers, reserves the right to reject any Application or allocate fewer Public Offer Shares and Public Offer Options than those for which an Application has been made. Where no issue or allocation of Public Offer Shares or Public Offer Options is made or where fewer Public Offer Shares and Public Offer Options are issued than are applied for, surplus Application Money will be refunded without interest.

If an Application Form is not completed correctly or if the accompanying payment is the wrong amount, it may still be treated as valid at the discretion of the Company. The Company's decision to treat an Application as valid, how to construe, amend or complete it, will be final. The Company's decision on the number of Public Offer Shares and Public Offer Options to be allocated to an Applicant will be final.

2.10 Offer Management Agreements

The Company and the Lead Managers have entered into Offer Management Agreements in respect of the management of the Public Offer. The Offer Management Agreement with Veritas Securities Limited (**Veritas**) sets out a number of circumstances under which Veritas may terminate its agreement with Probiomics. A summary of each of the agreements is set out in **Section 10.8.1**.

2.11 Discretion regarding the Public Offer

The Company reserves the right to proceed with the Public Offer or any part of the Public Offer at any time before the allocation of Public Offer Shares or Public Offer Options to Applicants. If the Public Offer or any part of the Public Offer is cancelled, all Application Money or the relevant Application Money, will be refunded without interest.

The Company also reserves the right to close the Public Offer or any part of the Public Offer early, extend the Public Offer or any part of the Public Offer, accept late Applications or bids either generally or in particular cases, reject any Application or allocate to any Applicant fewer Public Offer Shares and Public Offer Options than applied for.

2.12 Rights and liabilities attaching to Public Offer Shares and Public Offer Options

The Public Offer Shares issued under this Prospectus will rank equally in all respects with Shares currently on issue.

A summary of the rights and liabilities attaching to the Public Offer Shares is set out in **Section 10.1**. A summary of the rights and liabilities attaching to the Public Offer Options is set out in **Section 10.2.1**.

2.13 Re-admission of the Company and ASX Quotation of Public Offer Shares and Public Offer Options

As the Hunter Acquisition will constitute a significant change in the scale of the Company's activities, ASX has determined that compliance with the re-listing requirements in Chapters 1 and 2 of the Listing Rules is required.

As part of the re-listing process, trading of the Shares on ASX will be suspended from and including the day of the Meeting.

If all the Essential Resolutions are passed at the Meeting, that suspension will continue until ASX is satisfied that the requirements in Chapters 1 and 2 of the Listing Rules have been met. It is expected that the suspension period will be between 15 and 20 Business Days after the date of the Meeting, but could be a longer period.

If all the Essential Resolutions are not passed at the Meeting, the Company will become entitled to elect to terminate the Takeover Bid and the Public Offer. If it so elects, then there will not be a significant change in the scale of the Company, and it is therefore expected that the Company will be promptly thereafter re-admitted to Official List.

Some of the key requirements of Chapters 1 and 2 of the Listing Rules are:

- a prospectus must be issued and lodged with ASIC – the lodgement of this Prospectus is expected to satisfy that requirement;
- the Company must satisfy the shareholder spread requirements relating to the minimum number of shareholders in the Company and the minimum value of the shareholdings of those shareholders;
- the Company must satisfy the "assets test" as set out in Listing Rule 1.3; and
- the issue price of the Shares must be at least 20 cents and the exercise price of Options must be at least 20 cents.

Applicants should be aware that ASX will not re-admit or admit any of the Public Offer Shares, Public Offer Options or any Shares issued on the exercise of the Public Offer Options to Official Quotation until the Company complies with Chapters 1 and 2 of the Listing Rules. As such there is a risk that the Public Offer Shares and Public Offer Options will not be able to be traded for some time after the Closing Date.

Application will be made to ASX within seven days of the date of this Prospectus for Official Quotation of the Public Offer Shares and, subject to achieving the necessary spread requirement, Public Offer Options. The fact that ASX may quote the Public Offer Shares and Public Offer Options is not to be taken as an

indication of the merits of the Company or the Public Offer Shares or Public Offer Options being offered under this Prospectus.

If application for Official Quotation is not made within seven days after the date of this Prospectus or permission for Official Quotation is not granted by ASX within three (3) months after the date of this Prospectus, no Public Offer Shares or Public Offer Options offered under the Prospectus will be issued. If no issue is made, all Application Monies will be refunded without interest to Applicants within the time period prescribed under the Corporations Act.

2.14 Taxation

The following is a general summary of the potential Australian tax implications for Shareholders and Optionholders (hereinafter referred to in this **Section 2.14** only as **Shareholders**) arising from participating in the Public Offer.

The summary reflects Australian tax law as at the date of this Prospectus. The summary does not take into account or anticipate changes in the law, whether by way of judicial decision or legislative action.

Each taxpayer's position is different and taxation consequences will depend on each person's particular circumstances. The Directors do not consider that it is appropriate to give potential Applicants advice regarding the taxation consequences of applying for Public Offer Shares and Public Offer Options under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation positions of potential applicants. Potential Applicants should, therefore, seek their own taxation advice concerning their taxation position in relation to an investment under this Prospectus.

Australian taxation implications

These comments do not apply to Shareholders that are banks, insurance companies and taxpayers that carry on a business of trading in shares, or hold Public Offer Shares and Public Offer Options on revenue account. These comments also do not apply to trustees of employee share plans.

Capital gains are taxed in Australia. A capital gain generally arises when an asset is disposed of and the capital proceeds exceed the cost base of acquiring the asset. Conversely, a capital loss generally arises if the cost base exceeds the capital proceeds received. Public Offer Options, and any Shares acquired on exercising Public Offer Options, are assets for capital gains tax purposes.

A capital gain is generally included in the assessable income of the taxpayer, and the taxpayer may be subject to tax on the capital gain. The amount of tax payable will depend upon the particular taxpayer's income tax profile. For instance, an individual may have to pay tax of up to 45% plus the Medicare Levy on any capital gain (see paragraph 'Disposing of your Shares'). A company may have to pay tax of 30% on any capital gain.

Application for Shares

The application for Public Offer Shares or Public Offer Options under this Prospectus should not constitute a dividend for income tax purposes nor should it give rise to any income tax or capital gains tax liability for those Shareholders.

Disposing of your Shares

Residents of Australia

If you are an Australian resident for tax purposes, and you dispose of your Public Offer Shares, this may give rise to a capital gain if the Public Offer Shares were issued to you on or after 20 September 1985. Any capital gain would be equal to the capital proceeds received for the disposal of the Public Offer Shares, less the cost base of the Public Offer Shares.

The net capital gain (i.e. total capital gains less current year and prior year capital losses) arising to individuals and entities acting as trustees (other than for a trust that is a complying superannuation entity) may be reduced by 50%, if the Public Offer Shares were held for more than 12 months as at the date the Public Offer Shares are disposed of. For a complying superannuation entity, the net capital gain

may be reduced by 33 1/3%, if the Public Offer Shares were held for more than 12 months on the date the Public Offer Shares are disposed of.

Non-residents of Australia

If you are not an Australian resident for tax purposes and you dispose of your Public Offer Shares, an Australian capital gains tax liability will not arise unless:

a) those Public Offer Shares have been held in carrying on business through a permanent establishment in Australia; or
b) at the time of disposal, more than 50% of the value of the Company is attributable to 'taxable Australian property' (i.e. real property situated in Australia) and the Shareholder and associates held at least 10% of the issued share capital in the Company at the time of disposal or throughout a 12 month period that began within 24 months before the date of disposal.

Acquisition of New Public Offer Shares

You should receive a cost base for the Public Offer Shares equal to the amount you paid to acquire the new Public Offer Shares (ie $0.011 per Public Offer Share), plus any non-deductible incidental costs you incurred to acquire them.

Stamp duty

No stamp duty will be payable at the time of application for the Public Offer Shares and no stamp duty will be payable on the future disposal of the Public Offer Shares which will be quoted on ASX.

Goods and services tax

The Public Offer Shares you acquire as a result of the exercise of any Public Offer Options will be classified as a "financial supply", for Australian goods and services tax (Australian GST) purposes. As such, Australian GST of 10% will not apply to any Application Monies applicants pay in consideration for those Public Offer Shares.

In respect of all other matters and transactions arising under this Prospectus, the Australian GST implications may vary depending upon your Australian GST registration status and residency status. You should seek independent advice in relation to your individual Australian GST position.

2.15 Overseas Shareholders

No action has been taken to register or qualify the Public Offer Shares or Public Offer Options that are offered in the course of this Public Offer, or otherwise to permit a public offering of the Public Offer Shares or Public Offer Options, in any jurisdiction outside Australia and New Zealand. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and therefore persons who obtain a copy of this Prospectus should inform themselves about, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of those laws.

This Prospectus does not constitute an offer or invitation to apply for securities in any jurisdiction where, or to any person to whom, it would not be lawful to issue this Prospectus.

Where this Prospectus has been dispatched to persons in jurisdictions outside of Australia and New Zealand, in which the securities legislation or regulation requires registration or any analogous treatment, this Prospectus is provided for information purposes only. This Prospectus has not been and will not be registered under any such legislation or regulation or in any such jurisdiction.

It is the responsibility of any overseas resident Applicant to ensure compliance with all laws of any country relevant to their Application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty made by the Applicant to the Company that there has been no breach of such laws and that all necessary approvals and consents have been obtained.

The Offer does not and will not constitute an offer of securities in the United States. Furthermore, no person ordinarily resident in the United States is or will become permitted to submit an Application. If the Directors believe that any Applicant is ordinarily a resident in the United States, or is acting on behalf

of a person or entity that is ordinarily a resident of the United States, the Directors will reject that Applicant's Application.

2.16 CHESS

The Company participates in the Clearing House Electronic Sub-register System (**CHESS**). ASX Settlement, a wholly owned subsidiary of ASX, operates CHESS in accordance with ASX Listing Rules and ASX Settlement Rules.

Under CHESS, applicants will not receive a certificate but will receive a statement of their holding of Public Offer Shares and Public Offer Options (**CHESS Statement** or **Holding Statement**).

If you are broker sponsored, ASX Settlement will send you a CHESS Statement. The CHESS Statement will set out the number of Public Offer Shares and Public Offer Options issued under this Prospectus, provide details of your holder identification number and give the participation identification number of the sponsor.

If you are registered on the issuer sponsored sub-register, your statement will be dispatched by the Company's share register and will contain the number of Public Offer Shares and Public Offer Options issued to you under this Prospectus and your security holder reference number.

A CHESS Statement or issuer sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their shareholding changes. Shareholders may request a statement at any other time, however a charge may be made for additional statements.

2.17 Enquiries

If you require assistance to complete the Application Form, callers in Australia should contact the Share Registry on 1300 369 702 or callers outside Australia on +61 3 9415 4283, from 9.00 a.m. (AEDST) to 5.00 p.m. (AEDST), Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional advice from your stockbroker, solicitor, accountant or other independent professional adviser.

3 OVERVIEW OF THE MARKET FOR PROBIOTICS AND THE INCIDENCE OF COPD

3.1 Probiotics market

The market is broken down into applications of probiotic ingredients, supplements and foods. Of these, foods have the largest share of the market. Worth an estimated US$13.8 billion in 2008, this segment is expected to reach US$17.0 billion in 2013, based upon a compound annual growth rate (**CAGR**) of 4.2%. Food applications for probiotics are found mostly in dairy products, with yogurts, kefir and cultured drinks representing the major categories of probiotic foods. Yogurt products accounted for the largest share of sales, representing 36.6%. Emerging food applications include probiotic cheese, nutrition bars, breakfast cereal, and infant formula [11].

The second largest segment, probiotic supplements, were worth US$1.2 billion in 2007. This is expected to increase to US$1.7 billion in 2013, a CAGR of 5.8%. Probiotics are used in the manufacture of supplements sold in the form of capsules, tablets and powders. Probiotic supplements in capsule form accounted for the largest share of sales, representing 75% [11].

Probiotic ingredients were worth US$797.6 million in 2008 and are expected to increase to US$917 million by the end of 2013, a CAGR of 2.8%. Probiotics of the lactobacillus genus accounted for the largest share, representing 61.9% of total sales in 2007 [11].

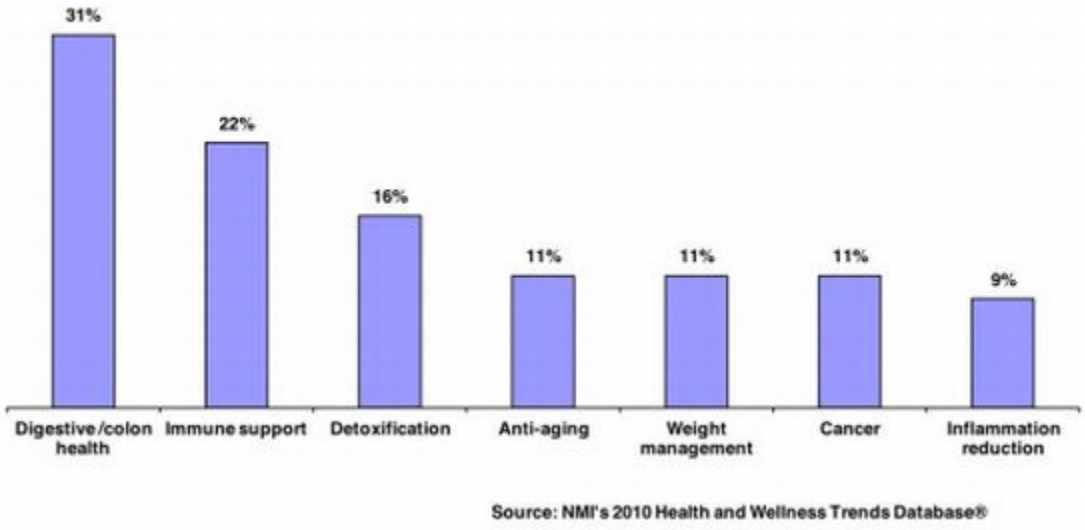
As outlined in an article written by Steve French in October 2011 and published on the Natural Products Insider website (www.naturalproductsinsider.com) [12]:

- over the past few years, probiotics have entered the mainstream and are becoming a significant mass market opportunity. As the probiotic market continues to gain momentum, it will represent significant opportunities in both dietary supplements and functional food applications;
- some of the dynamics that are facilitating the mainstream acceptance of probiotics include:
  - high incidence of digestive conditions in the population;
  - increased consumer interest in functional foods;
  - emerging encapsulation processes that allow probiotics to be added to non-refrigerated foods such as breads and cereals; and
  - discovery of links between de-toxification of the intestinal tract; and increased health and wellness, energy, skin health and weight loss;
- it is important for manufacturers and marketers to understand how consumers perceive the probiotic landscape, and the challenges and opportunities that exist within this fast-emerging market;
- awareness of the term “probiotics” has grown from a mere 9% in 2002 to 67% of US adults in 2010 — a growth in awareness of more than 600% in nine years. Much of the increase may be attributed to the media exposure and product marketing of mainstream yogurts and other dairy products publicising the benefits of probiotic content. In fact, much of the increase in awareness occurred after 2006, the year Activia was launched in the US;
- interestingly, while awareness has shown some dramatic gains, use of probiotic foods is rather stagnant with only 12% of the US population indicating they have used probiotic-enriched foods in the past 30 days, compared to 10% in 2008. Comparatively speaking, 8% of the US population uses probiotic supplements;
- these findings highlight several emerging needs within the probiotic market that may help to boost probiotic usage rates even higher across both foods and supplements:
  - continued product expansion outside dairy product ranges;
  - consistent and clear educational messaging about the benefits of probiotics; and

- increased consumer understanding of the benefits beyond digestive health;

- consumers show fragmented understanding of the benefits of probiotics (Figure 1). While less than one-third of consumers associate probiotics with digestive health, other benefits exist, thereby providing additional marketing opportunities beyond digestion:

Figure 1: % U.S. general population associating the following benefits with probiotic use



Source: NMI's 2010 Health and Wellness Trends Database®

- even further, since many digestive problems are acute, consumers may not be concerned about digestive problems until an issue actually manifests itself, lessening the perceived need for continued use of a probiotic product; and

- in fact, according to Natural Marketing Institute's 2011 Supplement/OTC/Rx Database®, the top reason probiotic users have consistently cited as to why they stop using probiotics is that they "only use it when they need it."

Irritable Bowel Syndrome Market

Irritable Bowel Syndrome (**IBS**) is a common and significant disorder that involves daytime abdominal pain, bloating and discomfort and altered bowel habits without progressive deterioration or detectable structural, mechanical, biochemical or overt inflammatory abnormalities.

The annual direct and indirect medical costs of IBS management in the US have been reported to be as high as US$8 billion and US$25 billion respectively [3].

It afflicts 12% of adults in the US, and has an incidence among women twice as high as men [3].

Atopic Dermatitis Market

Atopic dermatitis is a chronic inflammatory condition characterised by dry, itchy skin.

GlobalData estimated the global atopic dermatitis therapeutics market to be valued at US$728 million in 2009. It is expected to grow to US$942 million at a compound annual growth rate of 3.3% by 2017. This growth is primarily attributed to an increase in competition among existing products and the presence of a strong pipeline with more emerging therapies. Globally, the US remains the largest market for atopic dermatitis therapeutics, and was valued at US$415 million in 2009 [4].

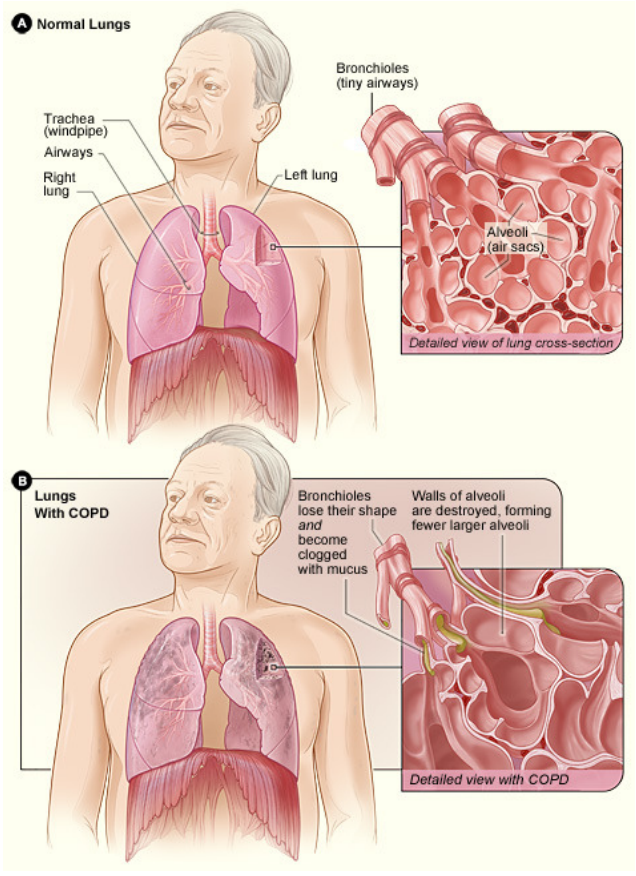
Some of the factors associated with an increased risk of atopic dermatitis include small family size, higher socio-economic and educational levels regardless of ethnicity, movement from a rural to an urban environment and an increased use of antibiotics [4].

3.2 COPD – Incidence, Treatment and Markets

Chronic Obstructive Pulmonary Disease (**COPD**) is a serious progressive disease with no cure. As lung function declines with age, it becomes harder for air to flow back and forth into the lungs. This is barely noticed in healthy people. However, in patients whose airways have been damaged by COPD, the flow of air through the airways is further restricted, which can lead to increased shortness of breath, wheezing, chest tightness, coughing, production of large amounts of mucus and other symptoms.

Specifically, in patients with COPD, less air flows in and out of the airways because of one or more of the following reasons:

- the airways and air sacs lose their elastic quality;
- the walls between many of the air sacs are destroyed;
- the walls of the airways become thick and inflamed; and
- the airways make more mucus than usual, which tends to clog them.



Source: What is COPD? 2010. National Heart, Lung, and Blood Institute

Figure A shows the location of the lungs and airways in the body. The inset image shows a detailed cross-section of the bronchioles and alveoli.

Figure B shows lungs damaged by COPD. The inset image shows a detailed cross-section of the damaged bronchioles and alveolar walls.

Two common forms of COPD are emphysema and chronic bronchitis.

In emphysema, the walls between many of the air sacs are damaged, causing them to lose their shape and become 'floppy'. This damage can also destroy the walls of the air sacs, leading to fewer and larger air sacs (instead of many tiny ones). Such damage causes the amount of gas exchange in the lungs to be reduced.

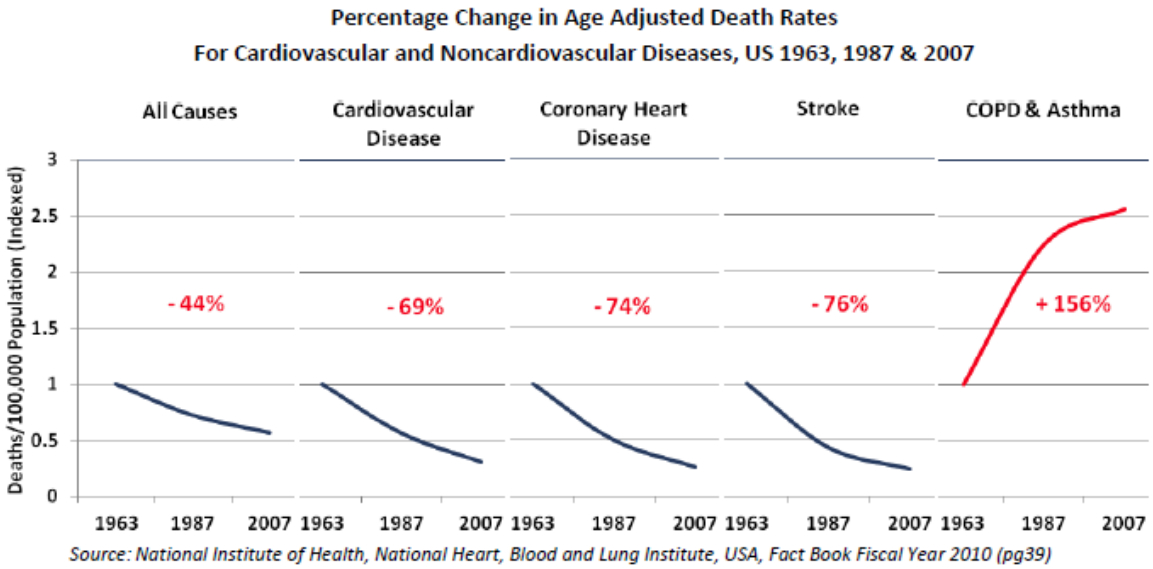
In chronic bronchitis, the lining of the airways is constantly irritated and inflamed. This causes the lining to thicken, and thick mucus to form and collate in the airways, making it hard for the patient to breathe.

Most people who have COPD have both emphysema and chronic obstructive bronchitis. Thus, the general term "COPD" is more accurate [24].

COPD is characterised by chronic inflammation of the airways causing irreversible damage which progressively gets worse. People with COPD are susceptible to sudden flare-ups (or exacerbations) which may be caused by infections and result in increased use of drugs such as corticosteroids, administration of antibiotics and often, hospitalisation.

COPD is largely caused by smoking or in some cases by air pollution [6]. A global study in 2007 by Mannino and Buist showed that tobacco smoke remains the most important cause of COPD in the world, with up to 50% of smokers developing the disease. The study also showed that exposure to occupational dust and vapours accounted for 19.2% of COPD cases in the USA, and, in developing countries, 35% of patients developed COPD after exposure to smoke from biomass fuels [8].

There are gradations in the severity of COPD, which are defined by well-accepted measures of the extent of narrowing of the airways. In general, the severity of COPD is positively correlated with the degree of narrowing of the airways, as the greater the degree of narrowing, the greater is the restriction to air flow.



Source: National Institute of Health, National Heart, Blood and Lung Institute, USA, Fact Book Fiscal Year 2010 (pg39)

COPD is a major cause of morbidity and mortality globally. It is the fourth leading cause of chronic mortality in the United States and is projected to rank fifth in 2020 in burden of disease caused worldwide, according to a study published by the World Bank/World Health Organisation [2]. Unlike many other serious health issues the death rate from COPD is rapidly increasing.

Relative to other health disorders:

- COPD is understood to be more common in any year than the most common types of cancer, road traffic accidents, heart disease or diabetes;
- in terms of financial and total (ie, including the burden of disease) costs per case, COPD is believed to be more costly than cardiovascular disease, osteoporosis, hearing loss or arthritis [6].

There are no fundamentally preventative treatment options for COPD except for the cessation of smoking and only symptomatic relief is provided by limited options such as antibiotics to treat acute episodes and inhaled corticosteroids and bronchodilators[7] in various combinations.

Since COPD is a progressive disease characterised by airflow limitation that is partially reversible, early diagnosis that leads on to initiation of proven management strategies through a range of treatment options offers patients the best chance to reduce the overall impact of COPD and to stem or slow the progression of the disease into the more severe stages. In recent years, progress

[7] Brochodilators drugs open up the airways to assist patients to breathe more easily.

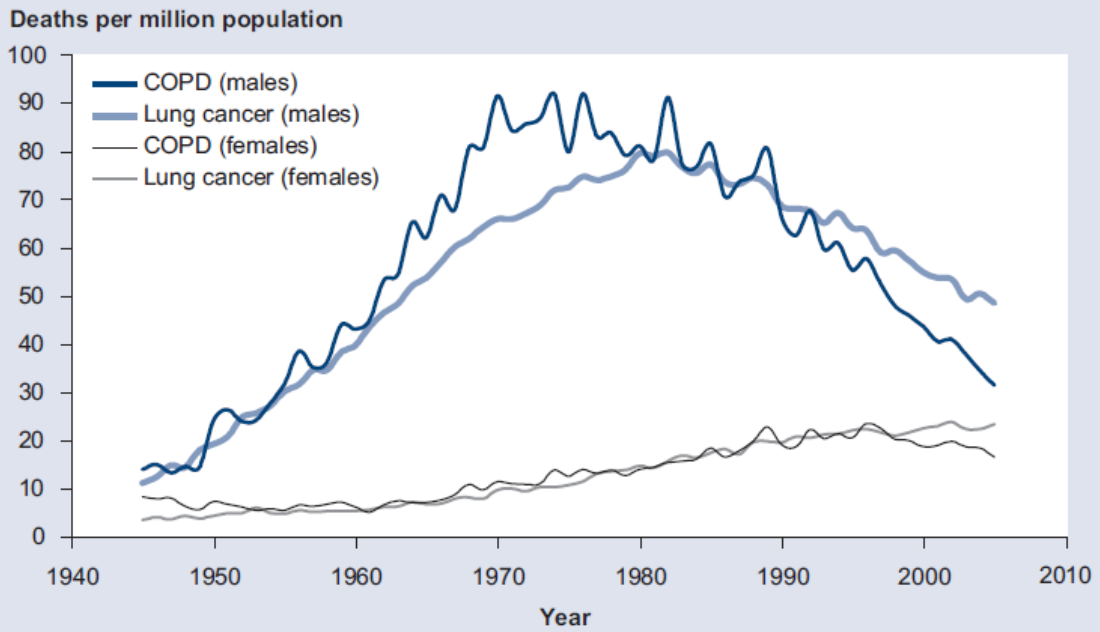
has been made regarding management strategies and non-pharmacological interventions that have been shown to be cost effective [6].

Patients typically do not recover rapidly but slowly decline over some years so presenting themselves, their families and the public health services with major disturbances and huge costs, not just for drugs but also for the very expensive needs in hospital. Individual patients become more and more a burden for themselves and others as they become more and more debilitated. The acute episodes when their disease flairs up are both frightening, as they can fight for breath but are also times of more intense medical needs and each episode has the danger of accelerating the COPD patient's decline even further. So a new treatment which can reduce the risks of the more severe acute episodes would be welcomed by patients, physicians and health care providers.

3.2.1 COPD in Australia and its impact on the Economy

COPD is a major cause of disability, hospital admission and premature death in Australia, with some two million Australians are estimated to have COPD. Of those with COPD, it is estimated that 1.2 million have moderate to severe COPD and 900,000 have mild COPD [6]. Respiratory diseases are significant contributors to death among those in advancing age. Prominent among these is COPD, a leading specific contributor to deaths overall. As the population ages, the burden of COPD is expected to increase.

The Australian Institute of Health and Welfare estimated that COPD was the seventh greatest contributor to the overall burden of disease, accounting for 3.3% of disability-adjusted life years in 2003 [13].



COPD = chronic obstructive pulmonary disease.

Note: Rates have been age-standardised to the Australian population as at 30 June 2001.

Source: AIHW National GRIM Books.

In 2005, COPD was the underlying cause of 4,886 deaths (45.2% of deaths due to respiratory diseases and 3.7% of all deaths). It was also listed more than 7,000 times as an associated cause of death, most often when coronary heart disease or lung cancer was the underlying cause. The death rate among males was almost double the female rate [13].

Smoking is the most important risk factor for COPD. In 2007, 18% of Australian males and 15.2% of Australian females over the age of 14 years smoked daily [14]. Smoking-related diseases have increased substantially in women, and death rates from COPD in women are expected to rise

accordingly. The death rate from COPD among indigenous Australians is five times that for non-indigenous Australians, and smoking is a leading cause of healthy years lost by indigenous people both in Australia and New Zealand [15].

In 2008, the estimate of the financial and economic cost to the Australian economy of COPD is approximately A$8.8 billion, including health and hospital costs, lost productivity, premature death and lower employment. In 2008, 8 in 100 Australians aged over 30 had Stages II to IV COPD. In addition, the 2004/05 National Health Survey estimated 590,000 Australians had COPD. COPD increased with age rising from about 2.8% of people aged 45 to 54 years to 8.8% of those aged 75 years and over [5, 6].

COPD is a major cause of hospitalisation in Australia. In 2003-04, there were 54,281 hospitalisations for COPD with an average length of stay of 7.5 days. In 2008, COPD directly cost Australia A$8.8 billion and indirectly A$89.2 billion [5, 6].

Half of Indigenous Australians smoke placing them at increased risk of COPD. In 2005-06, hospitalisations of Indigenous people for COPD were around 6 to 8 times higher than the rate for other Australians. COPD is a leading cause of death among Indigenous Australians [5, 16, 17].

3.2.2 International Incidence of COPD

COPD is projected to be the third leading cause of death worldwide by 2030. In 2000 approximately 8 million outpatient visitations and 673,000 hospitalisations occurred as a result of COPD. COPD costs the US healthcare system over US$30 billion annually (c. US$13,000 per patient) [2, 6, 18, 19].

In 2010, the cost of COPD to the US was estimated to be approximately US$49.9 billion, including US$29.5 billion in direct health care expenditures, US$8.0 billion in indirect morbidity costs and US$12.4 billion in indirect mortality costs [7].

In the US, COPD is the third leading cause of death, claiming the lives of 124,470 Americans in 2007. 2011 was also the eighth consecutive year in which women have exceeded men in the number of deaths attributable to COPD. In 2007, almost 64,000 females died compared to almost 60,000 males [20].

Within developing countries COPD is recognised as one of the most rapidly growing health issues facing already stretched health systems. Hunter is positioning itself to embrace this significant global market opportunity with a unique and proprietary vaccine which is undergoing clinical validation, and is targeted for the prevention of severe exacerbations of COPD (defined as those requiring systemic corticosteroid therapy and/or admission into hospital). The global market opportunity for a treatment such as HI-164OV when used in patients with moderate to severe COPD is conservatively estimated to be in excess of AUD1 billion.

HI-164OV is not intended to replace standard-of-care treatments, but to enhance clinical outcomes via combined use. COPD therapeutics are a major target of pharmaceutical company research. The main companies focused on COPD product development are GSK, Nycomed, Bayer, Merck, Johnson and Johnson, Forest, Pfizer, Boehringer Ingelheim, AstraZeneca and Novartis.

4 OVERVIEW OF PROBIOMICS AND HUNTER IMMUNOLOGY

4.1 Probiomics Limited

Probiomics Ltd (ASX Code: PCC) (formerly called VRI BioMedical) was incorporated in 1998 and listed on the Australian Securities Exchange in December 2000, to fund the research and development of a portfolio of projects in mucosal immunology.

In late 2003, the Company resolved to focus primarily on the commercialisation and further development of its proven probiotic technology, with its lead probiotic, PCC®, a novel and patent protected* strain of *Lactobacillus fermentum - Australia patent numbers 2003258366 and 2003245473*.

Bringing science to wellness

The Company's mission statement "*bringing science to wellness*"™ signals the focus of the Company on commercialising products for health maintenance and disease prevention.

With the commencement of a molecular discovery program, the Company coined the term Probiomics to describe the study of the molecules on probiotic bacteria which mediate the biological response in the host. Following successful completion of Stage 1 of this program, the Board decided to change the name of the Company to "Probiomics Ltd" to reflect the primary focus on probiotics and associated molecules. This change of name was approved by shareholders in April 2005.

Research and Development

The Company's scientific and clinical research has demonstrated that PCC® has a number of unique features which could provide a competitive advantage in the market. With PCC® being supported by patent applications, the Company has conducted randomised, double blind, placebo-controlled clinical trials in a range of intestinal, immune and skin disorders. The data generated from the clinical trials program supports the commercialisation of the Company's probiotic products for the dietary supplements and functional food markets, on the basis of which some degree of health claims (supported by appropriate evidence) can be made.

Commercialisation

In November 2002, the Company concluded its first successful commercialisation arrangement, with US-based Pharmanex, a subsidiary of the multi-level marketing company NuSkin Enterprises. ProBioPCC™, a probiotic-based dietary supplement which contains the Company's proprietary strain of *Lactobacillus fermentum*, is sold by Pharmanex through its network of distributors in North America and many Asian countries. This agreement has since expired, but the relationship of the parties has continued on an informal basis.

The experience gained from bringing this first probiotic product to market has been used to bring further probiotic products to the Australian market: Progastrim®, was sold exclusively to naturopaths, and proTract®, a family of products for intestinal health, diarrhoea and irritable bowel syndrome and for atopic dermatitis, which were sold exclusively through Australian pharmacies. The Progastrim® and proTract® products are listed on the Australian Register of Therapeutic Goods. Development of novel functional foods containing PCC®, and distribution of PCC®-based OTC products in other countries is underway.

In November 2009, Probiomics signed an exclusive Global Distribution Agreement with Chr. Hansen A/S of Horsholm, Denmark, to manufacture, market, supply and distribute its proprietary probiotic strain, *Lactobacillus fermentum* PCC® globally in dietary supplements, OTC drugs, sports nutrition, slimming products, clinical nutrition, beverages, and dairy products. This agreement was the culmination of clinical trials undertaken jointly by Probiomics and Chr. Hansen over 6 months in conjunction with Griffith University on the immune system in a group of 99 athletes. The double blinded, placebo-controlled study showed that PCC® was effective in reducing the severity and illness load of chest infection and medication use associated with respiratory tract infection (cold and flu). Furthermore, the researchers found that consuming PCC® moderated the negative effects of exercise stress on the immune system.

Chr. Hansen is a global leader in the development of natural ingredient solutions for food, pharmaceutical, nutritional and agricultural industries. It has over 2,230 employees globally, a presence in 30 countries and has distributors and agents around the world. During 2009/2010, Chr. Hansen had sales of approximately A$770 million.

The Company's Priorities

- **Clinical trials** - proving the clinical efficacy of PCC® via a comprehensive clinical trials program in intestinal, immune and skin disorders through collaborations with major global companies.
- **Product Marketing and Commercialisation** - focusing on generating revenue through bringing highly effective products to a range of markets (OTC, dietary supplements, functional foods) based on the collaboration with global distributors and suppliers.
- **Pharmaceutical Development -** developing novel therapeutics based on PCC® and associated clinically effective molecules.

The Company's commercial products contain a special, proprietary strain of *Lactobacillus fermentum*, trademarked PCC®. These products are listed on the Australian Register of Therapeutic Goods.

4.2 Hunter Immunology Limited

4.2.1 Background

Hunter is a clinical-stage biotechnology company formed in 2003 to develop a range of orally-administered vaccines to reduce the number and severity of exacerbations in patients with Chronic Obstructive Pulmonary Disease (**COPD**). An exacerbation or flare-up is a sudden worsening of symptoms which requires an increase in corticosteroid drugs, antibiotics and often hospitalisation. Exacerbations are often but not always triggered by infections of the airways.

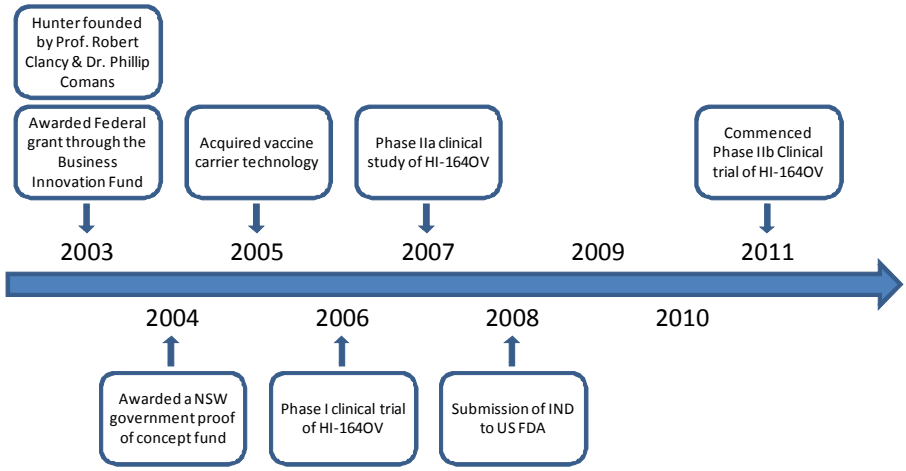
COPD, which includes emphysema and chronic bronchitis, is largely caused by smoking although in some developing countries, pollution also plays a significant role. COPD is an irreversible disease, there is no cure and is characterised by progressive and irreversible airflow obstruction and the underlying pathology of the disease, including narrowing of the small airways and destruction of the lung.

The origins of Hunter's technology stem from pioneering work conducted in the mid 1980s at the Newcastle Mucosal Immunology Group (**NMIG**) led by Emeritus Professor Robert Clancy AM. Early work by Hunter's founders and NMIG led to the development of an enteric-coated tablet containing killed *H. influenzae,* which was shown to be safe and effective in a number of published clinical trials in COPD.[8]

Mucosal immunisation depends on a network of cells that migrate between the different mucosal sites via the lymphatic system. The source of the main 'protective' T cell involved in mediating mucosal immunity is a set of lymphoid organs within the wall of the small bowel, known as Peyer's Patches. Thus by ingesting tablets containing selected inactivated micro-organisms which can stimulate Peyer's Patches, immunity can be generated in the airways and other mucosal surfaces.

[8] *H. influenzae* bacteria in the vaccine tablet were killed so that it would not infect, but would rather immunise and thereby protect, the patient.

A timeline of Hunter's activities and developments over the last 8 years are set out below:



4.2.2 Hunter's HI-164OV

Hunter's approach has been to show that these obstructed airways in COPD patients usually harbour chronic infections with bacteria, in particular, *Haemophilus influenzae* (*H. influenzae*), which create the conditions of continued damage to the airway walls. If this process could be slowed or halted then the result should be an improvement in the health of the COPD patient.

Research efforts by Hunter's clinical team and NMIG led to the development of HI-1640V and its subsequent clinical evaluation. HI-1640V, an enteric-coated tablet containing killed bacteria (*H. influenzae*), has demonstrated positive Phase IIa data, particularly in patients with moderate to severe COPD.

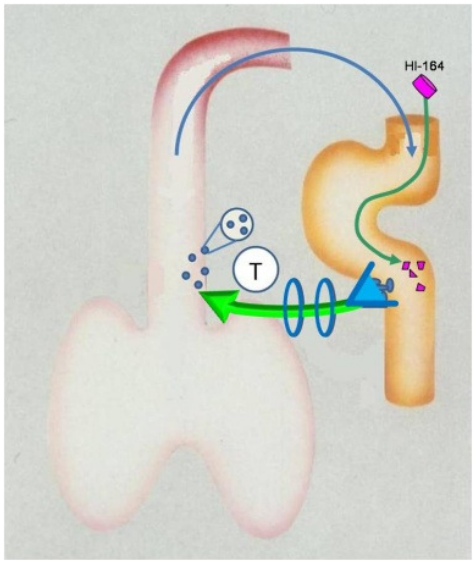


Fig 1: *Mechanism of action of HI-164OV.*

HI-164OV is not intended to replace standard-of-care treatments, but to enhance clinical outcomes via combined use. COPD therapeutics are a major target of pharmaceutical company research. The main companies focused on COPD product development are GSK, Nycomed, Bayer, Merck, Johnson and Johnson, Forest, Pfizer, Boehringer Ingelheim, AstraZeneca and Novartis.

4.2.3 Strategy for Development of HI-164OV

The development strategy has been driven by 20 years of clinical experience, defining mechanisms of action and demonstrated proof of concept that oral whole cell immunotherapy using inactivated *H. influenzae* could reduce colonisation in damaged airways. This included reductions in the frequency and severity of acute exacerbations and the amount of antibiotics required by the patient.

In a small Phase II clinical study of 38 patients with severe COPD, HI-164OV resulted in a significant reduction in hospitalisation for exacerbations by 90%. There were also material reductions (in excess of 50%) in the use of corticosteroids and antibiotics for treating exacerbations. Patients benefited from a decrease in medication and improved quality of life.

In a second study of a more heterogeneous group of 102 patients with airways disease at the less severe end of the clinical spectrum, the drug failed to show benefit. This has guided the current study to examine the treatment in patients with moderate to severe COPD.

The recognition that orally-administered microbes can stimulate a cellular immune response at other mucosal surfaces means that Hunter has the opportunity to develop a pipeline of products based on this platform technology. Hunter has identified the following potential future applications:

(a) *Haemophilus influenzae* – for severe allergic asthma and otitis media (that is, middle ear infection) (other applications for HI-164OV);

(b) *Pseudomonas aeruginosa* – for COPD and cystic fibrosis;

(c) *Staphylococcus aureus* – for hospital-acquired infections; and

(d) *Candida albicans* – for thrush.

Hunter has recognised that there are several key milestones that could add substantial value to HI-164OV, being demonstrations of:

(a) proof of efficacy and safety in a much larger multi site Phase II trial in COPD; and

(b) the utility of HI-164OV in severe allergic asthma and other applications.

A Phase IIb clinical trial of HI-164OV at 21 major centres for respiratory medicine in Australia has completed enrolment and dosing prior to the winter season. The trial is a multi-centre, randomised, placebo controlled, single-season double-blinded trial with an enrolment of 320 patients with moderate to severe COPD with the primary goal of reducing the number and severity of exacerbations per patient requiring oral/parenteral corticosteroid treatment or hospitalisation.

There are a number of secondary endpoints aimed at determining if HI-164OV can reduce the severity of exacerbations. These include the time to use of corticosteroids, antibiotics or hospitalisation, the proportion of patients experiencing exacerbations requiring oral/parenteral corticosteroid treatment or hospitalisation, the extent of use of antibiotics and/or corticosteroids, duration of exacerbations and extent of hospitalisation.

The final study report is on track and the results are expected to be available in the second quarter of calendar year 2012.

4.2.4 Commercialisation Strategy

Hunter's main objective is to demonstrate convincing evidence for HI-164OV in reducing the number and severity of exacerbations in patients with moderate to severe COPD.

Success in commercialising HI-164OV will further validate Hunter's mucosal immunology platform. This platform technology has the potential to yield other products for which mucosal immunity could have significant advantages.

Hunter's business strategy is to partner, license or sell its product candidates at the proof of concept stage rather than establish commercial production and marketing. To this end, Hunter intends to either license, co-develop or sell HI-164OV in COPD at an appropriate point in its development where significant value has been added. A number of multi-national pharmaceutical companies have shown interest in the product if the earlier results are repeated in a larger trial.

4.2.5 Other Therapeutic Opportunities around HI-164OV

In parallel with the COPD trial, Hunter has been approached by a British hospital research centre to embark upon a further statistically powered trial of HI-164OV when used in patients with treatment resistant asthma.

This exciting opportunity to diversify the indications for HI-164OV, whilst not in the previously stated disease state of COPD could bring additional opportunities for commercialisation of this novel vaccine into another chronic and disabling respiratory disorder.

4.2.6 Competitive landscape

HI-164OV is not intended to replace standard-of-care treatments, but to enhance clinical outcomes via combined use. COPD therapeutics are a major target of pharmaceutical company research. The main companies focused on COPD product development are GSK, Nycomed, Bayer, Merck, Johnson and Johnson, Forest, Pfizer, AstraZeneca and Novartis.

4.2.7 Regulatory Issues Surrounding the Development of HI-164OV

In July 2008, Hunter submitted an Investigational New Drug Application (**IND**) to the Food and Drug Administration (**FDA**) to conduct a Phase III[9] clinical study in the US. In September 2008, Hunter was advised that the FDA had placed Hunter's application on "Clinical Hold" which prevents Hunter from conducting clinical trials in the US until the issues raised by the FDA have been resolved.

The major issues raised in the Clinical Hold letter were:

1. there had not been a preclinical toxicology study performed on HI-164OV according to Good Laboratory Practice (**GLP**) – Hunter had conducted an in-house non-GLP toxicology study in rats and there was the suggestion of possible cardiac inflammation in some animals; and
2. there was insufficient information on the manufacturing of HI-164OV to Good Manufacturing Practice (**GMP**) at a commercial scale – Hunter had commenced a GMP manufacturing development program in Europe but this could not be completed before the IND was lodged with the FDA.

More recent communications with the FDA have indicated that Hunter's toxicology study on HI-164OV in an appropriate animal species has been accepted prior to conducting further studies.

The tablets used for clinical trial studies have been manufactured in conditions which are GMP compliant. The information relating to these batches may assist Hunter to address FDA concerns relating to the lack of previous data on the consistency of production of HI-164OV for clinical trials.

Hunter cannot guarantee that the FDA clinical hold will be lifted as a result of the above program as there may be additional issues the FDA raises that Hunter will need to address. The FDA clinical hold may not affect Hunter's ability to conduct further clinical studies on HI-164OV outside the US.

[9] Phase III trials are clinical trials of commercially-ready product across a large number of patients in preparation for regulatory approval.

5 RISKS

5.1 General Risks

There are numerous widespread 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 proposed business and its involvement in the medical technology industry.

Investment in the Company should be considered speculative.

Some of these risks can be mitigated by the use of safeguards and appropriate commercial action. However, many are outside the control of the Company and cannot be mitigated. Before deciding whether to invest in the Company, potential investors should read the entire Prospectus, including these risk factors.

This Section identifies circumstances that the Directors regard as the major risks associated with the Company's proposed acquisition of Hunter, and as a consequence an investment in the Company, as a result of the proposed participation in this Public Offer.

Potential Applicants should:

- be aware that an investment in the Company involves many risks that may be higher than risks associated with an investment in other companies or alternate investments;
- read the whole of this Section in order to fully appreciate such matters and the manner in which the Company intends to operate before making any decision as to whether to invest in the Company;
- be aware that there are risks associated with any share investment;
- appreciate that the trading price of the Company's securities is likely to be volatile and could be subject to wide fluctuations in response to factors such as additions or departures of key personnel, litigation, press newspaper and other media reports, actual or anticipated variations in the Company's operating result and results of the Company's research and developmental activities;
- specifically consider each of the factors contained in this Section in light of their investment objectives and financial circumstances in order to fully appreciate the risks associated with an investment in the Company;
- if they are in any doubt about what to do, seek professional advice from their accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

5.2 Specific Risks relating to the Company

5.2.1 Research and Development

The Company can make no representations that any of its research and development will be successful or that the Company will develop products that are commercially exploitable.

There are many risks inherent in the development of novel medical products, particularly where they are in an early stage of development. Projects can be delayed or fail, or research may cease to be viable, for a range of unexpected scientific and commercial reasons.

A failure of the Phase IIb clinical trial to demonstrate statistically significant benefits in the HI-164OV compounds may result in a less attractive, or potentially unattractive, offering to a potential trade partner. This could have a material negative effect on the value of the Company.

5.2.2 Intellectual Property Rights

Securing rights to intellectual property, and in particular to patents, is an integral part of securing potential product value in the outcomes of biotechnology research and development. Competition in retaining and sustaining protection of intellectual property and the complex nature of intellectual property can lead to expensive and lengthy patent disputes for which there can be no guaranteed outcome.

Patent applications may be rejected by the Commissioner of Patents or by third parties. The patent applications may not proceed to grant. Furthermore, the granting of a patent does not guarantee that it will not subsequently be challenged or found to be invalid by a Court, nor does the grant of a patent mean that the rights of others are not infringed or that the competitors will not develop competing intellectual property that circumvents such a patent. The Company's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties.

Because the patent positions of medical technology companies can be highly uncertain and frequently involve complex legal and scientific evaluation, neither the breadth of claims allowed in diagnostic screening nor their enforceability can be predicted. There can therefore be no assurance that any patents that the Company or Hunter may own or control or licence now and in the future will afford the Company commercially significant protection of its intellectual property or its projects or have commercial application. Further, there is always a risk of third parties claiming involvement in technological and medical discoveries. If any such issues or disputes arise, these could materially adversely affect the Company's future attractiveness to potential development partners.

Hunter has a policy to protect its intellectual property with patents or hold them as trade secrets. All staff and consultants have contracts containing confidentiality clauses and terms which assign all intellectual property developed by an employee or consultant to Hunter. It is possible that key employees will leave Hunter and despite non-compete clauses in their contracts, transfer or disclose trade secrets to others.

5.2.3 Regulatory Issues & Government Regulation

Products derived from the research and development of the Company and Hunter's products may be subject to numerous government regulatory approvals and controls throughout the world (see **Section 4.2.7**) and these will affect both the timing and the cost of bringing these products to market.

Delays or failures in obtaining regulatory approval for a product would be likely to have a serious adverse effect on the value of the Company and have a consequent impact on the financial performance of the Company and the value of its securities.

The Company's operations are also subject to laws, regulatory restrictions and certain government directives, recommendations and guidelines relating to, amongst other things, occupational safety, laboratory practice, the use and handling of hazardous materials, prevention of illness and injury and environmental protection. There can be no assurance that future legislation will not impose further government regulation, which may adversely affect the business or financial condition of the Company.

5.2.4 Industry Risk

The current and future potential competitors of the Company include, among others, major medical technology companies, with substantially greater resources than those of the Company. There is no assurance that competitors will not succeed in developing products that are more effective or economic than the Company's current products or any of those being developed by it, or which would render the Company's products obsolete and/or otherwise uncompetitive.

In addition, the Company may not be able to compete successfully against the current or future competitors where aggressive pricing policies are employed to capture market share. Such competition could result in price reductions, reduced gross margins and loss of market share, any of which could materially adversely affect the Company's future business, operating results and financial position.

5.2.5 Additional Requirements for Capital

The Company's capital requirements depend on numerous factors, including the results of the Phase IIb trials and the execution of a commercial deal with a development partner. Should either of these circumstances not be favourable, the Company may decide to raise capital to fund other pipeline projects which are at earlier stages of development. Depending on the Company's ability to generate income from Hunter's products, the Company may require further financing in addition to amounts raised from the public pursuant to this Prospectus. Any additional equity financing will dilute Shareholders, and debt

financing, if available, may involve restrictions on the Company's financing and operating activities. On the other hand, if the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and reduce its research and development programs as the case may be. **Section 5.3.3** discloses additional potential risks in relation to the Company's capital requirements for Phase III trials, if the Company elects to proceed with such trials.

5.2.6 Dependence on third parties for manufacture

One of the Company's strategies will be to form strategic business relationships with other organisations for the manufacture and distribution of products developed by the Company. The Company sees the manufacture and global distribution of its products as very important to its overall success. There can be no assurance that the Company will be able to attract and negotiate appropriate terms and conditions with these organisations.

Failure to source and secure suitable organisations for the manufacture and distribution of the Company's products will materially affect the business and future profitability of the Company.

5.2.7 Reliance on Key Personnel and Need to Attract Qualified Staff

The Company is and will remain dependent on its management and its team of scientists – as well as those currently engaged by Hunter - the loss of whose services could materially and adversely affect the Company and impede the achievements of its research and development objectives.

Because of the specialised nature of the business of the Company and Hunter, the ability to commercialise its products and maintain its research program will depend in part upon its ability to attract and retain suitability qualified management, scientists and research people over time.

There can be no assurance that the Company will be able to attract or retain sufficiently qualified personnel on a timely basis, retain its key scientific and management personnel, or maintain its relationship with key scientific organisations.

5.2.8 Risk of Product Liability & Uninsured Risks

The business of the Company exposes it to potential product liability risks that are inherent in the research and development, manufacturing, marketing and use of its products. It will be necessary for the Company to secure sufficient levels of insurance to cover various product liability risks in the course of maintaining its business.

However, there can be no assurance that adequate or necessary insurance coverage will be available at an acceptable cost or in sufficient amounts, if at all, or that product liability or other claims would not materially and adversely affect the business or financial condition of the Company.

5.2.9 No Profit to Date and Uncertainty of Future Profitability

Because the Company has made immaterial profits or losses to date, it is not possible to evaluate its future prospects based on past performance, due to the large number of possible variables noted herein.

The Company's ability to operate profitably in the future will depend on its ability to commercialise its products with other organisations on commercial terms for onward sale to customers. This will depend on the ultimate demand for its products by consumers, which cannot be guaranteed. There is no certainty that the Company can successfully commercialise its projects.

Other factors that will determine achievement of any future profitability of the Company are its ability to manage its costs, execute its development and growth strategies, economic conditions in the markets in which the Company operates and proposes to operate, competitive factors and regulatory developments.

Accordingly, the extent of future profits of the Company, if any, and the time required to achieve a sustained profitability, is uncertain. Moreover, the level of such profitability cannot be predicted and may vary significantly from quarter to quarter.

5.2.10 Managing Growth

The Company's success will depend on its ability to expand and manage its operations and facilities.

Following the successful completion of the Hunter Acquisition, the Company will be in an expansion phase. This may result in new and increased responsibilities for management and additional demands on management, operating and financial systems and resources. If the Company is unable to successfully manage the expansion of its business, its financial condition and results of operation could be materially adversely affected.

5.2.11 Potential Acquisitions

As part of its business strategy, the Company may make acquisitions of or significant investments in complementary companies, products or technologies, although no such acquisitions or investments are currently planned, other than as disclosed in this Prospectus. Any such, future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies, products and technologies.

5.2.12 Uncertain Market Acceptance of Probiomics' Products

The Company believes that its long term growth and ultimate profitability will be influenced by the measure of acceptance of its products worldwide, particularly in the developed markets of the US and Europe and on its ability to penetrate the medical technology markets for diagnostic testing.

There can be no assurance that the Company's products will be more widely accepted by the general population as an alternative to other methods of reduction in both the number and severity of exacerbations in patients with Chronic Obstructive Pulmonary Disease (**COPD**).

The acceptance of the Company's products may be affected adversely by concerns relating to its safety and effectiveness, the effectiveness of alternative methods of reduction in COPD, the lack of long term follow up data and incorrect diagnoses. There can be no assurance that long term follow up data will not reveal errors of diagnoses that may have a material adverse effect on the acceptance of the Company's products.

Any future reported adverse events or other unfavourable publicity involving consumer outcomes from the Company's products could also adversely affect whether it is accepted by the market. The failure of the Company's products to achieve or maintain broad market acceptance would have a material adverse effect on the Company's business, financial condition, profit results and results of operations.

The Company's ability to operate profitably will depend, amongst other things, on its ability to increase demand for its products. Accordingly, the future profitability of the Company is uncertain, and may vary significantly over time.

5.2.13 No Strategic Alliance Partner and Possible Termination of Future Strategic Alliance and/or Distribution Network

The Company sees the effective distribution of its products in the US and European markets as important to its prospects. The Company does not expect any technological advantage by being first to develop and introduce to the market its products (should it be so) to last indefinitely.

The Company aims to penetrate the medical technology market for its products through use of key strategic alliances and/or a distribution network as a means of increasing market penetration.

The Company may not be able to identify suitable candidates with whom to enter into a strategic alliance or other arrangements, which may have a material adverse effect on its business, financial condition and results of operations.

5.2.14 International Markets

There are certain risks inherent in the Company's proposed international operations, such as unexpected changes in regulatory requirements (including taxation), tariffs, customs, duties and other trade barriers, longer payment cycles, problems in collecting amounts receivable, political instability, war and other political risks.

Any fluctuations in currency exchange rates, foreign exchange controls that restrict or prohibit repatriation of funds, technology export and import restrictions or prohibitions, seasonal reduction in

business and potentially adverse tax consequences, could adversely impact on the success of the Company's proposed international operations.

Companies doing business in foreign countries may be required to obtain operating licences in new and uncertain legal environments. Such licences could prove to be difficult to obtain and retain, depending on government policies, customers, changes in political leadership and other factors.

Failure or inability to comply with foreign regulations or obtain the necessary authorisations to operate its business in the international market may constrain the ability of the Company to expand its business and accordingly, could have material adverse effects on its future prospects.

5.2.15 General Economic Conditions

Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors that may contribute to that general economic climate include the level of direct and indirect competition against the Company, industrial disruption, interest rates and the rate of inflation.

5.3 Specific Risks relating to Hunter

5.3.1 Commercial viability and Uncertainty of Future Profitability

As HI-164OV is still in the pre-commercialisation stage and not yet earning material revenues, Hunter's most important task is to achieve commercialisation profitably with a significant global partner that has the scope and focus to commercialise HI-164OV.

Hunter's ability to operate profitably in the future will depend on its ability to commercialise its products with other organisations on commercial terms for onward sale to customers. This will depend on the ultimate demand for its products by consumers, which cannot be guaranteed. There is no certainty that Hunter can successfully commercialise its projects.

Other factors that will determine achievement of any future profitability of Hunter are its ability to manage its costs, execute its development and growth strategies, economic conditions in the markets in which the Company operates and proposes to operate, competitive factors and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve a sustained profitability is uncertain. Moreover, the level of such profitability cannot be predicted and may vary significantly from quarter to quarter.

5.3.2 Development of COPD vaccine

Hunter is a research and development stage company and as such there can be no guarantee that its projects will meet their technical objective or exceed the forecast costs, or achieve commercial objectives. Forward forecasts of objectives, expenditure and revenue should not be relied on.

Hunter can make no representations that any of its research and development will be successful or that Hunter will develop products that are commercially exploitable.

There are many risks inherent in the development of novel medical products, particularly where these are in an early stage of development. Projects can be delayed or fail or research may cease to be viable for a range of unexpected scientific and commercial reasons.

5.3.3 Development Risk

Hunter is in Phase IIb clinical stage development of its lead product HI-164OV. There are inherent risks involved with the ongoing development of pharmaceutical products, including failure during clinical trials due to poor safety or efficacy of the product. Should the current clinical trial demonstrate equivocal results, there is a risk that a potential partner may make a decision not to partner through to a Phase III trial, with its attendant costs and timeframes for finalisation of the study. In those circumstances, it is unlikely that Hunter would be able to successfully fund a Phase III trial without significant capital from either a capital raising or a partnership deal. Furthermore, commencement of a Phase III trial does not guarantee success, and will need to be considered in light of the commercialisation opportunities

available. Hunter does not represent that its research and development activities will lead to the development and successful commercialisation of its products.

5.3.4 Regulatory Risk

All pharmaceutical products must undergo approval by the appropriate regulatory authority in each target market prior to the sale of the product. Hunter or its partners must prove that their products are both safe and effective for use according to the claims and indications.

A key focus for the business as it proceeds through the Phase IIb trial is to develop a suitable information package that can be presented to the FDA, and conduct a new toxicology study, as Hunter seeks to have the FDA clinical hold released. This information will include a complete regulatory and production assessment as developed for this Phase IIb trial.

There can be no guarantees that large-scale clinical trials will reinforce the findings of earlier clinical trials or prove the products to be safe and effective. Unexpected delays to regulatory approval or unexpected denial of registration may occur.

5.3.5 Commercialisation Risk

Hunter intends to commercialise HI-164OV through a license agreement, partnership or outright sale to a pharmaceutical or biotechnology company. Hunter aims to penetrate the medical technology market for its products through use of key strategic alliances and/or a distribution network as a means of increasing market penetration.

Hunter believes that its long term growth and ultimate profitability will be influenced by the measure of acceptance of Hunter's products worldwide, particularly in the developed markets of the US and Europe and on its ability to penetrate the medical technology markets for diagnostic testing. It is the Company'sunderstanding that Hunter is in discussions with several multi-national organisations to ensure that it is fully informed about potential partners' requirements.

There can be no assurance that Hunter's products will be more widely accepted by the general population as an alternative to other methods of reduction in both the number and severity of exacerbations in patients with COPD.

In addition, Hunter, as a pre-commercial stage company, faces the difficulty of applying a potentially advantageous technology into a commercial business. There is no certainty that Hunter can successfully "commercialise" its intellectual property.

5.3.6 Market Risk

The novel positioning of HI-164OV as a prescribed oral preventative therapeutic vaccine for COPD means that there is a risk that the product, once commercialised, has a slow or limited adoption in the market. Hunter's ability to obtain premium pricing for HI-164OV depends on many factors such as government reimbursement policies, effectiveness of marketing campaigns and competition.

5.3.7 Competitive Risk

Whilst Hunter is not currently aware of any direct competition from a *Haemophilus influenzae* product similar to HI-164OV, there is no guarantee that a better resourced competitor will not emerge that has a more effective or more efficiently marketed product.

Hunter's current and future potential competitors include, among others, major medical technology companies, with substantially greater resources than those of Hunter or the Company. There is no assurance that competitors will not succeed in developing products that are more effective or economic than Hunter's current products or any of those being developed by Hunter or which would render Hunter's products obsolete and/or otherwise uncompetitive.

In addition, Hunter may not be able to compete successfully against the current or future competitors where aggressive pricing policies are employed to capture market share. Such competition could result in price reductions, reduced gross margins and loss of market share, any of which could materially adversely affect Hunter's future business, operating results and financial position.

5.3.8 Loss of Value of Investment

There is no guarantee that the Phase IIb clinical trial will produce statistically significant results. As this is Hunter's lead project, failure to achieve the objectives of the trial is likely to affect the attractiveness of the project to pharmaceutical companies and investors. This could have a material adverse effect on the likely price or success of future capital raisings by the Company. It is possible that investors may lose part or all of the value of their investment.

5.3.9 Product liability

Hunter's business activities could result in claims against Hunter including product liability claims from manufacturing, marketing and use of Hunter's products. Hunter will seek to maintain adequate product liability insurance and take other measures to avoid or minimise legal risk.

However, adequate insurance coverage may not be available and any product liability claim could be substantial. In addition, there can be no assurance that adequate or necessary insurance coverage will be available at an acceptable cost or in sufficient amounts. In the event of a product liability claim, insufficient insurance coverage could have a material adverse affect on the Company's financial condition and value. There is also a risk of damage to the Company's reputation and image.

5.3.10Litigation

Hunter may face litigation due to claims for various reasons such as personal injury or infringement of intellectual property. In addition, as Hunter is conducting clinical trials it is possible it may face claims from patients in trials or from institutions conducting trials. Hunter has taken out clinical trial insurance for the Phase IIb trial of HI-164OV. Where possible, and if available at reasonable cost, Hunter takes out other appropriate insurance.

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company. For further details, see **Section 10.18**.

6 BOARD, MANAGEMENT AND CORPORATE GOVERNANCE

6.1 Proposed Board

On completion of the Hunter Acquisition and prior to Re-admission, Messrs Ian Mutton, David Radford, Jeremy Curnock Cook, Douglas Wilson, Glenn Crisp and William Harrison will become Directors of the merged company and Patrick Ford will remain as a non executive Director. It is believed that the above persons, and Patrick Ford, will bring relevance, experience and skills including experience if the successful development and management of bio-technology businesses, as well as financial management and corporate governance.

As at the date of this Prospectus, Messrs Patrick Ford, Simon O'Loughlin and Simon Taylor are Directors. Both Messrs O'Loughlin and Taylor propose to resign from that office and such resignation will be conditional and take effect upon completion of the Hunter Acquisition and the Public Offer.

The following summarises the structure of the Board as at the date of this Prospectus and on completion of the Hunter Acquisition and the Public Offer.

Current Directors	Proposed Board of merged company
Patrick Ford (Non-Executive Chairman)	Ian Mutton (Non-Executive Chairman)
Simon O'Loughlin (Non-Executive Director)	David Radford (Managing Director)
Simon Taylor (Non-Executive Director)	Jeremy Curnock Cook (Non-Executive Director)
	Doug Wilson (Non-Executive Director)
	Glenn Crisp (Non-Executive Director)
	William Harrison (Non-Executive Director)
	Patrick Ford (Non-Executive Director)

6.2 Directors and Proposed Directors

6.2.1 Existing Directors

Patrick Ford, B.Comm (Non-Executive Chairman)

Mr Ford was appointed to the Board on 17 May 2005 and as Chairman on 24 July 2008.

Mr Ford is a member of the Audit Committee and is also a member of the Remuneration Committee of the Board.

Mr Ford is a Sydney based stockbroker with Veritas Securities Limited and also provides corporate advisory services through his private company Diskdew Pty Ltd. He has an extensive history of capital raising and supplying advice to the Australian Biotechnology sector. He holds a Bachelor of Commerce degree from the University of Canberra.

Simon O'Loughlin (Non-Executive Director)

Mr O'Loughlin is a solicitor and a founding member of Adelaide based medium sized specialist commercial law firm O'Loughlin Lawyers.

Mr O'Loughlin is the chairman of the Audit Committee and the Remuneration Committee.

Mr O'Loughlin has had extensive board experience. He is currently the Chairman of Bondi Mining Ltd, Avenue Resources Ltd and Kibaran Nickel Ltd and a non-executive director of WCP Resources Ltd, Chesser Resources Ltd, Aura Energy Ltd, Petratherm Ltd and Strezlecki Metals Ltd.

Simon Taylor (Non-Executive Director)

Mr Taylor is a geologist with 18 years experience throughout Australia having held management positions for numerous ASX-listed resource companies. He has gained considerable experience in exploration, project assessment and joint venture negotiations. He has significant board experience as a founding

director of ASX-listed Chesser Resources Ltd, and as managing director of Aguia Resources Limited. Mr Taylor's corporate experience includes project appraisal, advice on placements and fundraising. Mr Taylor is a member of the Australian Institute of Geosciences.

Mr Taylor is a member of the Audit Committee and the Remuneration Committee.

6.2.2 Proposed Directors

Ian Mutton, LLB (Non-Executive Chairman of Hunter)

Ian is a non-practicing lawyer with an extensive background in competition and product liability laws. He now assists firms to define their ethics so as to ensure alignment with the laws that govern their operations. He also assists with the development and implementation of programs aimed at ensuring compliance with the competition laws. He spent 10 years with the Commonwealth Crown Solicitor on continuous secondment to the (then) Trade Practices Commission with occasional secondment to an inter-department committee responsible for containing product liability exposure. Ian also spent fifteen years with CSR Limited devising and implementing product liability defence and asset protection strategies in Australia, New Zealand and the US. He Ian currently sits on a number of boards of emerging listed and unlisted Australian and UK companies engaged in the energy, recycling, minerals, finance, technology and resource exploration sectors in Australia, Chile and China..

Mr David Radford, BSc (Hons), Masters of Business Administration (Managing Director of Hunter)

David has executive responsibility for the overall leadership of the business of the Hunter Group and the implementation of its strategic plans, specifically to build strategic partnerships and exploit opportunities in product innovation and business development. He is also currently responsible for Hunter's investor relations. David has over 20 years international business experience in the medical device and healthcare industries. He has held senior positions within GE Healthcare, Brambles Australia and Cobe Laboratories. More recently David was the Chief Executive Officer of Nanosonics Limited (ASX:NAN).

David has skills in marketing, business strategy, change management, organisational structure and has been involved in the successful global roll-out of new products and services. David is qualified with a BSc Honours degree in Applied Biological Sciences from Bristol Polytechnic (UK), specialising in microbiology, and an Executive Masters of Business Administration degree from the Australian Graduate School of Management.

Upon and conditional upon the completion of the Hunter Acquisition and the Re-admission of Probiomics, David will assume the role of Chief Executive Officer and Managing Director of the Merged Group.

Jeremy Curnock Cook, BA (Hons), MA (Non-Executive Director of Hunter)

Jeremy is managing director of the IB Australian Bioscience Fund and chairman of its Investment Committee. He established the Rothschild Bioscience Unit (UK) and was responsible for its life science funds including Biotechnology Investments Limited and the International Biotechnology Trust plc, which by the year 2000 together had more than $1 billion in net asset value. Jeremy was also responsible for Rothschild establishing Australia's first dedicated biotechnology fund (now GBS Ventures). Most recently Jeremy founded and was executive chairman of Bioscience Managers Limited, a corporate and investment advisory firm based in the UK. Jeremy's previous directorships include AMRAD Corporation, Cantab Pharmaceuticals, Inflazyme Pharmaceuticals, GlycoDesign Therapeutics, Sirna Therapeutics, Sugen, Targeted Genetics and Vernalis.

Glenn Crisp, B. Comm, LLB (Non-Executive Director of Hunter)

Glenn founded Crisp Legal in 1995 as a specialist property construction and development law firm in order to provide clients with an alternative to the legal services then being offered in the Sydney market. Glenn has 22 years experience in legal services. His experience covers the assessment of opportunities/risks of development proposals, the negotiating of large scale engineering and construction projects including project participants and alternatives for the raising of equity and debt finance. Glenn regularly lectures to, and conducts workshops for, clients, industry groups and professional associations in

particular on project administration/management, compliance and risks issues and director's duties. Glenn chairs the audit and remuneration committees of Hunter.

William Harrison, FRCP, FRCAP, FAFRM (Non-Executive Director of Hunter)

William Harrison is an Australian citizen who qualified in medicine in the US and received his FRCP Glasgow after training in the UK. He did his subspecialty training in Rheumatology and Rehabilitation in Perth, Western Australia receiving both the FRACP and FAFRM. William was formally a Consultant Physician at Royal Perth Hospital. He has spent over 20 years in the pharma industry holding executive positions in both Clinical Development and Business Development for Novartis Pharma AG. He is a Graduate of the Australian Institute of Company Directors and served on the board of the Swiss biotech, ESBATech, from 2003-2006. ESBAtech was subsequently acquired by Alcon in 2009. He is currently Head of Business Development Operations for the Novartis Pharma Region Asia, Middle East, and Africa and resides in Basel Switzerland.

Dr Doug Wilson, MB, ChB, PhD, FRACP, FRCPA (Non-Executive Director of Hunter)

Dr Doug Wilson has been a clinical immunologist and has trained in New Zealand, the UK, and at the Walter and Eliza Hall Institute Melbourne with Sir Gustav Nossal, and was also Associate Professor of Medicine at the Auckland Medical School. In 1987, he joined the international pharmaceutical industry by becoming Senior Vice President and head of Medicine and Regulatory Affairs for a major drug company, Boehringer Ingelheim, in the USA. In that role, Doug was responsible for all the clinical aspects of drugs in development, and for most interactions with the FDA. He then took over those functions for the company globally, whilst being based in Germany. During that time Doug was either part of or led teams which saw over 10 drugs approved by FDA in the USA and many others worldwide. He was Chairman of the Boehringer Ingelheim's International Medical Committee, and of the International Labelling Committee and part of the group overseeing all drugs in development supervising teams in the USA and Germany. During that time, Doug participated in the development of over 80 drugs in many different jurisdictions. Boehringer Ingelheim has been very active in the treatment of COPD for over 30 years. Since returning to New Zealand in 2002 he has been consulting for a number of biotech companies and is also non-executive Chairman of Phylogica Limited, an ASX listed company.

6.3 Senior Management

It is proposed that the merged company will have an experienced team of directors and executives leading the business. A summary of the experience and capabilities of the senior executive team are provided below:

Mr David Radford, BSc (Hons) (Managing Director)

See above **Section 6.2.2**.

Mr Ashok Kumar Jairath, FCPA (Chief Financial Officer)

Mr Jairath has been Company Secretary of the Company since July 2007. He is a Fellow of CPA Australia.

Mr Jairath has over 30 years experience in senior finance positions in multinational financial institutions, exploration and biotechnology companies and as a business consultant in startups and turnaround stages.

Dr Margaret Dunkley (Chief Scientific Officer/Research & Development Director)

Dr Dunkley has worked for many years in medical research and product development and in particular on the development of vaccines and other immunotherapeutic products for targeting bacterial, viral and fungal infections at the mucosal surfaces of the gastro-intestinal, respiratory and reproductive tracts. She is an inventor of patents for these therapeutics. Dr Dunkley has managed a number of therapeutic product development projects for biotech companies involving pre-clinical and clinical studies, Good Manufacturing Ppractice manufacturing and Good laboratory Practice testing. She currently runs the Hunter R&D Unit at the University of Newcastle, NSW, where she is a conjoint Professor in the Faculty of

Health. Dr Dunkley holds the following degrees: BSc (Hons),MSc (Melbourne University), PhD (University of Newcastle) and MBA (APESMA/Chifley Business School/La Trobe University).

Dr Dunkley is currently a consultant to Hunter whose services are procured by TUNRA under the terms of the agreement as set out in **Section 10.8.3**.

6.4 Medical Advisory Board

Hunter has in place a distinguished Medical Advisory Board comprising:

Dr. John Bienenstock	Dr. John Bienenstock is internationally known as a physician and mucosal immunologist. He holds the title of Distinguished University Professor at McMaster University, an Honorary MD (Goteborg, Sweden), is a Fellow of the Royal Society of Canada and a Member of the Order of Canada. He is the Founding Director of the McMaster Brain-Body Institute at St. Joseph's Healthcare Hamilton, a former Chair of Pathology and subsequently Dean and Vice-President of the Faculty of Health Sciences, McMaster University. His areas of interest are: immunophysiology; mucosal immunology and its alteration in a variety of disease models; mast cell biology; the role of neuroimmune interactions in allergy and inflammation; the reciprocal communication between the nervous system and immune systems; mechanisms of action of commensal bacteria on the nervous system and behaviour and in various models of inflammation.
Professor Peter M A Calverley	Peter Calverley is Professor of Medicine (Pulmonary and Rehabilitation Medicine), University of Liverpool, UK; and Honorary Consultant Respiratory Physician, Aintree Hospitals, Liverpool. He is also a member of the GOLD steering committee. Prof. Calverley has always had a strong interest in respiratory physiology, including in recent years a focus on the mechanisms of exercise limitation in COPD as well as the design conduct and interpretation of large scale therapeutic clinical trials in COPD which has allowed him to develop a significant part of the evidence base now used in the management of stable and unstable disease. More recently his team has begun to develop a focus on respiratory infection in COPD, involving extensive collaboration with colleagues in Manchester, London, Edinburgh and Cambridge as well as centres in the US, Canada and Australia. He has coordinated many of the major therapeutic trials in COPD and has become one of the leading world opinion leaders in chronic airways disease. He is widely published in respiratory disease and has a substantial record of grant support.
Professor Christine Jenkins	Christine Jenkins is Clinical Professor of Medicine, Sydney University and Senior Staff Specialist in Thoracic Medicine at Concord Hospital, Sydney. She has a strong clinical and research interest in the management of Asthma and COPD and is head of the Airways Group at the Woolcock Institute of Medical Research, Sydney. Professor Jenkins chairs its Education program and that of the Co-operative Research Centre for Asthma and Airways and is actively involved in research translation to primary care and allied health professionals. She is a member of the GOLD Executive and Chaired the Dissemination and Implementation task group of GOLD. Christine was President of the Thoracic Society of Australia and New Zealand 2007 – 2009 and has participated in the formulation of Australian Asthma and COPD clinical guidelines. Christine was awarded an AM for services to respiratory medicine, as a physician, administrator and educator, particularly in the field of asthma education.

Professor Dennis E. Niewoehner, MD	Dennis E. Niewoehner, MD, is Chief of the Pulmonary Section at the Veterans Affairs Medical Center in Minneapolis, Minnesota, and a Professor in the Department of Medicine at the University of Minnesota. Dr. Niewoehner is a Diplomate of the American Board of Internal Medicine with a subspecialty in pulmonary disease and has previously served on numerous scientific advisory committees. Dr. Niewoehner has a longstanding interest in COPD and has published widely in the medical literature including American Journal of Respiratory and Critical Care Medicine, Annals of Internal Medicine, Chest, Archives of Internal Medicine, Science, and New England Journal of Medicine. He has also written many book chapters, reviews, editorials, and commentaries.

6.5 Corporate Governance

The Board is responsible for the corporate governance of the Company. The Board guides and monitors the business affairs of the Company on behalf of the Shareholders by whom they are elected and to whom they are accountable.

The Board is also responsible for the overall corporate governance of the Company and recognises the need for the highest standards of behaviour and accountability in acting in the best interests of the Company as a whole.

The following documents, policies and procedures have been adopted and are available in full on the Company website at www.probiomics.com.au:

- Constitution
- Disclosure Policy
- Risk Management and Oversight Statements and Policies
- Securities Trading Policy
- Audit Committee Charter

In accordance with recommendations of the ASX, information published on the Company website includes the policies and procedures relating to the Board, its subcommittees and their relevant responsibilities.

To the extent that they are relevant, the Company has adopted the best practice recommendations established by ASX Corporate Governance Council. The Board considers and applies these recommendations to the extent there is sound reason to do so given the circumstances of the Company.

Principle 1: Lay solid foundation for management and oversight

While the Company has formal policies and procedures that are disseminated to all employees, consultants and Directors, it does not have a formal statement of matters that are delegated to management specifically. The Board of Directors is of the opinion that in a company of its current size, with no current employees, such a statement would be inappropriate. Also the distinction between the Board and management is not sufficient to warrant a formal statement of the segregation of duties. However, the guiding principles for the role and the conduct of the Board are set out in **Section 8** of the Company's constitution. In addition, when the Directors are appointed, the Company Secretary, in his welcoming letter reminds them, and provides a copy to them, of the Company's disclosure and share trading policies as well ASX disclosure requirements. The Constitution is available under the tab "Corporate Governance" in the Investor Section of the Company's website.

The performance of senior executives will be reviewed regularly against performance indicators determined by the Board.

Principle 2: Structure the board to add value

Structure of the Board

The skills, experience and expertise relevant to the position of Director and the Proposed Directors are set out in **Section 6.2.1** and **Section 6.2.2**. Directors are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment.

In the context of director independence "materiality" is considered from both the Company and the individual Director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above and the materiality thresholds set, and subject to the disclosure in **Section 10.9.6** and **Section 10.9.7**, each of the Current Directors are considered to be independent.

Name	Position
Patrick Ford	Non-executive Chairman (appointed 17 May 2005 and Chairman 24 July 2008)
Simon O'Loughlin	Non-executive Director (appointed 31 July 2008)
Simon Taylor	Non-executive Director (appointed 25 July 2008)

In addition, each of the Proposed Directors (including the proposed chairman of the Company) and Patrick Ford, other than David Radford, will also be considered to be independent of the merged company, in accordance with the Corporate Governance Principles and Recommendations of ASX. David Radford is not considered to be independent of the Company for the reasons set out in **Section 10.9.6**.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

Section 6.2.2 in relation to the Proposed Directors, and **Section 6.2.1** in relation to Patrick Ford, sets out the details of the mix of skills and diversity that the Board believes is appropriate.

Board Committees

The Board has two committees, namely:

- Audit and Risk Management Committee
- Remuneration Committee

The Company does not have a separate nomination committee. All nominations for appointment as a Director are considered by the whole Board.

Evaluation of Board Committees or Directors

The Company does not have a formal annual assessment of the performance of the Board, Committees and the Directors.

However a continuous informal evaluation is undertaken as an on going process to ensure adherence of the Company's various Corporate Governance Policies.

Conflict of Interests

Entities connected with Patrick Ford and Simon O'Loughlin have had business dealings with the Company.

Specific details of:

- David Radford's (the proposed Managing Director of the Merged Group after Re-admission) are set out in **Section 10.9.6**;
- Patrick Ford's personal interests, which are not considered to be material, are set out in **Section 10.9.7**; and
- Simon O'Loughlin's personal interests, which are not considered to be material, are set out in **Section 10.9.7** and **Section 10.13**. Mr O'Loughlin is a partner in an Adelaide law firm that has provided legal services to the Company within the last 3 years. However, given the nature of these services, Mr O'Loughlin is not considered to be a material professional adviser or material consultant to the Company.

Principle 3: Promoting Ethical and Responsible Decision Making

The Company has a written code of conduct that has been disseminated to all employees and Directors. However at present it has not been released publicly.

The Company's share trading policy for Directors and employees has been posted on the Company's web site and remains current.

Due to the limited scale and resources of the Company, it does not have a diversity policy and has not set any measureable objectives in relation to achieving gender diversity. The Company currently has no female employees or female Board members.

Principle 4: Safeguarding the Integrity of Financial Reporting

Audit and Risk Management Committee

The Board has an established audit committee. The committee has a formal audit charter approved by the Board. The charter is available under the tab "Corporate Governance" in the Investor Section of the Company's website.

It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit and Risk Management Committee.

The Audit and Risk Management Committee reviews the efficiency and effectiveness of the external auditors on a regular basis and determines from those reviews whether the external auditors should be retained. The Company requires that the external auditors rotate their audit engagement partners every five years.

The Audit and Risk Management Committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The current members of the Audit and Risk Management Committee are Simon O'Loughlin Chairman, Simon Taylor and Patrick Ford.

It is contemplated that various of the Proposed Directors will join the Audit and Risk Management Committee.

Principle 5: Timely Disclosure of Material Matters

The Company has a continuous disclosure policy, which is available under the "Corporate Governance" tab in the Investor Section of the Company's website. This policy has been developed by the Board to facilitate compliance with its obligations under the Listing Rules as well to ensure accurate disclosure to the Shareholders and the broader investment markets.

Principle 6: Respect the Rights of the Shareholders

The Company recognises the importance of effective communication with its Shareholders. The Company does not have a formal strategy to promote effective communications with Shareholders as the date of this Prospectus because all material matters affecting the Company that are market sensitive are released through the ASX which makes them available publicly to all Shareholders. Matters that are not necessarily market sensitive but of interest to Shareholders are released by way of regular Shareholders' update letters.

Participation at Shareholders' meetings is encouraged but at present the Company does not have a formal strategy for this.

Principle 7: Recognition and Management of Risk

The Company's Audit and Risk Management Committee also acts as the committee that manages the Company's risk so the members are the same as detailed above.

Due to the relatively simple structure of the Company and its current operations, a simplified version of the Risk Oversight and Management Policy has been adopted. The policy is available under the **"Corporate Governance"** tab in the Investor Section of the Company's website.

Principal 8: Encourage Performance

Currently, the Company does not have any employees. The recently resigned Chief Executive Officer and the current Chief Financial Officer/Company Secretary were and is (respectively) engaged on a consulting basis and were and is evaluated by the Board on an ongoing basis. Should the need arise, the Chairman and/or board members would discuss performance related issues with the individual.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives, and
- attraction of quality management to the Company.

The Board has established a Remuneration Committee, comprising the three Directors.

The Remuneration Committee does not have a formal charter as there are currently no employees to consider in the context of remuneration and accordingly such a formality is not considered an efficient use of the Directors' time.

7 FINANCIAL INFORMATION

7.1 Pro-Forma Statement of Financial Position

The pro-forma statement of financial position reflects the anticipated financial position of the Company assuming a successful completion of the issue of Shares (and attaching Options) proposed by this Prospectus and completion of the other transactions contemplated by the Prospectus.

The financial position of the Company at 30 June 2010 and the pro-forma financial position are as follows:

	Note	Probiomics Audited 30-Jun-11 $	Hunter Audited 30-Jun-11 $	Subsequent Events $	Pro-forma Adjustments $	Unaudited Pro-forma 30-Jun-11 $
Current assets						
Cash and cash equivalents	4	111,628	705,692	2,482,680	3,171,200	6,471,200
Current tax receivable	5	-	909,534	(909,534)	-	-
Trade and other receivables	6	106,480	131,077	-	-	237,557
Total current assets		**218,108**	**1,746,303**	**1,573,146**	**3,171,200**	**6,708,757**
Non current assets						
Deposits	8	-	200,000	-	-	200,000
Intangible Assets	9	-	-	-	2,952,794	2,952,794
Plant property and equipment		2,625	-	-	-	2,625
Total non current assets		**2,625**	**200,000**	**-**	**2,952,794**	**3,155,419**
Total assets		**220,733**	**1,946,303**	**1,573,146**	**6,123,994**	**9,864,176**
Current liabilities						
Trade and other payables	10	96,390	796,357	-	-	892,747
Total current liabilities		**96,390**	**796,357**	**-**	**-**	**892,747**
Non Current liabilities						
Interest bearing liabilities	11	-	4,581,444	3,000,000	(7,581,444)	-
Deferred tax liability	12	-	260,751	-	(260,751)	-
Total non current liabilities		-	4,842,195	3,000,000	(7,842,195)	-
Total liabilities		**96,390**	**5,638,552**	**3,000,000**	**(7,842,195)**	**892,747**
Net assets		**124,343**	**(3,692,249)**	**(1,426,854)**	**13,966,189**	**8,971,429**
Equity						
Issued capital	0	27,761,399	16,767,001	921,029	(10,354,505)	35,094,924
Option reserve	14	289,212	654,146	-	(234,212)	709,146
Accumulated losses	15	(27,926,268)	(21,113,396)	(2,347,883)	24,554,906	(26,832,641)
Total equity		**124,343**	**(3,692,249)**	**(1,426,854)**	**13,966,189**	**8,971,429**

The Pro-forma Statement of Financial Position represents the Audited Statement of Financial Position as at 30 June 2011 adjusted for the events outlined in the Investigating Accountant's Report (**IAR**) as set out in full in **Section 8**, and the pro-forma transactions outlined in the IAR relating to the Takeover Bid and the issue of Public Offer Shares and Public Offer Options pursuant to this Prospectus.

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8 INVESTIGATING ACCOUNTANT'S REPORT

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AJG/MJA

8 December 2011

The Directors
Probiomics Limited
Suite 1A, Level 2
802 Pacific Highway
GORDON NSW 2072

Dear Sirs

Investigating Accountant's Report ("Report")

1. Introduction

1.1 This Report has been prepared at the request of the Directors of Probiomics Limited ("Probiomics" or "Company") for inclusion in a Prospectus to be dated on or about January 2012 relating to the proposed acquisition of all shares in Hunter Immunology Limited ("Hunter") and the offer of up to a maximum of 400,0000,000 fully paid ordinary shares at an issue price of $0.011 per share, together with 1 attaching listed option for every 3 shares issued, exercisable at $0.0165 per option on or before 31 March 2013, in the Company, to raise approximately $4.4 million.

1.2 The minimum offer under the Prospectus is 200,000,000 ordinary shares in the Company to raise approximately $2.2 million, together with 1 attaching listed option for every 3 shares issued exercisable at $0.0165 per option, on or before 31 March 2013.

1.3 This Report has been prepared in accordance with the general disclosure requirements of the Corporations Act 2001 to assist investors to make an informed assessment of the financial position and performance of Probiomics.

1.4 The future prospects of Probiomics, other than the preparation of a Pro-forma Unaudited Statement of Financial Position of Probiomics and its subsidiaries ("Probiomics Group" or "Group"), assuming completion of transactions summarised in Sections 5 and 6 of this Report, are not addressed in this Report. This Report also does not address the rights attaching to the shares or options to be issued pursuant to this Prospectus, nor the risks associated with the investment.

2. Background

2.1 Probiomics (Formerly VRI Biomedical) was incorporated in 1997 and listed on the Australian Stock Exchange in December 2000 to fund the research and development of a portfolio of projects in mucosal immunology.

2.2 In November 2002 the Company concluded its first successful commercialisation agreement, with US based Pharmanex, a subsidiary of a multi-level marketing company NuSkin Enterprises. ProBioPCC™, a probiotic-based dietary supplement which contains the Company's proprietary strain of Lactobacillus fermentum, is sold by Pharmanex through its network of distributors in North America and many Asian countries.

2.3 In late 2003 the Company resolved to focus primarily on the commercialisation and further development of its probiotic technology, in particular its patent protected strain of Lactobacillus fermentum.

2.4 In April 2005 the Board determined to change the name of the Company to "Probiomics Ltd" to reflect the primary focus on probiotics and associated molecules.

2.5 The Company achieved its maiden net profit in the financial year ended 30 June 2010 and shareholders were advised at the Annual General Meeting in November 2010 that the Company's strategy will be to actively review new transactions. The Company's net assets as at 30 June 2010 were approximately $123,000.

2.6 Consistent with this strategy the Company announced on 11 October 2011 that it was seeking to acquire Hunter Immunology Limited. Hunter is focused on the development of an orally administered vaccine to reduce the number and severity of exacerbations in patients with Chronic Obstructive Pulmonary Disease (COPD).

2.7 The merger is proposed to be effected by means of the Company making a takeover offer for all Hunter shares on the basis of the Company offering all Hunter Shareholders 9 ordinary shares in Probiomics for each Hunter share that a Hunter shareholder holds on the Takeover Record Date ("Takeover Bid").

2.8 The Takeover Bid is subject to a number of Bid Conditions, the most significant of which include:-

- the Company receiving acceptances in respect of no less than 90% (by number) of all Hunter shares, Hunter Tranche 1 Convertible Note interests and the Hunter share options;
- cancellation, transfer or exercise of the Hunter Tranche 2 Convertible Notes to Probiomics;
- the passage of all Essential Resolutions (see paragraph 2.9 below) at the Meeting;
- subscription for the Minimum Subscription under this public offer; and
- ASX confirming that it will grant the admission, subject to the satisfaction of such conditions (if any) prescribed by the listing rules.

2.9 In light of the proposed Takeover Bid the Company will be convening an Extraordinary General Meeting on 5 January 2012 to seek the approval of the Company's shareholders of a number of resolutions. The

Essential Resolutions that will be considered and voted upon by the Shareholders at the Meeting relate to:-

- the change of scale of the Company's activities as a result of the Takeover Bid;
- the issue of up to 400 million Public Offer Shares and up to 133,333,333 Public Offer pursuant to the Public Offer;
- the consolidation of the shares in the ratio of 20 to 1 and the adjustment of the terms and conditions of any options prior to re-admission; and
- the appointment of David Radford as a Director and Chief Executive Officer of the Company.

2.10 The passing of each of the Essential Resolutions in accordance with their respective terms at the Meeting is both:-

- a Bid Condition – in other words, if it is not satisfied, the Company may elect to withdraw the Takeover Bid; and
- a condition for the Public Offer.

2.11 The funds raised through the public offer combined with the funds held by Probiomics and Hunter will enable the merged company after the completion of the Hunter acquisition to:-

- complete a phase IIb clinical trial on Hunter lead product HI-164OV on 320 patients with moderate to severe COPD;
- complete a commercial arrangement with a pharmaceutical or biotechnology for the further development and commercialisation of HI-164OV;
- conduct additional research and development as required;
- pay for the costs associated with the Hunter acquisition and the public offer; and
- provide working capital for the Company in the development of new sources of revenue.

3. Scope of Examination

3.1 You have requested RSM Bird Cameron Corporate Pty Ltd to prepare an Investigating Accountant's Report for inclusion in the Prospectus covering the following information:

- the Audited Statement of Comprehensive Income of Probiomics for the year ended 30 June 2011;
- the Audited Consolidated Statement of Comprehensive Income of Hunter for the year ended 30 June 2011;
- the Pro-Forma Unaudited Consolidated Statement of Comprehensive Income of Probiomics for the year ended 30 June 2011 prepared as if Probiomics and Hunter had been operating throughout the period as one consolidated group;

- the Audited Statement of Financial Position of Probiomics as at 30 June 2011;
- the Audited Consolidated Statement of Financial Position of Hunter as at 30 June 2011;
- the Pro-forma Unaudited Consolidated Statement of Financial Position of the Probiomics Group as at 30 June 2011, assuming completion of the transactions summarised in Sections 5 and 6 of this Report; and
- the relevant notes to this Financial Information.

3.2 The Financial Information has been prepared and presented in accordance with the accounting policies set out in Note 1 to the Financial Information.

3.3 Our review of the Historical Financial Information has been conducted in accordance with Australian Auditing Standards applicable to review engagements. We made such enquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:-

- an analytical review of all the financial information presented, including a review of the reasonableness of the adjustments used to compile the Unaudited Consolidated Pro-forma Statement of Financial Position as at 30 June 2011;
- a comparison of consistency in the application of the recognition and measurement principles in Australian Accounting Standards (including Australian Accounting Interpretations) and the accounting policies adopted by the Company and disclosed in Note 1 of the Appendix to this Report;
- inspection of financial records; and
- enquiries of directors and management.

4. Responsibility

4.1 The Directors are responsible for the preparation of the Historical and Pro-forma Financial Information.

4.2 It is our responsibility to review the Historical and Pro-forma Financial Information and Report thereon. We disclaim any responsibility for any reliance on this Report or the financial information to which it relates for any other purpose other than for which it is prepared. This Report should be read in conjunction with the rest of the Prospectus.

5. Subsequent Events

5.1 On 3 November 2011 the Company issued 33,333,334 at an issue price of $0.006 each to raise $200,000 to be used to part fund the transaction costs associated with the proposed acquisition of Hunter;

5.2 On 3 October 2011 Hunter formally approved an issue of 3,835,262 shares and 1,917,631 free attaching options which raised $767,052 before costs and $721,029 after capital raising costs;

5.3 On 1 November 2011 Hunter received from the Australian Taxation Office (“ATO”) $909,534 as settlement of the current tax receivable balance set out in Hunter’s statement of financial position as at 30 June 2011;

5.4 Subsequent to 30 June 2011 and pre the date of this Report, Hunter has raised an additional $3,000,000 pre capital raising costs and $2,861,000 post costs through the issue of $3,000,000 of Hunter Tranche 2 Convertible Notes. These funds were received by the company in four tranches as follows, $200,000 on 1 November 2011, $50,000 on 3 November 2011, $2,250,000 million on 30 November 2011 with the remaining $500,000 being received by on 7 December 2011. Total costs associated with the raising were $139,000, which comprised of $64,000 of legal costs and a 6% capital raising fee levied on the first $1.25 million of the capital raised totalling $75,000 payable to Hunter's financial advisers.

5.5 Cash out flows of Hunter of $2,208,883 between 1 July 2011 and the date of this Report to fund the Clinical Phase IIb trials and administration and corporate costs during this period.

5.6 Apart from the matters dealt with in this Report, having regard to the scope of our work, to the best of our knowledge and belief, no material transactions or events outside the ordinary business of the Company have come to our attention that are not otherwise disclosed in this Prospectus, which require further comment upon, or adjustment to the information referred to in this Report, or which would cause the information in this Report to be misleading.

6. Assumptions adopted in compiling the Pro-forma Statement of Financial Position

6.1 The Pro-forma Statement of Financial Position of the Probiomics' Group has been included for illustrative purposes only. The Pro-forma Statement of Financial Position as at 30 June 2011 has been prepared by adjusting the Audited Statement of Financial Position for the subsequent events noted in Section 5 above and, to reflect the financial effects of the following transactions as if they had occurred at 30 June 2011:

6.1.1 The issue of 5,493,242 Hunter ordinary fully paid shares in consideration for payment of accrued interest on Hunter Tranche 1 & 2 Convertible Notes, assuming additional interest ($55,789) until and completion of the pro-forma transactions occurs on 31 January 2012;

6.1.2 The issue of 50,505,051 ordinary Hunter shares upon conversion of the Hunter Tranche 1 Convertible Notes;

6.1.3 The issue of 14,057,821 Hunter ordinary fully paid shares as part of the remuneration package of the Managing Director of Hunter, valued at $1,265,204;

6.1.4 The issue of 5,000,000 options over ordinary shares in Hunter to Hunter's financial advisor as payment for professional services rendered;

6.1.5 The issue of 60,000,000 Hunter ordinary fully paid shares upon conversion of the Hunter Tranche 2 Convertible Notes referenced above;

6.1.6 The issue of 2,656,928,206 Probiomics ordinary fully paid shares and 150,329,079 Probiomics options to acquire 100% of the fully paid ordinary shares and options in Hunter;

6.1.7 The issue of a maximum 400,000,000 Probiomics fully paid ordinary shares at $0.011 each to raise $4,400,000 capital, together with 1 attaching option for every 3 fully paid ordinary shares issued exercisable at $0.0165 on or before 31 March 2013, pursuant to this Prospectus;

6.1.8 The issue of 20,000,000 Probiomics share options to the Directors exercisable at $0.02 on or before 31 March 2013;

6.1.9 Total costs associated with the Capital Raising and the acquisition of Hunter is estimated to be $1,288,800 assuming the maximum capital raising. It is estimated that $432,650 of these costs relate to the acquisition of Hunter, and as such these costs have been recognised as an expense in Probiomics income statement. The remaining $796,150 of costs relate to the Capital Raising and these costs have been netted against share capital raised in the pro-forma statement of financial position; and

6.1.10 The consolidation of Probiomics' ordinary shares and options on a ration of 20:1 after reflecting the above issue of fully paid ordinary shares and options.

7. Review Statement on Unaudited Historical Financial Information

7.1 Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial information set out in the Appendix to this Report does not present fairly:

- the Audited Statement of Comprehensive Income of Probiomics for the year ended 30 June 2011;
- the Audited Consolidated Statement of Comprehensive Income of Hunter as at 30 June 2011 for the year ended 30 June 2011;
- the Pro-Forma Unaudited Consolidated Statement of Comprehensive Income of Probiomics for the year ended 30 June 2011 prepared as if Probiomics and Hunter had been operating throughout the period as one consolidated group;
- the Audited Statement of Financial Position of Probiomics as at 30 June 2011;
- the Audited Consolidated Statement of Financial Position of Hunter as at 30 June 2011; and
- the Pro-forma Unaudited Consolidated Statement of Financial Position of the Probiomics Group as at 30 June 2011, assuming completion of the transactions summarised in Sections 5 and 6 of this Report.

8. Declaration

8.1. RSM Bird Cameron Corporate Pty Ltd is a licensed investment adviser under the Corporations Act 2001 and is beneficially owned by the directors of RSM Bird Cameron, a large national firm of chartered accountants.

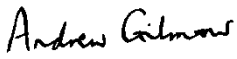
8.2. Mr A J Gilmour CA is a director and representative of RSM Bird Cameron Corporate Pty Ltd and a director of RSM Bird Cameron. He has professional qualifications and experience appropriate to the advice offered.

8.3. RSM Bird Cameron Corporate Pty Ltd has acted as Investigating Accountant for the Company but has not been involved in the preparation of any other part of this Prospectus. Accordingly, we make no representations as to the completeness and accuracy of the information in any other part of this Prospectus. RSM Bird Cameron Corporate Pty Ltd has not made and will not make any recommendation, through the issue of this Report, to potential investors in the Company as to the merits of the investment.

8.4. RSM Bird Cameron Corporate Pty Ltd will receive a fee for the preparation of this Report based on actual hours spent on the assignment at normal professional rates. RSM Bird Cameron Partners are the auditors of the Company and will receive professional fees in relation to the statutory audit of the Company. With the exception of the above fees, neither Mr A J Gilmour, RSM Bird Cameron Corporate Pty Ltd nor RSM Bird Cameron Partners will receive any other benefits, either directly or indirectly, from the preparation of this Report and have no pecuniary or other interest which could be regarded as affecting the ability to provide an unbiased opinion in relation to the proposed transaction.

8.5. RSM Bird Cameron Corporate Pty Ltd has consented to the inclusion of this Report in the Prospectus in the form and context in which it appears. At the date of this Report, this consent has not been withdrawn.

Yours faithfully



A J GILMOUR
Director

PROBIOMICS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 1 JULY 2010 TO 30 JUNE 2011

	Note	Probiomics Audited Year ended 30-Jun-11 $	Hunter Audited Year ended 30-Jun-11 $	Unaudited Pro-forma Year ended 30-Jun-11 $
Revenue	**2**	**939,875**	**302,633**	**1,242,508**
Cost of sales		(513,473)	-	(513,473)
Gross profit		**426,402**	**302,633**	**729,035**
Other income		45,338	-	45,338
Research and development expenses		(1,612)	(2,143,882)	(2,145,494)
Business development		-	(597,239)	(597,239)
Marketing		-	(58,277)	(58,277)
Intellectual property expenses		(18,603)	-	(18,603)
Administrative and corporate expenses		(445,120)	(1,820,053)	(2,265,173)
Finance costs		(5,351)	(653,354)	(658,705)
Profit /(Loss) before income tax		**1,054**	**(4,970,172)**	**(4,969,118)**
Income tax benefit / (expense)	3	-	1,040,516	1,040,516
Profit (Loss) after tax attributable to members		**1,054**	**(3,929,656)**	**(3,928,602)**
Other Comprehensive Income		-	-	-
Net Comprehensive Profit (Loss)		**1,054**	**(3,929,656)**	**(3,928,602)**

The Statement of Comprehensive Income should be read in conjunction with the notes to the financial information.

PROBIOMICS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	Probiomics Audited 30-Jun-11 $	Hunter Audited 30-Jun-11 $	Subsequent Events $	Pro-forma Adjustments $	Unaudited Pro-forma 30-Jun-11 $
Current assets						
Cash and cash equivalents	4	111,628	705,692	2,482,680	3,171,200	6,471,200
Current tax receivable	5	-	909,534	(909,534)	-	-
Trade and other receivables	6	106,480	131,077	-	-	237,557
Total current assets		**218,108**	**1,746,303**	**1,573,146**	**3,171,200**	**6,708,757**
Non current assets						
Deposits	8	-	200,000	-	-	200,000
Intangible Assets	9	-	-	-	2,952,794	2,952,794
Plant property and equipment		2,625	-	-	-	2,625
Total non current assets		**2,625**	**200,000**	**-**	**2,952,794**	**3,155,419**
Total assets		**220,733**	**1,946,303**	**1,573,146**	**6,123,994**	**9,864,176**
Current liabilities						
Trade and other payables	10	96,390	796,357	-	-	892,747
Total current liabilities		**96,390**	**796,357**	**-**	**-**	**892,747**
Non Current liabilities						
Interest bearing liabilities	11	-	4,581,444	3,000,000	(7,581,444)	-
Deferred tax liability	12	-	260,751	-	(260,751)	-
Total non current liabilities		**-**	**4,842,195**	**3,000,000**	**(7,842,195)**	**-**
Total liabilities		**96,390**	**5,638,552**	**3,000,000**	**(7,842,195)**	**892,747**
Net assets		**124,343**	**(3,692,249)**	**(1,426,854)**	**13,966,189**	**8,971,429**
Equity						
Issued capital	13	27,761,399	16,767,001	921,029	(10,354,505)	35,094,924
Option reserve	14	289,212	654,146	-	(234,212)	709,146
Accumulated losses	15	(27,926,268)	(21,113,396)	(2,347,883)	24,554,906	(26,832,641)
Total equity		**124,343**	**(3,692,249)**	**(1,426,854)**	**13,966,189**	**8,971,429**

The Pro-forma Statement of Financial Position represents the Audited Statement of Financial Position as at 30 June 2011 adjusted for the subsequent events outlined in Section 5 of this Report and the Pro-forma transactions outlined in Section 6 relating to the issue of shares pursuant to this Prospectus and the acquisition of Hunter by Probiomics.

The Pro-Forma Statement of Financial Position has been prepared assuming the maximum Capital Raising. Were the minimum Capital Raising to be achieved the pro-forma net asset position of the Company would be $1,944,086 less than that outlined above, with this reduction being in cash and issued capital. Additional information relating to the pro-forma financial position of the Company assuming the minimum Capital Raising is set out in Notes 13 and 14 to the financial information.

The statement of Financial Position should be read in conjunction with the notes to the financial information.

1. Summary of Significant Accounting Policies

The significant accounting policies that have been adopted in the preparation of the historical and Pro-forma financial information are:

a. Basis of Preparation

The historical and Pro-forma financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of Australian Accounting Standards (including Australian Accounting Interpretations), and the *Corporations Act 2001*.

Historical cost convention

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain assets, where appropriate. Cost is based on the fair value of the consideration given in exchange for assets.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

Going concern

The financial information has been prepared on a going concern basis. The Company's ability to continue as a going concern is contingent upon receipt of ongoing orders from a key customer, royalty payments and milestone payments, or identifying alternate revenue streams to continue generating profits and operating cash flows until such time as additional capital is raised through this Prospectus capital raising to fund the continuing operations of the Company and of Hunter following Hunters capital restructure.

b. Business combinations

Business combinations are accounted for by applying the acquisition method. The cost of the business combination includes the fair values, at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer in exchange for control of the acquiree.

Any excess of the cost over the acquiree's interest in the net fair value of the identifiable assets and liabilities and contingent liabilities so recognised is accounted for as goodwill.

In accordance with AASB 3 "Business Combinations", the proposed acquisition by Probiomics (the legal parent) of Hunter (the legal subsidiary), is deemed a reverse acquisition since the substance of the transaction is that the existing shareholders of Hunter will have effectively acquired Probiomics. Under reverse acquisition accounting, the consolidated financial statements are prepared as if Hunter had acquired Probiomics, not vice versa as represented by the legal position.

In reverse acquisition accounting, the cost of the business is deemed to have been incurred by the legal subsidiary (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (the acquiree for accounting purposes). However, due to the fact that the fair value of the equity instruments of the legal subsidiary (Hunter) is not clearly evident at the date of the pro-forma acquisition, the alternative method was used whereby the cost of the business combination was determined as the total fair value of all issued equity instruments by the legal parent (Probiomics) at the time of the business combination.

As a consequence;

- An exercise is performed to fair value the assets and liabilities of the accounting acquiree, Probiomics;
- The cost of investment held by the legal parent (Probiomics) in the legal subsidiary (Hunter) reversed on consolidation and the cost of the reverse acquisition is eliminated on consolidation against the consolidated equity and reserves of Probiomics and its consolidated entities at the date control is passed. The effect of this is to restate the consolidated equity and reserves balances to reflect those of Hunter at the date of acquisition;
- The amount recognised as issued equity instruments is determined by adding to the issued equity of the legal subsidiary (Hunter) immediately before the business combination, the cost of the combination; and
- The consolidated financial statements are issued under the name of the legal parent (Probiomics) but are a continuation of the financial statements of the deemed acquirer (Hunter) under the reverse acquisition rules.

c. Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit and loss over the period necessary to match them with the costs that they are intended to compensate.

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

d. Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at Reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at Reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

e. Impairment of assets

At each Reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If

such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f. Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

g. Share based payments

The fair value determined at the grant date of equity-settled share-based payments is treated as the cost of assets acquired or expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Vesting is not conditional upon a market condition. No asset or expense is recognised for share-based payments that do not vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each Reporting date.

2. Revenue

	Probiomics Audited Year ended 30-Jun-11 $	Hunter Audited Year ended 30-Jun-11 $	Unaudited Pro-forma Year ended 30-Jun-11 $
Sale of goods	939,644	-	939,644
Government grants	-	191,337	191,337
Interest received	231	111,296	111,527
Total revenue	939,875	302,633	1,242,508

3. Income tax

(a) Numerical reconciliation of income tax expense to prima facie tax payable

Prima facie tax payable (benefit) on profit (loss) from ordinary activities before income tax at 30%	316	(1,491,052)	(1,490,736)
Tax effect of amounts which are not deductable (taxable) in calculating taxable income	560	834,362	834,922
Current tax benefit	-	(935,668)	(935,668)
Benefit of tax losses not recognised	-	551,842	551,842
Utilisation of tax losses	(876)	-	(876)
Total income tax (benefit)	-	(1,040,516)	(1,040,516)

Current tax benefits of Hunter relate to a research and development tax offset and Export Development Grant.

(b) Income tax Benefit

Current tax benefit	-	(935,668)	(935,668)
Deferred tax	-	(104,848)	(104,848)
Total income tax benefit	-	(1,040,516)	(1,040,516)

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised (at 30%)	7,610,685	3,358,447	10,969,132
Timing differences for which no deferred tax asset has been recognised (at 30%)	23,752	-	23,752
	7,634,437	3,358,447	10,992,884

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses and timing differences is not probable.

The Group has carried forward tax losses in the amount of $36,563,773 that may be available for offset against future taxable profits, provided that:

i) the Group derives sufficient future assessable income of a nature that enables the utilisation of the benefit;
ii) the Group continues to comply with the conditions for deductibility imposed by the Income Tax Assessment Act 1997;
iii) there are no changes in tax legislation occur which adversely affect the ability of the Group to utilise the benefit; and
iv) the Group meets the continuity of ownership test, as required by the Income Tax Assessment Act 1997; or
v) if the continuity of ownership test is failed, the Group meets the same business test as required by the Income Tax Assessment Act 1997.

The completion of the transactions set out in this Prospectus is likely to result in condition iv) above not being satisfied in respect of the Group's losses. Therefore the carry forward losses may only be available in years after 30 June 2011 if the Group companies satisfy condition v) in the year in which the loss is sought to be recouped. As satisfying the same business test is dependent on future activities, we consider that recovery of the tax losses is not probable as at 30 June 2011.

4. Cash and cash equivalents

	Audited	**Unaudited Pro-forma**
	30-Jun-11	**30-Jun-11**
	$	**$**
Cash and cash equivalents	111,628	6,471,200
Probiomics cash and cash equivalents as at 30 June 2011		111,628
Hunter cash and cash equivalents as at 30 June 2011		705,692
		817,320
Subsequent events		
Proceeds from Probiomics capital raising (paragraph 5.1)		200,000
Net proceeds from issue of convertible loan note by Hunter (paragraph 5.4)		2,861,000
Receipt of Hunter R&D tax concession from the ATO (paragraph 5.3)		909,534
Cash outflow of Hunter in the period 1 July 2011 to the date of this report in relation to clinical phase llb trials, administration and corporate costs (paragraph 5.5)		(2,208,883)
Net proceeds from Hunter capital raising		721,029
		2,482,680
Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows		
Costs associated with the Acquisition of Hunter (paragraph 6.1.9)		(432,650)
Proceeds from the issue of fully paid ordinary shares in Probiomics pursuant to the Prospectus (paragraph 6.1.7)		4,400,000
Cash cost of capital raising costs (paragraph 6.1.9)		(796,150)
		3,171,200
Pro-forma cash and cash equivalents		6,471,200

5. Current tax receivable

	Audited 30-Jun-11 $	Unaudited Pro-forma 30-Jun-11 $
Current tax receivable	-	-
Probiomics tax receivable at 30 June 2011		-
Hunter tax receivable at 30 June 2011		909,534
		909,534
Subsequent events		
Receipt of R&D tax concession from the ATO (paragraph 5.3)		(909,534)
Pro-forma current tax receivable		-

6. Trade and other receivables

	Probiomics Audited 30-Jun-11 $	Hunter Audited 30-Jun-11 $	Unaudited Pro-forma 30-Jun-11 $
Trade receivables	99,110	-	99,110
Other receivables	7,370	131,077	138,447
Total trade and other receivables	106,480	131,077	237,557

7. Business combinations

The proposed acquisition by Probiomics Limited (the legal parent) of Hunter Immunology Limited (the legal subsidiary) is deemed to be a reverse acquisition under ASSB 3 "Business Combinations" since the substance of the transaction is that the existing shareholders of Hunter Immunology Limited have effectively acquired Probiomics. As a result of the reverse acquisition Hunter Immunology Limited is considered to be the acquirer and Probiomics Limited is considered to be the accounting acquiree, therefore this Financial Information has been prepared as a continuation of the financial statements of Hunter Immunology Limited and the recognition and measurement principles of AASB 3 are applied to the accounting acquiree, which in this instance is Probiomics.

The purchase was satisfied through the issue of 9 ordinary shares in Probiomics for every Hunter share.

As the directors are yet to determine the fair value of Probiomics assets and liabilities provisional accounting has been applied.

			Audited Carrying Value 30-Jun-11 $	**Pro-forma Fair Value 30-Jun-11 $**
Purchase consideration	Deemed Hunter shares issued	Deemed value per share		
- Equity issued	36,412,631	$ 0.09		3,277,137
- Cash at bank				(311,628)
				2,965,509
Less:				
Receivables			106,480	106,480
Plant property and equipment			2,625	2,625
Payables			(96,390)	(96,390)
Identifiable assets acquired and liabilities assumed			12,715	12,715
Pro-forma goodwill balance				2,952,794

(i) As a result of Probiomics (Legal parent, accounting acquire) issuing 2,656,928,206 ordinary shares, Hunter's shareholders will own approximately 89% of combined entity. The remaining 11% will be owned by the current existing shareholders of Probiomics. If the business combination had taken the form of Hunter issuing shares to Probiomics shareholders, Hunter would have to issue 36,412,631 shares for the ratio of ownership of the combined entity to be the same. The current share price of $0.01 of Probiomics implies that the fair value of Hunter is approximately $26.6 million (2,656,928,206 * $0.01), and as such the fair value of Hunter share is $0.09 and the fair value of the consideration transferred in the reverse acquisition is deemed to be $3,277,137 (36,412,631 * $0.09).

8. Deposits

	Probiomics Audited 30-Jun-11 $	Hunter Audited 30-Jun-11 $	Unaudited Pro-forma 30-Jun-11 $
Security deposit (i)	-	200,000	200,000
Total deposits	-	200,000	200,000

(i) Payment made by Hunter as a security guarantee, for a clinical trial which is expected to continue throughout the 2012 financial year.

9. Intangible assets

	Audited 30-Jun-11 $	Unaudited Pro-forma 30-Jun-11 $
Goodwill	-	2,952,794
Probiomics goodwill as at 30 June 2011		-
Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows		
Goodwill recognised on reverse takeover of Probiomics (Note 7)		2,952,794
		2,952,794
Pro-forma goodwill		2,952,794

10. Trade and other payables

	Probiomics Audited 30-Jun-11 $	Hunter Audited 30-Jun-11 $	Unaudited Pro-forma 30-Jun-11 $
Trade payables	13,957	566,653	580,610
Accrued expenses	78,424	205,941	284,365
Other payables	4,009	23,763	27,772
Total trade and other payables	96,390	796,357	892,747

11. Interest bearing liabilities

	Audited 30-Jun-11 $	Unaudited Pro-forma 30-Jun-11 $
Convertible Note	-	-
Interest on Convertible Note	-	-
Interest bearing liabilities	-	-
Probiomics interest bearing liabilities as at 30 June 2011		-
Hunter existing convertible note as at 30 June 2011		4,131,033
Interest on Hunter existing convertible note as at 30 June 2011		450,411
		4,581,444
Subsequent events		
Issue of new Hunter Tranche 2 Convertible Notes (paragraph 5.4)		3,000,000
Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows		
Interest accrual in relation to Hunter convertible notes (1 July 2011 to 31 January 2012) (paragraph 6.1.1)		55,789
Conversion of Hunter Tranche 1 Convertible Notes into ordinary Hunter shares (paragraph 6.1.2)		(4,131,033)
Conversion of interest on Hunter Tranche 1 and 2 Convertible Notes into ordinary Hunter shares (paragraph 6.1.2)		(506,200)
Conversion of Hunter Tranche 2 Convertible Notes into ordinary Hunter shares (paragraph 6.1.5)		(3,000,000)
		(7,081,444)
Pro-forma interest bearing liabilities		-

12. Deferred tax liability

Deferred tax liability	-	-
Probiomics deferred tax liability as at 30 June 2011		-
Hunter deferred tax liability as at 30 June 2011		260,751
		260,751
Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows		
Movement in deferred tax liability following conversion of Hunter existing convertible notes		(260,751)
		(260,751)
Pro-forma deferred tax liability		-

13. Share capital

	Number of shares	$
Probiomics issued share capital as at 30 June 2011	294,235,077	27,761,399
Issued equity of Hunter as at 30 June 2011	-	16,767,001
Subsequent events		
Shares issued at $0.006 to raise funds to pursue Hunter acquisition (paragraph 5.1)	33,333,334	200,000
Capital raising by Hunter (paragraph 5.2)	-	721,029
	33,333,334	921,029
Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows		
Conversion of Hunter existing convertible notes into ordinary Hunter shares	-	4,060,703
Conversion of Hunter new convertible notes into ordinary Hunter shares	-	5,400,000
Issue of ordinary Hunter shares to Managing Director (paragraph 6.1.3)	-	1,265,204
Elimination of the issued capital of Probiomics in reverse acquisition	-	(27,961,399)
Deemed consideration to acquire Probiomics in reverse acquisition (Note 7)	-	3,277,137
Shares issued to acquire Hunter (paragraph 6.1.6)	2,656,928,206	-
Fully paid ordinary shares issued at $0.011 pursuant to this Prospectus (paragraph 6.1.7)	400,000,000	4,400,000
Cash costs associated with the share issue pursuant to this Prospectus (paragraph 6.1.9)	-	(796,150)
	3,056,928,206	(10,354,505)
Issued share capital pre consolidation	3,384,496,617	35,094,924
Equal reduction in share capital on a 1:20 basis	(3,215,271,786)	-
Pro forma balance	169,224,831	35,094,924

Minimum subscription

The minimum subscription is 200,000,000 fully paid ordinary shares at an issue price of $0.011 per share to raise $2,200,000, with cash costs associated with the minimum issue decreasing from $796,150 to $540,236. In this situation, the cash at bank balance would decrease by $1,944,086 ($2,200,000 reduction in Capital Raising less $255,914 Capital Raising costs saved) to $4,527,114, the contributed equity would decrease by $1,944,086 to $33,150,838 and the total number of shares on issue would decrease by 200,000,0000 on a pre consolidation basis and by 10,000,000 on a post consolidation basis.

14. Reserves

Option reserve

		Number of options	$
Probiomics share based payment reserve as at 30 June 2011		19,500,000	289,212
Share based payment reserve of Hunter as at 30 June 2011		-	654,146
Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows			
Issue of options over the ordinary shares of Hunter to Hunter's Financial Advisors (paragraph 6.1.4)	(a)	-	15,000
Options issued to acquire Hunter and replace Hunter options (paragraph 6.1.6)		150,329,079	-
Elimination of the issued capital of Probiomics in reverse acquisition		-	(289,212)
Free attaching options issued pursuant to the Prospectus (paragraph 6.1.7)		133,333,333	-
Issue of options over the ordinary shares of Probiomics to Directors (paragraph 6.1.8)	(b)	20,000,000	40,000
		303,662,412	(234,212)
Option reserve pre consolidation		323,162,412	709,146
Equal reduction in share options on a 1:20 basis (paragraph 6.1.10)		(307,004,291)	-
Pro-forma balance	(c)	16,158,121	709,146

(a) 5,000,000 options in Hunter will be issued to Hunter's Financial Advisors prior to the acquisition of Hunter by Probiomics. Using a Binomial Valuation Model the fair value of the 5,000,000 Hunter options to be issued to Hunter's Financial advisors, has been assessed based on the following assumptions:-

Underlying share price	$	0.090
Exercise price	$	0.350
Expected volatility		51%
Expiry date		31-May-14
Risk-free interest rate		3.95%
Value per option	$	0.003
Share based payment	$	15,000

(b) Using a Binomial Valuation Model the fair value of the 20,000,000 Probiomics options to be issued to the Directors, has been assessed based on the following assumptions:-

Underlying share price	$	0.010
Exercise price	$	0.017
Expected volatility		69%
Expiry date		41364
Risk-free interest rate		3.93%
Value per option	$	0.002
Share based payment (Director Options)	$	40,000

(c) Following the conversion of Hunter's share options into Probiomics options and consolidation of Probiomics options on a 20:1, Probiomics will have 16,158,121 options on issue. The table below sets out the terms attached to these options.

Category	**Expiry Date**	**Options**	**Exercise Price**
Existing Probiomics Options	25/11/2013	750,000	$0.40
	03/12/2013	100,000	$0.20
	24/05/2014	125,000	$0.40
Director Options	31/03/2013	1,000,000	$0.40
Replacement Options	30/09/2012	236,520	$0.70
	21/12/2012	405,000	$0.78
	31/03/2013	862,934	$0.70
	31/3/2013[2]	2,250,000	$0.70
	01/09/2013	1,062,000	$0.24
	14/05/2014	2,700,000	$0.70
Public Offer Options	31/03/2013	6,666,667	$0.33
Total		16,158,121	

15. Accumulated losses

	Audited 30-Jun-11 $	Unaudited Pro-forma 30-Jun-11 $
Probiomics retained losses as at 30 June 2011	(27,926,268)	(26,832,641)
Probiomics retained losses as at 30 June 2011		(27,926,268)
Hunter retained losses as at 30 June 2011		(21,113,396)
		(49,039,664)
Subsequent events		
Costs associated with issue of Hunter new convertible notes (paragraph 5.4)		(139,000)
Expenditure of Hunter in the period 1 July 2011 to the date of this report in relation to clinical phase llb trials, administration and corporate costs (paragraph 5.5)		(2,208,883)
		(2,347,883)
Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows		
Interest accrual in relation to Hunter convertible (1 July 2011 to 31 January 2012) (paragraph 6.1.1)		(55,789)
Net loss transferred to retained losses on conversion of Hunter existing and new convertible notes into Hunter ordinary shares		(1,562,719)
Share based payment expense - Hunter options issued to financial advisor (Note 14)		(15,000)
Share based payment expense - Hunter shares issued to Managing Director (paragraph 6.1.3)		(1,265,204)
Elimination of accumulated losses of Probiomics on reverse acquisition		27,926,268
Share based payment - Probiomics options issued to Directors (Note 14)		(40,000)
Acquisition costs		(432,650)
		24,554,906
Pro-forma accumulated losses		(26,832,641)

16. Related party disclosure

(i) The current Directors of Probiomics at the date of this Report are Patrick Ford, Simon O'Loughlin and Simon Taylor, it proposed that following completion of the acquisition of Hunter, the Capital Raising and re-admission to the ASX that Messers O'Loughlin and Taylor will resign from office and Messers Ian Mutton, David Radford, Jeremy Curnock-Cook, Doug Wilson, Glenn Crisp and William Harrison will become Directors of the Company.

(ii) Directors' holdings of shares, directors' remuneration and other directors' interests are set out in **Section 10 "Additional Information"** of the Prospectus.

17. Commitments and contingent liabilities

(i) The Company has budgeted that it will incur approximately $2 million of expenditure in completing the Clinical Phase IIb trials, under both maximum and minimum subscriptions to the Prospectus. However, it is at Probiomics' option as to whether this expenditure is incurred and the actual expenditure incurred may vary from the budgeted expenditure at the discretion of the Company as the results of pre-clinical and clinical work become available.

(ii) On 25 November 2003, Hunter entered into a services agreement with Newcastle Innovation Limited (under its former name, The University of Newcastle Research Associates Limited) (ACN 000 710 074) (TUNRA). Under that agreement, Hunter is required to pay TUNRA fees (revised every 6 months from the date of the agreement) for the term of the agreement, in respect of the provision by TUNRA of the Research Services and the Accounting Services. For the year ended 30 June, 2011, Hunter paid $660,000 (excluding GST) in consideration for the Research Services and $45,000 (excluding GST) in consideration of the provisions of Accounting Services.

The agreement does not have a fixed term, but continues until terminated by a party in accordance with the provisions of the agreement.

Either party may at any time terminate the agreement by providing three months' written notice to the other party. A party may also terminate the agreement by notice in writing if the other party is in breach of the agreement and fails to remedy that breach within the required time.

Further details regarding the Company's commitments and material agreements are set out in **Section 10 "Additional Information"** of the Prospectus.

9 INTELLECTUAL PROPERTY REPORT

Alder IP
Protecting Great Ideas
PO Box 336
Hornsby NSW 2077
Australia

The Directors
Probiomics Limited
Suite 1A, Level 2, 802 Pacific Hwy
Gordon NSW 2073
Australia

By Email

12 October 2011

RE: Patent Report for Hunter Immunology Limited

Dear Sirs,

We have been requested by Hunter Immunology Ltd ('Hunter') to provide this Report to Probiomics Limited in relation to a number of patent and patent applications held in the name of Hunter Immunology Ltd. This Report describes, in the attached Schedule, a list of patents and applications provided to us by Hunter Immunology Ltd.

Hunter is protecting HI-164OV with a multifaceted patent strategy aimed at protecting all aspects of the use of oral immunotherapy with *H. influenzae* in Chronic Obstructive Pulmonary Disease and severe allergic asthma. Patents have been applied for to protect the means of selection of suitable *H.influenzae* strains, the specific isolate HI-164, the use of HI-164OV in preventing exacerbations in COPD and the use of HI-164OV in the treatment of allergic asthma. One of Hunter's key patent relating to the HI164 Isolate is based on International Patent Application No. PCT/IB2009/007303. Applications based on this aforementioned international application are likely to expire in about 2029, if the applications are maintained.

All of the patents and patent applications listed in the attached Schedule (except where indicated) are currently pending and in force, although some are subject to the payment of periodic renewal fees. Wherein a patent is listed in the Schedule as being granted, there is no guarantee that the patent is valid and enforceable. In addition, Alder IP offers no assurance that each of the patent applications listed in the Schedules will result in the grant of a subsequent Patent, or that the scope of protection by the patent which is granted will be identical or similar to the scope of the application as originally

filed.

Also, no assurance can be given by Alder IP that granted patents, even if valid, adequately cover the commercial activities of Hunter Immunology Limited, or that exploitation of the inventions described and claimed in the patents will not infringe the rights of patents held by third parties.

Information regarding the status of various patents and patent applications referred to in the attached Schedule was obtained directly from associates located in the relevant jurisdictions, from the relevant patent office database directly or from the records of Alder IP. Please note that the "Maximum Expiry Date" described in the following tables only apply wherein all future maintenance fees are paid and the said applications proceed to grant. Further, some "Maximum Expiry Date" calculations may vary upon grant of a patent in some jurisdictions.

It is noted in this report that Hunter Immunology Ltd applied for BIOXYNE as a registered trade mark in Australia (see Application No. 1447882) on 12 September 2011. This trade mark application is undergoing examination and will likely be used to base further international trade mark application thereupon, in the future.

Alder IP is not entitled to any shares in Hunter Immunology Ltd. Alder IP acts as Patent Attorneys and Solicitors for Hunter Immunology Ltd and we have prepared this report at the request of the Directors of Hunter Immunology Ltd.

Alder IP will be paid its usual professional fees for the preparation of this Report based on commercial rates. Alder IP has no other interest in the promotion of Hunter Immunology Ltd other than managing and prosecuting its patent portfolio under instruction from the Directors of Hunter Immunology Ltd.

Alder IP is an experienced boutique legal practice specialising in the areas of corporate law, patent law, and intellectual property law. The author of this Report is a qualified Patent Attorney, Trade Mark Attorney, and NSW Supreme Court Solicitor with specific commercial expertise in the fields of pharmaceuticals and medical devices.

Please note that patents and patent applications wherein Alder IP has received instructions from Hunter Immunology Ltd to abandon these specific applications, are not reported in the Schedule.

Yours sincerely,
Alder IP

Anthony Alder
Btech (Biotech) LLB MIP FIPTA ACIS

MEMBER OF THE LAW SOCIETY OF NEW SOUTH WALES

Patent Schedule

International Patent Application No. PCT/AU2005/001230
Full Title: Oral killed vaccines and method for providing same
Key Word Title: ***Bacterial Isolate Selection***
Filing Date: *17 August 2005*
Priority Date: *17 August 2004*

Country	Application/Patent No.	Patentee/Applicant	Status	Maximum Expiry Date
Australia	2005274680	Hunter Immunology Ltd	Granted – In Force	17 Aug 2025
Canada	2577165	Hunter Immunology Ltd	Pending – In Force	17 Aug 2025
Europe	EP05771766.2	Hunter Immunology Ltd	Granted – In Force	17 Aug 2025
Hong Kong	HK08103746.3	Hunter Immunology Ltd	Pending – In Force	17 Aug 2025
India	935/KOLNP/2007	Hunter Immunology Ltd	Pending – Under Examination – In Force	17 Aug 2025
Japan	2007-526121	Hunter Immunology Ltd	Pending – Under Examination – In Force	17 Aug 2025
USA	7858073	Hunter Immunology Ltd	Granted – In Force	17 Aug 2025

International Patent Application No. PCT/AU2008/000358
Full Title: Treatment or Prophylaxis of Asthma
Key Word Title: ***Asthma Treatment***
Filing Date: *14 March 2008*
Priority Date: *14 March 2007*

Country	Application/Patent No.	Patentee/Applicant	Status	Maximum Expiry Date
Australia	2008226340	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
Brazil	BR PI 0808329-0	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
Canada	PCT/AU2008/000358	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
China	200880007664.3	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
Europe	EP08714405.1	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
Japan	2009-552975	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
South Korea	10-2009-7020342	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
Mexico	MX/a/2009/00981	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028
USA	12/531402	Hunter Immunology Ltd	Pending – In Force	14 Mar 2028

International Patent Application No. PCT/GB2002/02829
Full Title: Mutant forms of EtxB and CtxB and their use as carriers
Key Word Title: ***ETXB & CTXB Carrier Proteins***
Filing Date: 20 June 2002
Priority Date: 22 June 2001

Country	Application/Patent No.	Patentee/Applicant	Status	Maximum Expiry Date
Europe	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
Switzerland	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
Germany	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
Spain	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
France	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
UK	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
Italy	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
Sweden	1402039	Hunter Immunology Ltd	Granted – In Force	20 Jun 2022
USA	7422752	Hunter Immunology Ltd	Granted – In Force	22 Dec 2023
USA - Continuation	12/112952	Hunter Immunology Ltd	Pending – In Force	20 Jun 2022

International Patent Application No. PCT/AU2001/00588
Full Title: Compositions and methods for treatment of mucosal infections
Key Word Title: ***Probiotic Complement***
Filing Date: 19 May 2001
Priority Date: 19 May 2000

Country	Application/Patent No.	Patentee/Applicant	Status	Maximum Expiry Date
Australia	2001258060	Hunter Immunology Ltd	Granted – In Force	21 May 2021
Canada	2409813	Hunter Immunology Ltd	Pending – In Force	21 May 2021
China	CN01811367.2	Hunter Immunology Ltd	Pending – In Force	21 May 2021
Europe	EP01931225.5	Hunter Immunology Ltd	Accepted/Allowed – In Force	21 May 2021
Japan	2001-583799	Hunter Immunology Ltd	Pending – In Force	21 May 2021
USA	10/276829	Hunter Immunology Ltd	Pending – In Force	21 May 2021

International Patent Application No. PCT/AU2001/00725
Full Title: Compositions and methods for treatment of candidiasis
Key Word Title: ***Candida Vaccine***
Filing Date: *22 June 2001*
Priority Date: *22 June 2000*

Country	Application/Patent No.	Patentee/Applicant	Status	Maximum Expiry Date
Australia	2001265694	Hunter Immunology Ltd	Granted – In Force	22 Jun 2021
Canada	2411912	Hunter Immunology Ltd	Pending – In Force	22 Jun 2021
China	201010200300.6	Hunter Immunology Ltd	Pending – In Force	22 Jun 2021
Europe	1303300	Hunter Immunology Ltd	Granted – In Force	22 Jun 2021
Germany	1303300	Hunter Immunology Ltd	Granted – In Force	22 Jun 2021
France	1303300	Hunter Immunology Ltd	Granted – In Force	22 Jun 2021
UK	1303300	Hunter Immunology Ltd	Granted – In Force	22 Jun 2021
Italy	1303300	Hunter Immunology Ltd	Granted – In Force	22 Jun 2021
Japan	2002-503320	Hunter Immunology Ltd	Pending – In Force	22 Jun 2021
USA	7655248	Hunter Immunology Ltd	Granted – In Force	22 Jun 2021

International Patent Application No. PCT/IB2009/007303
Full Title: *Non-Typeable Haemophilus influenzae* Vaccines and Their Uses
Key Word Title: ***HI164 and HI167 Vaccine and Isolate***
Filing Date: *14 September 2009*
Priority Date: *17 September 2008*

Country	Application/Patent No.	Patentee/Applicant	Status	Maximum Expiry Date
Australia	2009294321	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029
Brazil	BR PI 0912811	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029
China	200980136455.3	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029
Europe	09814165.8	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029
Japan	2011-526594	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029
Mexico	MX/a?2011/002052	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029
South Korea	10-2011-7008724	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029
USA	13/059185	Hunter Immunology Ltd	Pending – In Force	17 Sept 2029

10 OTHER INFORMATION

10.1 Rights and Liabilities attaching to Shares

The Public Offer Shares issued under this Prospectus will be fully paid ordinary shares in the capital of the Company and will rank equally with the Shares already on issue.

The following is a summary (though not necessarily an exhaustive or definitive statement) of the rights and liabilities attaching to the Shares under the Constitution. The Constitution is available for inspection free of charge at the Company's registered office. The rights and liabilities attaching to the Shares may also, in certain circumstances, be regulated by the Corporations Act, the Listing Rules, the Settlement Operating Rules and the common law.

(a) **Share capital**

Subject to the Constitution, Corporations Act and Listing Rules, the Directors may issue, or grant options in respect of, shares on such terms as the Directors think fit. The Company may also issue preference shares (including preference shares that are liable to be redeemed).

(b) **Voting rights**

At a general meeting of the Company, every Shareholder present in person, by an attorney, representative or proxy has one (1) vote on a show of hands and every Shareholder present has one (1) vote on a poll, for each fully paid Share held, and, in respect of each partly paid Share, a fraction of a vote equal to the proportion that the amount(s) paid (not credited) on the Share bears to the total amount(s) paid and payable on that Share (excluding amounts credited).

Where, in respect of a resolution, there is an equality of votes, the chairperson will have the casting vote.

(c) **Dividend rights**

Subject to the Corporations Act, the Directors may resolve to pay dividends on the Shares as the financial position of the Company justifies.

Dividends in respect of a partly-paid Share will be paid proportionately to the amount(s) paid (not credited) on that Share.

(d) **Rights on winding-up**

If the Company is wound up:

(i) any surplus assets of the Company will, subject to the Constitution and any rights or restrictions attached to any shares issued in capital of the Company, be divided among the Company's shareholders in proportion to the number of shares held by them in the Company (reduced by any amount unpaid on those shares); and

(ii) the liquidator may, with the authority of a special resolution, divide the property of the Company amongst its shareholders in kind and determine how the division is to be carried out as between the shareholders or different classes of shareholders.

(e) **Transfer of Shares**

Shares in the Company may be transferred, subject to the requirements of the Constitution, the Corporations Act, the Listing Rules and the other market and clearing rules of the ASX.

The Directors may refuse to register a transfer of Shares where the instrument of transfer is not in accordance with the requirements of the Constitution or where otherwise permitted by the Listing Rules.

(f) **Variation of rights attaching to Shares**

The rights attaching to any class of shares in the Company may only be varied or cancelled by a special resolution passed at a meeting of the holders of the shares of that class, or, with the written consent of the holders of 75% of the shares of that class.

(g) **General meeting**

Each Shareholder, each Director and the Company's auditor is entitled to receive notice of, and to attend, general meetings of the Company.

10.2 Material terms of Options

10.2.1 Public Offer Options

Specific Terms

The Public Offer Options will be issued and allotted on the following material terms:

- **Issue**

  One (1) Public Offer Option will be issued and allotted to each Applicant for every three (3) Public Offer Shares that are issued and allotted to that Applicant pursuant to the Public Offer.

- **Issue Price**

  No cash consideration will be payable in connection with the issue and allotment of any Public Offer Option, in addition to the cash consideration payable for Public Offer Shares in accordance with the terms of the Public Offer.

- **Entitlement**

  Each Public Offer Option entitles the holder to be allotted one (1) Share upon exercise of the Public Offer Option and payment to the Company of the applicable post Share Consolidation exercise price.

- **Exercise Price**

  The exercise price will be $0.0165 per Public Offer Option.

- **Exercise period**

  Each Public Offer Option will expire upon the earlier of the date of its exercise in accordance with its terms or 5.00 p.m. (AEDST) on 31 March 2013.

General Terms

Shares issued and allotted pursuant to the exercise of Public Offer Options will rank equally in all respects with the then existing Shares and will be subject to the provisions of the Constitution.

Subject to the following paragraphs, a Public Offer Option does not confer the right to participate in new issues of securities by the Company without first exercising the Public Offer Option. However, the Company will ensure that for the purpose of determining entitlements to any such issue, the Company will notify the holder of a Public Offer Option of the details of the new issue by the relevant date for the particular issue as determined in accordance with the Listing Rules.

Adjustments to the number of Shares underlying each Public Offer Option and/or the exercise price applicable to each Public Offer Option (**Exercise Price**) will be made in accordance with the requirements of the Listing Rules to take account of changes to the capital structure of the Company by way of pro-rata bonus and cash issues.

The terms of the Public Offer Options do not prevent the Public Offer Options being reconstructed as required by the Listing Rules on a reconstruction of the Company's issued capital. The rights of a holder of a Public Offer Option may be changed to the extent necessary to comply with the Listing Rules that apply to a re-organisation of capital at the time of the re-organisation.

In the event of any reconstructions of the Company's issued capital, Public Offer Options will be treated in the following manner:

- in the event of a consolidation of the Shares, the number of Public Offer Options will be consolidated in the same ratio as the Shares and the Exercise Price will be amended in inverse proportion to that ratio;

- in the event of a subdivision of the Shares, the number of Public Offer Options will be subdivided in the same ratio as the Shares and the Exercise Price will be amended in inverse proportion to that ratio;

- in the event of a pro-rata cancellation of Shares, the number of Public Offer Options will be reduced in the same ratio as the Shares and the Exercise Price will be amended in inverse proportion to that ratio; and

- in the event of any other reconstruction of the issued capital of the Company, the number of Public Offer Options or the Exercise Price or both will be reconstructed (as appropriate) in a manner which will not result in any benefits being conferred on the holders of the Public Offer Options which are not conferred on Shareholders.

The Company will apply to the ASX for, and will use its best endeavours to obtain, Official Quotation of all Shares issued and allotted on the exercise of a Public Offer Option, on a post Share Consolidation basis, but gives no assurance or undertaking that such quotation or listing will be granted or maintained.

If the Company is liquidated, all unexercised Public Offer Options will lapse.

All other terms and conditions of the Public Offer Options will be in accordance with the requirements of the Listing Rules.

The fact that ASX may quote the Public Offer Options is not to be taken as an indication of the merits of the Company or the Public Offer Options being offered under this Prospectus.

10.2.2 Director Options

A summary of the material terms and conditions of the Director Options is:

- **Issue Price**

  No cash consideration will be payable in connection with the issue and allotment of any Director Option.

- **Entitlement**

  Each Director Option entitles the holder to be allotted one (1) Share upon exercise of the Director Option and payment to the Company of the applicable post Share Consolidation exercise price.

- **Exercise Price**

  The exercise price will be $0.02 per Director Option.

- **Exercise period**

  Each Director Option will expire upon the earlier of the date of its exercise in accordance with its terms or 5.00 p.m. (AEDST) on 1 January 2015.

The General Terms set out in **Section 10.2.1** above apply equally to the Director Options.

10.2.3 Replacement Options and MPS Options

Upon completion of the Takeover Offers and this Public Offer, the Company will issue to the Hunter Optionholders the Replacement Options as follows:

	Pre Share Consolidation		Post Share Consolidation	
Expiry Date	**Options**	**Exercise Price**	**Options**	**Exercise Price**
30/9/2012	4,730,400	$0.035	236,520	$0.70
21/12/2012	8,100,000	$0.039	405,000	$0.78
31/3/2013	17,258,679	$0.035	862,934	$0.70
31/3/2013[†]	45,000,000	$0.035	2,250,000	$0.70
1/9/2013	21,240,000	$0.012	1,062,000	$0.24
14/5/2014	54,000,000	$0.035	2,700,000	$0.70
	150,329,079		**7,516,454**	

[†] *Hunter proposes to issue 5,000,000 Hunter Options exercisable at $0.35 on or before 31 March 2013 (**MPS Options**) to Martin Place Securities Pty Limited after, and conditional upon, the passage of all the Essential Resolutions at the Meeting. The MPS Options are to be issued in payment for advisory and other professional services provided by Martin Place Securities Pty Limited to Hunter.*

As outlined above, under the Takeover Bid, the Company is offering the Hunter Optionholders 9 Replacement Options (prior to the Share Consolidation) for every 1 Hunter Option held on the Takeover Record Date, subject to the satisfaction of the Bid Conditions. The terms and conditions of issue of a Replacement Option offered to a Hunter Optionholder under the Takeover Bid in consideration for the transfer by that Hunter Optionholder to the Company of a Hunter Option, will be the same terms and conditions of issue as apply to that Hunter Option, other than the exercise price of that Replacement Option which will be one tenth of the exercise price of that Hunter Option.

The terms and conditions of the Replacement Options are:

(a) **Entitlement**

Each Replacement Option entitles the holder to be allotted one (1) Share upon exercise of the Replacement Option and payment to the Company of the applicable post Share Consolidation exercise price.

(b) **Exercise price**

As stated in the table immediately above.

(c) **Exercise period**

Each Replacement Option will automatically lapse if not exercised prior to the date of expiry as stated in the table immediately above. The period during which the Replacement Options may be exercised will not be extended.

The General Terms set out in **Section 10.2.1** above apply equally to the Replacement Options.

10.2.4 Existing Probiomics Options

The following Existing Probiomics Options are on issue as at the date of this Prospectus:

Category	Expiry Date	Pre Share Consolidation		Post Share Consolidation	
		Options	Exercise Price	Options	Exercise Price
Existing Probiomics Options	25/11/2013	15,000,000	$0.020	750,000	$0.40
	3/12/2013	2,000,000	$0.010	100,000	$0.20
	24/5/2014	2,500,000	$0.020	125,000	$0.40

The terms and conditions of the Existing Probiomics Options are:

(a) **Entitlement**

Each Existing Probiomics Option entitles the holder to be allotted one (1) Share upon exercise of the Existing Probiomics Option and payment to the Company of the applicable post Share Consolidation exercise price.

(b) **Exercise price**

As stated in the table immediately above.

(c) **Exercise period**

Each Existing Probiomics Option will automatically lapse if not exercised prior to the date of expiry as stated in the table immediately above.

The General Terms set out in **Section 10.2.1** above apply equally to the Existing Probiomics Options.

10.3 Hunter Convertible Notes

The Company has been advised by Hunter that the following Hunter Convertible Notes are on issue as at the date of this Prospectus:

(a) **Tranche 1 Notes**

25,000,000 convertible notes issued by Hunter dated on or about 20 January 2010 of which:

- 20,000,000 convertible notes are issued to and held by Pacific Assets Management Limited (PAM) with an aggregate face value of $4,000,000; and
- 5,000,000 convertible notes are issued to and held by PT Soho Industri Pharmasi (**Soho**) with an aggregate face value of $1,000,000.

The Tranche 1 Notes entitle PAM and Soho to interest which accrues, on a proportionate basis, at the rate of $1,095.93 per day in respect of all the Tranche 1 Notes. In accordance with the provisions of the Tranche 1 Notes, Hunter is permitted to pay that accrued interest by means of issuing additional Hunter Shares (**Tranche 1 Hunter Share**), on the same terms as existing Hunter Shares, at the rate of $0.099 per Tranche 1 Hunter Share, that being the equivalent of an additional 11,070 Tranche 1 Hunter Shares per day. The applicable Takeover Offer will extend to all Tranche 1 Hunter Shares.

(b) **Tranche 2 Notes**

3,000,000 convertible notes issued by Hunter dated on or about 26 October 2011 and 14 November 2011 of which:

- 1,250,000 convertible notes issued to and held by PAM with an aggregate face value of $1,250,000;
- 500,000 convertible notes issued to and held by Soho with an aggregate face value of $500,000;
- 1,000,000 convertible notes issued to and held by Cherryoak Investments Pty Ltd ATF C&N Family Trust with an aggregate face value of $1,000,000; and
- 250,000 convertible notes issued to and held by 7 private investors with an aggregate face value of $250,000.

These convertible notes entitle the holders of the Tranche 2 Notes to interest which accrues at the rate of $657.50 per day. In accordance with the provisions of these convertible notes, Hunter is permitted to pay that accrued interest by means of issuing additional Hunter Shares, at the rate of $0.05 per Hunter Share, that being the equivalent of an additional 13,150 Hunter Shares per day.

In accordance with the applicable Takeover Offer:

(a) Probiomics is offering the Hunter Noteholders 9 Probiomics Shares (prior to the Share Consolidation) for every one Tranche 1 Note Interest held on the Takeover Record Date, subject to the satisfaction of the Bid Conditions. Assuming 100% acceptance by the Hunter Noteholders of the applicable Takeover Offer, Probiomics would be required to issue 454,545,455 Probiomics Shares (prior to the Share Consolidation) as Bid Consideration to the Hunter Noteholders. This number of Shares is based on the assumption that all Tranche 1 Note Interests will be acquired under the applicable Takeover Offer on 31 January, 2012 and accordingly includes all Tranche 1 Hunter Shares that would be required to be issued up to and including that date; and

(b) it is a condition of the applicable Takeover Offer that all the Tranche 2 Notes must be exercised, cancelled or transferred to Probiomics or be subject to agreements or arrangements entered into by Probiomics and the relevant holder of the Tranche 2 Notes, that will cause them to be cancelled or transferred to Probiomics.

10.4 Capital Structure of Hunter and Bid Consideration to be issued under the Takeover Offers

The following summarises the capital structure of Hunter prior to completion of the Takeover Bid and the issue of Bid Consideration pursuant to the Takeover Bid:

		Bid Consideration Shares	
	Hunter Shares	**Pre Consolidation**	**Post Consolidation**
Total existing Hunter Shares	165,158,131	1,486,423,179	74,321,159
Probiomics Shares to be issued as Bid consideration for the Tranche 1 Note Interests	n/a	454,545,455	22,727,273
Hunter Shares to be issued on conversion of Tranche 2 Notes	60,000,000	540,000,000	27,000,000
Hunter Shares to be issued in consideration for payment of accrued interest on Hunter Convertible Notes	5,493,242[1]	49,439,182	2,471,959
Hunter Shares to be issued to David Radford prior to the close of the Takeover Bid Period	14,057,821[2]	126,520,391	6,326,020
Total		**2,656,928,206**	**132,846,410**

1. *Assumes the conversion of the Tranche II Notes and allotment of Hunter Shares in exchange for accrued interest on the Tranche I Notes and Tranche II Notes on 31 January 2012. Should the date of conversion of the Hunter Convertible Notes be later than this date, additional Hunter Shares will be issued as a consequence of the additional interest accruing on the Hunter Convertible Notes. The rate at which additional Hunter Shares would need to be issued is set out in **Section 10.3** in respect of both Tranche I Interests and Tranche II Notes.*
2. *Pursuant to David Radford's employment contract (refer to **Section 10.9.4**), he will be allotted Hunter Shares equivalent to approximately 5% of the issued capital of Hunter (including the equivalent number of Hunter Shares to be issued on the acquisition and cancellation or conversion, as the case may be, of the Hunter Convertible Notes and Hunter Shares to be issued in payment of accrued interest on the Hunter Convertible Notes). The final number of Hunter Shares to be issued will be dependant on the date of the acquisition and cancellation or conversion, as the case may be, of the Hunter Convertible Notes pursuant to the applicable Takeover Offers (**Relevant Date**). The number of Hunter Shares estimated herein assumes the Relevant Date to be 31 January 2012.*

10.5 Share Consolidation

Following completion of the Hunter Acquisition and the Public Offer, the Company proposes to re-structure its capital by, in respect of each:

(a) Shareholder, converting the number of Shares held by that Shareholder, by dividing that number by a factor of 20; and

(b) Optionholder, by dividing the number those Options by a factor of 20 and multiplying their respective exercise prices by a factor of 20. The respective periods of time in which those Options must be exercised will not change. Details of the pre and post Share Consolidation terms and conditions of issue of these Options are set out in **Section 2.1.1**.

All fractional holdings of Shares or Options arising from the Share Consolidation will be rounded up to the nearest whole number.

The proposed Share Consolidation will not, of itself, alter the value of the Shares or Options. It will merely reduce the number of Shares and Options on issue. Consolidated Shares and Consolidated Options held after the Share Consolidation will theoretically be worth twenty (20) times the value of the existing Shares or existing Options held immediately before Share Consolidation (all other matters being equal). However, the price at which a Consolidated Share or Consolidated Option may be traded after the implementation of the proposed Share Consolidation may not equal or exceed that multiple of the sale price of an existing Share or existing Option prior to the Share Consolidation.

10.6 Escrow Arrangements

ASX may, as a condition of granting Probiomics' application for Official Quotation of Shares, classify certain:

- Shares held by various Existing Shareholders; or
- Shares and Options issued to various Hunter Securityholders under the Takeover Bid, as restricted securities.

Such classifications will restrict the transfer of these "restricted" securities unless otherwise determined by ASX, for such period as ASX may determine. The terms of any such restriction or escrow arrangement will be determined by ASX in accordance with the Listing Rules. Details of any such restriction or escrow arrangements will be disclosed prior to commencement of Official Quotation of the Shares.

Other than as provided in this **Section 10.6**, any Existing Shareholder or proposed Shareholder (including any Hunter Securityholder) who:

(a) is, or is proposed or intended to become, a Director or a director of any other related party of the Company;

(b) has provided any services to the Company or any related entity of the Company or who, in the opinion of ASX, is involved in or has had any influence in the Series of Transactions; or

(c) holds, or during the 12 months prior to the date of application for Re-admission held, either alone or with any Associate, at least 10% of the number of Voting Shares,

(each a **Related Shareholder**) will not be permitted to trade in any of the Shares issued to that Related Shareholder, as Bid Consideration or under the Public Offer, until the expiry of the second anniversary of the Re-admission Date.

In accordance with the terms of relief obtained by the Company from ASX:

(a) any Hunter Securityholder that is not a Related Shareholder (each an **Unrelated Hunter Securityholder**), and who:

  (i) subscribed for Hunter Securities and paid at least $0.099 per Hunter Security (**Bid Consideration Value**); or

  (ii) subscribed for Hunter Securities more than 12 months prior to the Re-admission Date,

  will be entitled to trade in any or all of the Shares that it is issued with as a result of its acceptance of a Takeover Offer in respect of those Hunter Securities, at any time after the date of that issue;

(b) any:

  (i) Hunter Securityholder that is a Related Shareholder and that was issued Hunter Securities for cash consideration; and

(ii) Unrelated Hunter Securityholder who subscribed for any Hunter Securities less than 12 months prior to the Re-admission Date, and

who paid less than the Bid Consideration Value per Hunter Security, will have some or all of the Shares that it is issued with as a result of its acceptance of a Takeover Offer, classified as "restricted securities". The practical effect of that classification will be that that Hunter Securityholder will not be permitted to trade in any of those "restricted" Shares until the lapse of the period of restriction – commonly called the "escrow period".

The number of Shares issued under a Takeover Offer to a Hunter Securityholder referred to in paragraph (b) immediately above that will be "restricted" from trading will be determined by application of the following "cash formula":

X = [A/B] x C

Where:

X means the number of "restricted" Shares that will not be permitted to be traded for the duration of the escrow period;

A means the monetary amount per Share by which the Bid Consideration Value in respect of a Hunter Security exceeds the cash amount paid for that Hunter Security by the Hunter Securityholder;

B means Bid Consideration Value; and

C means the number of Shares issued to that Hunter Securityholder as a result of its acceptance of a Takeover Offer;

and

(c) the duration of the escrow period that will be applied to a Hunter Securityholder that is treated by ASX as if they are a "seed capitalist" of the Company will be:

(i) in the case of a Related Hunter Securityholder – 24 months, commencing on the Re-admission Date; and

(ii) in the case of an Unrelated Hunter Securityholder – 12 months, commencing on the date on which the relevant Hunter Securityholder was issued with the Hunter Securities that it agrees to transfer to the Company in consideration for Bid Consideration. See also **Section 10.12**.

10.7 Matters requiring approval at meeting of Shareholders

In light of the proposed Hunter Acquisition, and the consequential significant change in the scale of the Company, as well as the proposal to effect the Public Offer, the Company will convene the Meeting on 7 February, 2012 to seek the approval of the Company's Shareholders to a number of resolutions. The following is a summary of each of the following Resolutions:

- **First Resolution** – approval of the change to the scale of the Company's activities for the purposes of Listing Rule 11.1.2, as a result of the Takeover Bid;
- **Second Resolution** – ratification of the issue of 33,333,334 Shares at $0.006 per Share for the purposes of Listing Rule 7.4, which was completed to raise the necessary funds to cover the costs of the Takeover Bid and Public Offer;
- **Third Resolution** – approval for the issue of up to a maximum of 400 million Public Offer Shares and up to a maximum of 133,333,333 Public Offer Options under this Public Offer for the purpose of Listing Rule 7.1;
- **Fourth Resolution** - subject to the Takeover Bid being declared Unconditional, the Company proposes to seek to change its name to "Bioxyne Limited";

- **Fifth Resolution** – approval for the issue of 20,000,000 Director Options to the Directors and the Company Secretary for the purposes of Listing Rule 10.11;
- **Sixth Resolution** – approval to consolidate the Shares in the ratio of 20 to 1 and to adjust the terms and conditions of any Options in accordance with the Listing Rules upon the Re-admission Notification Date; and
- **Seventh Resolution, Eighth Resolution, Ninth Resolution, Tenth Resolution, Eleventh Resolution and Twelfth Resolution** – the approval of the appointment of Ian Mutton, David Radford, Jeremy Curnock Cook, Douglas Wilson, Glenn Crisp and William Harrison respectively as Directors.

Each of the First Resolution, Third Resolution, Sixth Resolution and Eighth Resolutions are Essential Resolutions. The passing of all the Essential Resolutions in accordance with their respective terms at the Meeting, is both:

- a Bid Condition - in other words, if it is not satisfied, the Company may elect to withdraw the Takeover Bid; and
- a condition of the Public Offer completing.

10.8 Material Contracts

10.8.1 Offer Management Agreements

Veritas Securities Limited

By letter agreement dated 4 November 2011, Veritas Securities Limited ABN 94 117 124 535 (**Veritas**) agreed with the Company to act as joint lead manager to the Public Offer and to use its best endeavours to place Public Offer Shares and Public Offer Options under this Prospectus.

In consideration for providing those services, Veritas will be paid the following fees:

- capital raising fee equal to 5% of the value of the Public Offer Shares and Public Offer Options allotted pursuant to Application Forms lodged or procured by Veritas and that are received by the Company under the Public Offer in respect of successful Applications (exclusive of GST);
- a management fee which is equal to 1% of the Application Monies that are received by the Company under the Public Offer in respect of successful Applications (exclusive of GST); and
- the Company will also reimburse Veritas for all reasonable out of pocket expenses in relation to its provision of the above services, including legal fees (up to maximum of $15,000) and expenses incurred by Veritas in travel, accommodation, roadshow preparation and presentations, and other expenses (up to a maximum of $5,000). However, Veritas may not incur any individual expense greater than $1,000 without the prior approval of the Company.

Under the agreement, Veritas' appointment as joint lead manager is for a term of 3 months commencing from the date of the agreement. If, for any reason, the Company decides to postpone or defer the capital raising under the Prospectus, Veritas has a first right of refusal to act as joint lead manager for any capital raising announced by the Company within 6 months of the date of its appointment as a Lead Manager under the abovementioned agreement.

The Company may terminate this agreement immediately on giving written notice to Veritas if, amongst other things, Veritas is in breach or default of its obligations under this agreement or otherwise in relation to its appointment. In the event that this occurs, Veritas will not be entitled to any fees, reimbursement of expenses or other amounts incurred up to the time of termination.

Taylor Collison Limited

By letter agreement dated 7 November 2011, Taylor Collison Limited ABN 53 008 172 450 (**Taylor Collison**) agreed with the Company to act as a joint lead manager to the Public Offer, together with Veritas, and to use its best endeavours to place Public Offer Shares and Public Offer Options under this Public Offer.

In consideration for providing those services, the Company has agreed to pay Taylor Collison the following fees:

- a capital raising fee equal to 5% of the value of the Public Offer Shares and Public Offer Options allotted pursuant to Application Forms lodged or procured by Taylor Collison and that are received by the Company under the Public Offer in respect of successful Applications;
- a management fee equal to 1%, of the Application Monies that are received by the Company under the Public Offer in respect of successful Applications (exclusive of GST); and
- the Company will also reimburse Taylor Collison for all reasonable out of pocket expenses in relation to its provision of the above services. However, Taylor may not incur individual expenses of greater than $1,000 or any legal costs without the Company's prior approval.

Under the agreement, Taylor Collison's appointment as joint lead manager is for a term of 3 months commencing from the date of the agreement. Taylor Collison has first right of refusal to act as a joint lead manager for any capital raising announced by the Company within 12 months of the date of its appointment as a Lead Manager under the abovementioned agreement.

10.8.2Datapharm

On 28 April 2011, Hunter entered into a consultancy agreement with Datapharm Australia Pty Ltd ABN 32 067 956 576 (**Datapharm**) under which Datapharm provides clinical research, analysis and reporting services to Hunter for the purposes of conducting a clinical study into the effectiveness of the HI-164OV vaccine tablet in patients with chronic obstructive pulmonary disease (Services).

Under this agreement:

- Datapharm is required to provide Services to Hunter in accordance with Hunter's protocol and applicable guidelines and regulatory requirements in respect of clinical trials.
- Datapharm is required to follow a broad timetable, under which the final clinical study report produced by March 2012.
- Hunter may at any time suspend the provision of Services by Datapharm by giving prior written notice.
- Hunter is required to make payments to Datapharm for all work done and recorded, up to the total planned expenditure amount of approximately $2 million. Any additional work must only be performed with the prior approval of Hunter.
- Hunter has ownership of all of the results of the Services provided by Datapharm, and has title to all intellectual property in or arising out of those results.

Hunter may terminate the agreement at any time by giving one month's prior written notice to Datapharm. If a party commits a substantial breach of the agreement, and that party fails to show cause within the required time, then the other party may terminate the agreement by written notice to the first party.

On expiry or termination of the agreement, Datapharm must deliver to Hunter all materials and property of Hunter that are within its possession or control.

The agreement expires at the end of May 2012, but may be extended by agreement.

10.8.3TUNRA Agreement

On 25 November 2003, Hunter entered into a services agreement with Newcastle Innovation Limited (under its former name, The University of Newcastle Research Associates Limited) ABN 97 000 710 074 (**TUNRA**). Under that agreement, Hunter currently procures the services of:

- Dr Margaret Dunkley and her research team, to conduct clinical trials and explore product development and enhanced commercial production opportunities in respect of the HI164-IV product, amongst other things (**Research Services**); and
- Mr Paul Handsaker, who is responsible for payroll, account processing and other financial management duties (**Accounting Services**).

Under the agreement:

- TUNRA must provide the Services in accordance with the directions of a Hunter representative. The Hunter representative must be available at all reasonable times for consultation with TUNRA or its representative.
- Hunter is required to pay TUNRA fees (revised every 6 months from the date of the agreement) for the term of the agreement, in respect of the provision by TUNRA of the Research Services and the Accounting Services. For the year ended 30 June, 2011, Hunter paid $660,000 (excluding GST) in consideration for the Research Services and $45,000 (excluding GST) in consideration of the provisions of Accounting Services.
- Hunter will also reimburse TUNRA for any expenses incurred with Hunter's prior approval.
- All intellectual property created, developed or otherwise arising as a result of the provision of the Services, including all copyright in reports and materials prepared by TUNRA, is the property of Hunter.

The agreement does not have a fixed term, but continues until terminated by a party in accordance with the provisions of the agreement.

Either party may at any time terminate the agreement by providing three months' written notice to the other party. A party may also terminate the agreement by notice in writing if the other party is in breach of the agreement and fails to remedy that breach within the required time.

TUNRA has excluded all liability to Hunter in respect of the provision of Services and the use or exploitation by Hunter of any intellectual property arising out of the Services, except where TUNRA has been wilful or grossly negligent, or has provided an express warranty.

Where TUNRA is in breach of an express warranty, its liability is limited to the higher of the aggregate amount of fees and reimbursements received by TUNRA from Hunter and the amount recoverable under TUNRA's professional indemnity insurance.

10.8.4Exclusive Distribution Agreement – Chr. Hansen

On 19 November 2009, the Company entered into an exclusive distribution agreement with Chr. Hansen (**CH**). Under this agreement, the Company grants exclusive rights to CH to manufacture, market, supply and distribute on a worldwide basis (other than Latin America) the probiotics strain *Lactobacillus fermentum* PCC® (VRI-003) in dietary supplements, OTC drugs, prescription drugs in India, sports nutrition, slimming products, clinical nutrition, beverages and dairy products, except:

- Infant Formula Products as defined in European Commission Directive 91/321/EC;
- Infant Medical Products as defined in European Commission Directive 1999/21/EC;
- Infant Nutrition Products defined as a growing up milk, an infant cereal and infant meal;
- via the Multi Level Marketing distribution channel;

- Prescription drugs outside India;
- Veterinary and animal health applications.

CH is also granted the first right of refusal to sell and distribute products outside the above scope of products in the event they become available in the future.

This agreement is to continue until 18 November 2019, unless terminated earlier in accordance with the terms of the agreement. Either party may terminate the agreement with immediate effect on:

- the occurrence of certain insolvency events in connection with the other party;
- if the other party has committed a material breach of the agreement which is incapable of remedy or, if capable of remedy, is not remedied within 30 days of receiving notice to do so; or
- if the other party ceases or threatens to cease its business or to perform its obligations under the agreement.

Furthermore, the Company may make the agreement non-exclusive at any time by giving 90 days' written notice to CH if CH fails to purchase the minimum volume of PCC® prescribed under the agreement in products used by CH on 2 consecutive occasions.

10.9 Interests and Remuneration of Directors

The Directors are not required to hold any Shares or Options under the Constitution.

10.9.1 Proposed issue of Director Options

As indicated by the Fifth Resolution, it is proposed to issue 5,000,000 Director Options (prior to Share Consolidation being implemented) to each of the current Directors and Company Secretary in consideration for past services to the Company. The terms of these Director Options are set out in **Section 10.2.2** above.

For the reasons set out in **Section 10.9.7**, each of the Current Directors has a personal interest in the outcome of the Fifth Resolution and accordingly makes no recommendation as to how Shareholders should vote in regard to the Fifth Resolution. Furthermore, each Director will not be entitled to vote any of his Shares in respect of the Fifth Resolution.

10.9.2 Directors' and Proposed Directors' Shareholdings and Optionholdings

As at the date of this Prospectus, and prior to Share Consolidation being implemented, Directors hold a relevant interest in the following Shares and Options and receive annual remuneration from Probiomics, as follows:

Name	Shares	Options
Patrick Ford	3,936,000	5,000,000
Simon O'Loughlin	2,000,000	5,000,000
Simon Taylor	2,400,000	5,000,000
Ashok Jairath	Nil	2,000,000
	8,336,000	17,000,000

** This table does not include the 5,000,000 Director Options proposed to be issued to each of the above Directors and the Company Secretary referred to in **Section 10.9.1**.

As at the date of this Prospectus, none of the Proposed Directors have a relevant interest in any Shares or Options.

However, after completion of the Hunter Acquisition and the Share Consolidation, it is expected that the Proposed Directors will have the following relevant interests in the Company.

Name	Shares	Options
Ian Mutton	363,750	450,000
David Radford	6,326,020	Nil
Jeremy Curnock Cook	Nil	Nil
Douglas Wilson	Nil	Nil
Glenn Crisp	Nil	450,000
William Harrison	Nil	Nil
Patrick Ford	196,800	500,000
	6,886,570	1,400,000

10.9.3Directors' remuneration

Services provided by Directors of the Company, other than in their capacity as Directors, are paid for by such remuneration (if any) as determined by the Board commensurate with their level of experience and the services provided.

Under Probiomic's Constitution, the non-executive Directors have been paid as remuneration for their ordinary services as Directors a fixed sum to be divided amongst them in such proportion and manner as the Directors agree and, in default of agreement, equally. The maximum total aggregate amount that may be paid to the non-executive Directors is currently set at $250,000 per annum. The table below details the remuneration, including superannuation levy, that is payable to each Director.

Patrick Ford	$26,160
Simon O'Loughlin	$26,160
Simon Taylor	$26,160

10.9.4Executive contracts

David Radford has been engaged as Managing Director of Hunter since 2 May 2011, under a written executive employment agreement with Hunter (**Hunter Employment Agreement**).

It is intended that David Radford will be employed as Managing Director of the Merged Group under an amended Hunter Employment Agreement, upon completion of the Hunter Acquisition and the Re-admission of Probiomics, amongst other things (**Amended Hunter Employment Agreement**).

Other than as indicated below, the terms of the Amended Hunter Employment Agreement will be, in all material aspects, the same as the terms of the Hunter Employment Agreement. The material terms of the proposed Amended Hunter Employment Agreement are proposed to be as follows:

- Mr Radford's fixed annual base salary (exclusive of superannuation and other entitlements) will be $400,000, reviewable on an annual basis.
- Mr Radford will also be entitled to such performance bonuses as are agreed between Mr Radford and Hunter from time to time. The parties have agreed not to pre-determine Mr Radford's performance hurdles and bonuses on achievement of those hurdles, as was the case under the Hunter Employment Agreement.

- The agreement will not have a fixed term. However, Hunter may, subject to the requirements of the Corporations Act, terminate the agreement at any time on giving 6 months' prior written notice, payment in lieu of notice, or a combination of the foregoing, to Mr Radford. Further, Hunter will be entitled to terminate the agreement immediately if Mr Radford commits a serious or persistent breach of his obligations, is found to have made a false or misleading representation as to a material fact during negotiations of this agreement, becomes bankrupt, is convicted of a crime, becomes of unsound mind or becomes incapacitated by reason of accident or illness.

  Mr Radford may also terminate the agreement at any time by giving 3 months' prior written notice to Hunter.

- For a period of 6 months after termination of this agreement, Mr Radford agrees not to compete with any member of the Hunter Group (**Group Company**), canvass, solicit or entice away any person who is or was an employee of a Group Company at any time after the date that is 6 months prior to the date of termination of the Amended Hunter Employment Agreement to leave that Group Company, or interfere in any way with the relationship between a Group Company and its clients, customers, prospective customers, employees, consultants or suppliers.

The Directors believe that David Radford's remuneration as Managing Director of the Merged Group is appropriate for the duties allocated to him, the size of the combined businesses of the Company and Hunter and the industry in which the Company and Hunter operates.

10.9.5Director's Interests in Contracts

Except as disclosed in this Prospectus, no Director (whether individually or in consequence of a Director's association with any company or firm or in any material contract entered into by the Company) has now or has had in the two year period ending on the date of this Prospectus, any interest in:

- the formation or promotion of the Company;
- property acquired or to be acquired by the Company in connection with its formation or promotion or the offer of the securities; or
- the offer of the securities.

Except as disclosed in this Prospectus, no amount of any kind (whether in cash or shares or otherwise) has been paid or agreed to be paid to any Director or to any company or firm with whom a Director is associated:

- to induce him or her to become, or to qualify as, a Director; or
- otherwise for services rendered by him or her or any company or firm with which the Director is associated in connection with the promotion or formation of the Company or the offer of the securities.

10.9.6Material Personal Interests of Directors

David Radford – ***current Chief Executive Officer of Hunter and proposed Managing Director of the Company***

The Directors believe that David Radford has a material personal interest in the completion of the Takeover Bid and Public Offer. Accordingly, in accordance with the applicable provisions of the Corporations Act and ASIC Regulatory Guide 76, David Radford will not make any recommendation about whether or not any Hunter Shareholder should accept the Takeover Bid or participate in the Public Offer.

The details of David Radford's material personal interest referred to above are that:

(i) he will be entering into the Amended Hunter Employment Agreement, the material terms of which are set out in **Section 10.9.4**;

(ii) in anticipation of the Hunter Acquisition and Takeover Bid, and in consideration for David Radford entering into the Hunter Employment Agreement, and agreeing to enter into the Amended Hunter Employment Agreement in the circumstances referred to in **Section 10.9.4** above, Hunter proposes to issue 14,057,821 Hunter Shares, that will, if David Radford accepts the Takeover Bid for those Hunter Shares, entitle him to be issued with, on a post Share Consolidation basis 6,326,020 Shares, which will represent approximately 4.24% of all Consolidated Shares, on an undiluted basis (see **Section 10.4** for further details).

As a result David Radford may benefit – both indirectly and directly – from the successful completion of the Takeover Bid and the Public Offer.

10.9.7Other Personal Interests of Directors

Patrick Ford – ***current Non Executive Chairman of the Company***

The details of Patrick Ford's personal interests in the outcome of the Public Offer and the Takeover Bid are:

(i) he is an employee of, and holds a relevant interest in, approximately 3% of the issued capital in Veritas Securities Limited (**Veritas**);

(ii) Veritas will be acting as a broker to the Public Offer and in that role the Company has agreed to pay to Veritas fees that will be a percentage of the value of the Public Offer Shares and Public Offer Options allotted pursuant to Application Forms lodged or procured by Veritas and of the Application Monies, that are received by the Company under the Public Offer in respect of successful Applications – see **Section 10.8.1** above for greater detail;

(iii) if the Fifth Resolution, as referred to in the Notice of Meeting, is passed in accordance with its terms, Patrick Ford will be personally allotted with 5,000,000 Director Options, in consideration for his past and current services to the Company; and

(iv) he will remain as a non-executive director of the Company.

As a result Patrick Ford is likely to personally benefit – both indirectly and directly – from the successful completion of the Public Offer and the Takeover Bid.

Simon Taylor and Simon O'Loughlin – *current non-executive Directors*

Both Messrs Taylor and O'Loughlin will, if the Fifth Resolution is passed by Shareholders at the Meeting, be issued with 5,000,000 Director Options, in consideration for their past and current services to the Company.

The Current Directors are of the opinion that none of the personal interests referred to in this **Section 10.9.7** constitute "material personal interests" (as that term is applied under the Corporations Act) that would prohibit any of them from being entitled to express an opinion or recommendation in respect of the Public Offer or the Takeover Bid.

10.9.8Disciplinary action / insolvencies

None of the Directors or direct reports to the Directors has been subject to any criminal convictions, declarations under Section 1317E of the Corporations Act or personal bankruptcies, disqualifications or disciplinary actions. Nor have any of them been an officer of a company that has entered into a form of external administration during the time the person was an officer or within a 12 month period afterwards.

10.9.9Directors' deed of indemnity, insurance and access

To the extent permitted by law and subject to the restrictions in Section 199A of the Corporations Act, the Company must continuously indemnify each Director against liability (including liability

for costs and expenses) for an act or omission in the capacity of Director. However this does not apply in respect of any liability:

- to the Company or a Related Body Corporate;
- to some other person that arises from conduct involving a lack of good faith;
- for costs and expenses incurred by the Director in defending civil or criminal proceedings in which judgment is given against the officer or in which the officer is not acquitted; or
- for costs and expenses incurred by the Director in connection with an unsuccessful application for relief under the Corporations Act in connection with the proceedings referred to above.

The Company has also agreed to insure the Directors (including the Proposed Directors) and to provide them with access to board documents circulated during the Director's term in office.

10.10 Relevant interests and voting power in Hunter Securities

Neither Probiomics nor any Probiomics Director, nor any of their respective Associates, holds any Hunter Securities and accordingly, does not have any relevant interest or voting power in any Hunter Securities or any other securities issued by Hunter, other than pursuant to the Pre-Bid Acceptance Agreements entered into between Probiomics and each of the following Hunter Securityholders:

Name	Hunter Shares	% Holding †
Prof Robert Llewllyn Clancy and Mrs Christine Mary Clancy <Clancy Superannuation Fund>	21,254,200	12.9%
Hirst Shabian & Hirst Advisory Services Pty Limited <Shabian A/C>	7,929,816	4.8%
Total	**29,184,016**	**17.7%**

† *Calculated based on the total issued capital of Hunter as at the date of this Prospectus.*

Under the Pre-Bid Acceptance Agreements, each of the aforementioned Hunter Shareholders have agreed to accept the applicable Takeover Offer in respect of all their respective Hunter Shares if, in consideration for the transfer of their Hunter Shares to Probiomics, each Hunter Shareholder is entitled to received at least 9 Shares for each Hunter Share transferred under the terms of the relevant Takeover Offer.

In addition, each of the Hunter Shareholders and Hunter Noteholders in the table below has indicated to the Hunter Directors that, in the absence of a superior proposal, they intend to, as is applicable:

(a) accept the applicable Takeover Offer in respect of all their respective Hunter Shares; or

(b) convert their Tranche 2 Notes into Hunter Shares, receive Hunter Shares for the accrued interest under both their Tranche 1 and Tranche 2 Notes, and accept a Takeover Offer for all the resulting Hunter Shares,

prior to or upon the occurrence of the Re-admission Notification Date.

However, none of the following Hunter Securityholders is or will become legally bound to accept any such Takeover Offer and remains free to change its mind at any time in the future. Accordingly, Probiomics does not have a relevant interest in any of the following Hunter Securities.

Name	Hunter Securities	% Holding †
Shareholders		
Wigram Trading Pty Ltd	32,905,834	13.8%
Newcastle Innovation Limited	10,400,000	4.5%
Paul Bolt	6,662,500	2.9%
Noteholders – Tranche 1		
Phillip Asset Management Limited as trustee for IB Australian Bioscience Fund	28,944,292	12.5%
Cherryoak Investments Pty Ltd as trustee for C&N Family Trust	22,138,231	9.6%
PT Soho Industri Pharmasi	11,363,662	4.9%
Total	**111,414,519**	**48.3%**

† *Assumes the conversion of the Tranche II Notes and allotment of Hunter Shares in exchange for accrued interest on the Tranche I Notes and Tranche II Notes on 31 January 2012. Should the date of conversion of the Hunter Convertible Notes be later than this date, additional Shares will be issued as a consequence of the additional interest accruing on the Hunter Convertible Notes. The rate at which additional Hunter Shares would need to be issued is set out in **Section 10.3** in respect of both Tranche I Interests and Tranche II Notes.*

Each of the Hunter Directors has also informed Probiomics that they intend to accept the applicable Takeover Offers in respect of all their respective Hunter Securities that they hold no later than two Business Days prior to the end of the Takeover Bid Period. However, no agreement to that effect has been entered into by any of the Hunter Directors.

10.11 Major Shareholders

As at 11 November, 2011, the top 20 Shareholders of the Company were as follows:

Name	No. of existing Shares	% of existing Shares
Nutsville Pty Ltd	24,880,952	8.46
Mckell Place Nominees Pty Ltd	13,295,000	4.52
Symington Pty Ltd	13,250,000	4.50
Jamel Investments Pty Ltd	10,698,323	3.64
Kok Keen Chong + Mrs Hue Nghi Chong	10,133,783	3.44
I.E Properties Pty Ltd	8,347,332	2.84
Mambat Pty Ltd	8,062,008	2.74
Mr Alan Grant-Smith, Mrs Susan Grant-Smith & S Grant-Smith Super Fund A/C 12	7,255,920	2.47
Octafil Pty Ltd	7,176,827	2.44
Greenslade Holdings Pty Ltd	5,366,666	1.82
Bell Potter Nominees Ltd BB Nominees	5,243,250	1.78
Sambo Holdings WA Pty Ltd	4,000,000	1.36
Woodhurst Pty Ltd	4,000,000	1.36

Name	No. of existing Shares	% of existing Shares
Mr Edwin Paul Cayzer Mrs Lorraine Cayzer Mineral and Traders Super Fund	3,745,565	1.27
Frere & Associates Pty Ltd <Derick Frere Super Fund A/C>	3,559,491	1.21
P Ford Superannuation Pty Ltd <Patrick Ford Super Fund A/C>	3,519,333	1.20
Wootoona Investments Pty Limited	3,393,339	1.15
Interrepublica Pty Ltd	3,300,000	1.12
Calama Holdings Pty Limited	3,214,285	1.09
Kangsav Pty Limited	3,184,427	1.08
	145,626,501	**49.49**

10.12 Regulatory Relief

ASIC has granted the Company relief with respect to:

(a) Sections 605(2) and 619(2) of the Corporations Act to permit the Company to treat the 6 separate classes of Hunter Options as being securities of the same class for the purposes of making the offers under the Takeover Bid, notwithstanding that the Hunter Options are exercisable at different exercise prices and/or different expiry dates; and

(b) Section 631(1)(b) of the Corporations Act to permit the Company to make the Takeover Bid more than 2 months after publicly announcing the Company's proposal to make the Takeover Bid.

ASX has granted the Company with the following relief in relation to Listing Rule 1.1, Condition 9 and Listing Rule 9.1 and Appendix 9B:

(a) Hunter Securityholders (other than a promoter of the Company) (each, a **Non-promoter Hunter Securityholders**) will be treated as if they are "*seed capitalists*" of the Company, such that Appendix 9B, Item 1 of the Listing Rules is applicable to Non-promoter Hunter Securityholders, rather than Appendix 9B, Item 3. The effect of this treatment is that, for the purposes of determining the appropriate restrictions under the Listing Rules to apply to Bid Consideration issued to Non-promoter Hunter Securityholders in consideration for their acceptance of the applicable Takeover Offers, Non-promoter Hunter Securityholders will receive the benefit of the "*cash formula*" (as defined by the Listing Rules and set out in **Section 10.6**), which they would not otherwise have received in the absence of this relief; and

(b) in determining the appropriate restrictions to apply under the Listing Rules to Bid Consideration issued to Non-promoter Hunter Securityholders in consideration for their acceptance of the applicable Takeover Offers, the relevant escrow period will commence from the date of issue of the relevant Hunter Securities that are to be transferred by the relevant Non-promoter Hunter Securityholder to the Company in exchange for the Bid Consideration, as opposed to the date of Re-admission. The effect of this relief is that none of the Bid Consideration issued to Unrelated Hunter Securityholders on acceptance of the Takeover Bid will be escrowed.

For further information on the escrow arrangements that are expected to be applicable in relation to the Bid Consideration and other Shares to be issued to or that are held by Existing Shareholders and proposed Shareholders, see **Section 10.6** above.

10.13 New Zealand Mutual Recognition

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008. This offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and Regulations (Australia) set out how the offer must be made. There are differences in how securities are regulated under Australian law. The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities. Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Securities Commission, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

(a) **Payments that are not in New Zealand dollars**

The offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

(b) **Securities that are able to be traded on a financial market**

If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

10.14 Interests of Advisors

Other than as set out below or elsewhere in this Prospectus:

(a) no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus, a promoter of Probiomics or broker to the Public Offer, has as at the date of this Prospectus, or had at any time during the 2 years before lodgement of this Prospectus with the ASIC, any interest in:

  (i) the formation or promotion of Probiomics;

  (ii) property acquired or proposed to be acquired by Probiomics in connection with its formation or promotion or in connection with the Public Offer; or

  (iii) the Public Offer, and

(b) no amounts have been paid or agreed to be paid, and no benefits have been given or agreed to be given, to any of those persons in connection with the formation or promotion of Probiomics or the Public Offer.

The exceptions to the above statement are:

(a) Patrick Ford has received the sum of $4,000 for other professional services provided to Probiomics in the last two years; and

(b) O'Loughlin Lawyers, in which Simon O'Loughlin is a partner, has received the sum of $851 for legal services rendered to Probiomics in the last two years.

10.15 Consents to be named

Each of the parties referred to in this **Section 10.15**:

(a) does not make, or purport to make, any statement in this Prospectus, and is not aware of any statement in this Prospectus which purports to be based on a statement made by any of them, other than as specified in this Section; and

(b) 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.

Addisons has given its written consent to the appearance of its name in this Prospectus in its capacity as legal adviser to Probiomics in the form and context in which it appears and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Alder IP has given its written consent to the inclusion in this Prospectus of the Patent Report in **Section 9** in the form and context in which it appears and to all statements referring to that report in the form and context in which they appear and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Computershare has given its written consent to the appearance of its name in this Prospectus in its capacity as Share Registry in the form and context in which it appears and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Hunter Board has given its written consent to the inclusion in this Prospectus of statements made by the Hunter Board, and statements based on statements made by the Hunter Board, in the form and context in which it appears and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

RSM Bird Cameron has given its written consent to the inclusion in this Prospectus of the tax overview in **Section 2.14** in the form and context in which it appears and to all statements referring to that report in the form and context in which they appear and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

RSM Bird Cameron Corporate Pty Ltd has given its written consent to the inclusion in this Prospectus of the Investigating Accountant's Report in **Section 8** in the form and context in which it appears and to all statements referring to that report in the form and context in which they appear and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

RSM Bird Cameron Partners Chartered Accountants has given its written consent to the appearance of its name in this Prospectus in its capacity as Auditor to the Company in the form and context in which it appears and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Taylor Collison Limited has given its written consent to the appearance of its name in this Prospectus in its capacity as Joint Lead Manager in the form and context in which it appears and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Veritas Securities Limited has given its written consent to the appearance of its name in this Prospectus in its capacity as Joint Lead Manager in the form and context in which it appears and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Each person referred to above has not authorised or caused the issue of this Prospectus and, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part

of this Prospectus. There are a number of persons referred to elsewhere in this Prospectus who are not experts and 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.

10.16 Costs of the Public Offer

Fees, commissions and other costs that will be or are expected to be paid in connection with the Public Offer are as follows:

Nature of Expense	Minimum Subscription	Maximum Subscription
Brokers to the Public Offer– fees and commissions	$165,300	$340,400
ASX / ASIC fees	$82,236	$88,250
Legal and patent advice fees	$264,000	$313,500
Accounting and taxation	$99,000	$121,000
Technical advice	$42,350	$45,650
Graphic design, printing, advertising & marketing	$42,000	$42,000
Share Registry Fees (Registries)	$78,000	$78,000
Miscellaneous Expenses*	$200,000	$200,000
	$ 972,886	**$ 1,228,800**

*Includes stamp duty of $176,000 payable by the Company in connection with the Hunter Acquisition.

10.17 Inspection of Documents

Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an office of the ASIC.

In addition, the Company will make available, free of charge, to any applicant for Public Offer Shares and Public Offer Options who asks for it, in the period prior to the Closing Date of the Public Offer, a copy of the financial statements of the Company for the year ended 30 June 2011 (being the last financial statements to be lodged with the ASIC before the issue of this Prospectus).

10.18 Electronic Prospectus

An electronic version of this Prospectus is available from the Company at the internet URL address www.probiomics.com.au on the Internet.

The Application Form may only be distributed if attached to a complete and unaltered copy of the Prospectus. The Application Form included with this Prospectus contains a declaration that the investor has personally received the complete and unaltered Prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe that the investor has not received a complete paper copy or electronic copy of the Prospectus or if it has reason to believe that the Application Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While the Company believes that it is unlikely that during the Public Offer Period the electronic

version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that it will not be the case. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy of the Prospectus directly from the Company or a financial adviser.

10.19 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

However, an allegation against the Company was made in late 2009, disputing the Company's ownership of the intellectual property rights to *Lactobacillus fermentum* strains. The Company received legal advice that the claim was baseless and had no reasonable prospects of success. No legal proceedings have been commenced, or are anticipated to commence, in relation to this matter.

10.20 Working Capital Statement

Subject to the comments made in **Section 2.3**, including where only the Minimum Subscription is received by the close of the Public Offer, the Directors believe that, on completion of the Public Offer, the Company will have sufficient working capital to carry out its objectives as stated in this Prospectus.

10.21 Authorisation

This Prospectus is issued by the Company.

Each of the Directors of the Company has consented to its lodgement with the ASIC.

Patrick Ford
Chairman

21 December 2011

11 GLOSSARY OF TERMS

When reading the Prospectus the following terms have the following meanings:

$** or **A$	Australian dollar
AEDST	Australian Eastern Daylight Saving Time
Allotment Date	the date on which Public Offer Shares and Public Offer Options issued under this Prospectus will be allotted to successful Applicants
Amended Hunter Employment Agreement	the Variation Deed proposed to be entered into between David Radford and Hunter, and the proposed material terms of which have been summarised in **Section 10.9.4**
Applicant	a person who submits an Application Form (paper or electronic) to subscribe for Public Offer Shares and Public Offer Options under this Prospectus
Application Form	an application form accompanying this Prospectus, which includes a Public Offer Application Form under the Public Offer and a Priority Offer Application Form under the Priority Offer
Application	a valid application made by an Applicant to acquire Public Offer Shares and Public Offer Options pursuant to the Public Offer
Application Monies	monies received from Applicants in respect of their Applications
ASIC	the Australian Securities and Investments Commission
Associate	has the meaning given to it by Section 12(2) of the Corporations Act
ASX	ASX Limited, or, where the context requires, the financial market it operates
atopic dermatitis	an itchy, inflammatory, chronically relapsing and non-contagious skin condition, also known as atopic ezcema [21]
Bid Conditions	the conditions of the Takeover Bid, as summarised in **Section 1.10** and also as set out in full in **Appendix 2** of the Bidder's Statement
Bid Consideration	the consideration that the Company will be required to provide upon, and in accordance with the terms of, the Takeover Bid, being, subject to the satisfaction of the Bid Conditions: (a) in respect of the offer to Hunter Shareholders, 9 Shares for each Hunter Share held by a Hunter Shareholder on the Takeover Record Date; (b) in respect of the offer to Hunter Noteholders, 9 Shares for each 1 Tranche 1 Note Interest held by a Hunter Noteholder on the Takeover Record Date; and (c) in respect of the offer to Hunter Optionholders, 9 Replacement Options for each 1 Hunter Option held by the Hunter Optionholder on the Takeover Record Date
Bidder's Statement	the bidder's statement dated 13 December, 2011 for and in connection with the Takeover Bid
Board, Board of Directors or **Directors**	the board of Directors of the Company from time to time

Business Day	a day that is not a Saturday, Sunday, public holiday or bank holiday in the Sydney metropolitan area
CAGR	compound annual growth rate
CHESS	the Clearing House Electronic Subregister System
Chronic Obstructive Pulmonary Disease or **COPD**	a chronic disease of the airways to the lungs, which causes the airways to become narrower, leading to shortness of breath and increased production of sputum. Two common types of COPD are chronic bronchitis and emphysema
Closing Date	the closing date of the Public Offer, which is expected to be 6 February, 2012
Company or **Probiomics**	Probiomics Limited ABN 97 084 464 193
Consolidated Option	an Option after the implementation of the Share Consolidation
Consolidated Share	a Share after the implementation of the Share Consolidation
Constitution	the constitution of the Company, as amended from time to time
Corporations Act	*Corporations Act 2001* (Cth)
corticosteroids	long established drugs derived from natural hormones, which control inflammation
Current Director	each of Patrick Ford, Simon Taylor and Simon O'Loughlin
Director	a director of the Company from time to time
Director Options	the 20,000,000 Options proposed to be issued to certain Directors and the Company Secretary, as more particularly described in **Section 10.2.2**
Essential Resolutions	each of the First Resolution, Third Resolution, Sixth Resolution and Eighth Resolution, as summarised in **Section 10.7**
Existing Probiomics Options	the Options issued by the Company as at the date of this Prospectus, as more fully described in **Section 10.2.4**
Existing Shareholders	current shareholders of the Company as at the date of this Prospectus
Existing Shares	Shares in the Company held by Existing Shareholders as at the date of this Prospectus
Group	the Company and each of its related bodies corporate or controlled entities, and any Associate of any of the foregoing
HI-164OV	a drug composed of altered bacteria to treat COPD. It is contained in an oral enteric coated tablet which has a special coating to protect the active drug from being destroyed in the stomach. The tablet passes through to the small intestine where the active drug is released and takes effect. The treatment is intended to reduce the risk of exacerbations of COPD, which are acute episodes where the patient suffers a temporary increase in the severity of their disease (e.g. increased coughing and shortness of breath) such that additional medication and hospitalisation may be required
Holding Statement	a statement issued to a Shareholder by the Share Registry which sets out the number of Shares issued to that Shareholder
Hunter	Hunter Immunology Limited ABN 92 106 556 094
Hunter Acquisition	the proposed acquisition of Hunter Shares, Tranche 1 Note Interests and

	Hunter Options under the Takeover Bid
Hunter Board	the board of Hunter Directors, as constituted from time to time
Hunter Convertible Notes	the Tranche 1 Notes and the Tranche 2 Notes
Hunter Director	a director of Hunter
Hunter Group	Hunter and each of its related bodies corporate or controlled entities
Hunter Noteholder	the holder of a Tranche 1 Note or a Tranche 1 Note Interest, as the case may be
Hunter Option	an option to acquire a Hunter Share, including those described in **Section 10.2.3**
Hunter Optionholder	the holder of a Hunter Option
Hunter Security	a Hunter Share, a Tranche 1 Note, a Tranche 1 Note Interest or a Hunter Option
Hunter Securityholder	the holder of a Hunter Security
Hunter Share	a fully paid ordinary share in the issued capital of Hunter
Hunter Shareholder	a holder of a Hunter Share as at the Takeover Record Date
Investigating Accountant	RSM Bird Cameron Corporate Pty Ltd
irritable bowel syndrome or **IBS**	a functional disorder characterised by chronically recurring abdominal pain or discomfort and altered bowel habits, defined by symptom-based diagnostic criteria known as the "Rome criteria" [22]
Listing Rules	the listing rules of the ASX
Lead Manager	each of Veritas Securities Limited and Taylor Collison Limited
Listing Rules	the listing rules of ASX
Maximum Subscription	the Company receiving valid Applications and Application Monies for 400 million Public Offer Shares to raise $4,400,000 during the Public Offer Period
Meeting	the meeting of the Shareholders to be convened on 7 February, 2012 to consider and pass the Resolutions
merged company	the Company after it has completed the Hunter Acquisition and the Public Offer
Merged Group	the Group after Hunter becomes a wholly owned subsidiary of the Company
Minimum Subscription	the Company receiving valid Applications and Application Monies for 200 million Public Offer Shares to raise $2,200,000 during the Public Offer Period
MPS Options	the Options referred to in footnote 2 to the Table of Options set out in **Section 2.1.1**
mucosal immunology	the study of the immunity and inflammation of mucosal tissues that protect the body from invasion by bacteria and viruses, which might enter the body across mucosal linings of the intestines or lungs
Notice of Meeting	the notice of the Meeting dated or about 7 February, 2012 that seeks to

	convene the Meeting
Offer Management Agreement	the offer management agreements between the Company and the Lead Managers summarised in **Section 10.8.1**
Official List	the official list of entities that ASX has admitted and not removed
Official Quotation	official quotation of a security on a market operated by ASX
Opening Date	the opening date of the Public Offer, which is expected to be 6 January, 2012
Options	an option to acquire a Share, and includes Existing Probiomics Options, and when and if issued, Public Offer Options, Director Options, Replacement Options and MPS Options
Optionholder	the holder of an Option
OTC	'over the counter'
PCC®	a novel and patent-protected strain of the naturally-occurring *Lactobacillus fermentum* bacteria, which has been identified as a potential probiotic, with target market opportunities in intestinal health, infant nutrition, atopic dermatitis and immune system health sectors
Peyer's Patches	dense collections of specific immune cells, i.e. lymphocytes, which act as staging posts for the initiation of immune reactions. They are found at a number of different sites in the body, such as in the walls of the small intestine
Phase IIa trial	a clinical trial in patients conducted for the purpose of identifying the most appropriate dosage of a drug
Phase IIb trial	a clinical trial in patients conducted for the purpose of analysing the effect of a selected drug dosage in patients
Phase III trial	a clinical trial of a commercially-ready product across a large number of patients in preparation for regulatory approval
Priority Offer	the invitation to Existing Shareholders to apply for Public Offer Shares and Public Offer Options, made pursuant to this Prospectus, as described in **Section 2.8.2**
Priority Offer Application Form	an Application Form that accompanies this Prospectus and that must be completed by eligible Shareholders seeking apply for Public Offer Shares and Public Offer Options under the Priority Offer
probiotics	living natural microorganisms which, when administered in adequate amounts, confer a health benefit to the host organism [23]. Probiotics are usually ingested in the form of fermented foods, such as yoghurt, and dietary supplements
Proposed Director	each of Ian Mutton, David Radford, Jeremy Curnock Cook, Douglas Wilson, Glenn Crisp and William Harrison
Prospectus	this document (including any electronic form of this Prospectus), and any supplementary or replacement prospectus in relation to this document
Public Offer	the invitation to apply for Public Offer Shares and Public Offer Options made pursuant to this Prospectus
Public Offer Application	an Application Form that accompanies this Prospectus and that must be

Form	completed by eligible Shareholders seeking apply for Public Offer Shares and Public Offer Options under the Public Offer
Public Offer Period	the period from the Opening Date to the Closing Date
Public Offer Option	Options issued under this Prospectus, being 1 Option for every 3 Public Offer Shares, on the terms described in **Section 10.2.1**
Public Offer Price	$0.011 per Public Offer Share
Public Offer Security	Public Offer Shares and Public Offer Options
Public Offer Share	Shares issued under this Prospectus
Re-admission	the re-admission of the Company to the Official List and termination of the suspension from Official Quotation of the Shares
Re-admission Notification Date	the date upon which the Company receives from ASX written confirmation that ASX will re-admit the Company to the Official List and terminate the suspension from Official Quotation of the Shares, subject to the performance of such terms and conditions (if any) as are prescribed by the Listing Rules
Related Bodies Corporate	has the meaning given to it by Section 50 of the Corporations Act
Related Shareholder	has the meaning given to it in **Section 10.6**
Replacement Options	the Options to be issued to the Hunter Optionholders, as described in **Section 10.2.3**
relevant interest	has the meaning given to that term in Section 608 and Section 609 of the Corporations Act
Resolutions	the resolutions in the Notice of Meeting, as summarised in **Section 10.7**
Series of Transactions	each of the passing of the Resolutions at the Meeting, the Takeover Bid, the Public Offer and the Share Consolidation
Settlement Operating Rules	the settlement operating rules and requirements from time to time of the ASX
Share	ordinary shares in the capital of the Company
Share Consolidation	the consolidation of the Shares on 1 for 20 basis, as more particularly described in **Section 10.5**
Shareholder	a registered holder of Shares
Share Registry or **Computershare**	Computershare Investor Services Pty Limited ABN 48 078 279 277
Takeover Bid	a takeover bid by the Company for all Hunter Shares, Tranche 1 Notes, Tranche 1 Note Interests and Hunter Options in accordance with the terms and conditions set out in the Bidder's Statement
Takeover Bid Period	the period commencing on the Takeover Opening Date and ending on 5.00 p.m. (AEDST) on 9 March, 2012, unless withdrawn or extended pursuant to the Corporations Act
Takeover Offers	Probiomics' offer to acquire a Hunter Security on the terms and conditions set out in **Appendix 1** and **Appendix 2** of the Bidder's Statement as they relate to that Hunter Security and as such offer may be varied in

	accordance with the Corporations Act
Takeover Opening Date	20 December, 2011
Takeover Record Date	each person who is registered or entitled to be registered in the register of Hunter Shares at 9.00 a.m. (AEDST) on 13 December, 2011 and each other person who becomes so registered before the end of the Takeover Bid Period
Taylor Collison	Taylor Collison Limited ABN 53 008 172 450
Tranche 1 Note Interest	is an interest in a Tranche 1 Note, which is determined by dividing the face value of a Tranche 1 Note, being $0.20, by $0.099
Tranche 1 Notes	the tranche 1 convertible notes issued by Hunter, which are convertible into Hunter Shares and as more fully described in **Section 10.3**
Tranche 2 Notes	the tranche 2 convertible notes issued by Hunter, which are convertible into Hunter Shares and as more fully described in **Section 10.3**
TUNRA	Newcastle Innovation Limited, previously known as The University of Newcastle Research Association, ABN 97 000 710 074
UK	United Kingdom
Unconditional	in relation to the Takeover Bid becoming unconditional, the date upon which the Company issues a notice in accordance with Section 630(3) of the Corporations Act that declares that the Takeover Bid is freed from any defeating conditions otherwise applicable to that bid
Unrelated Hunter Securityholder	a Hunter Securityholder that is not a Related Shareholder
US	United States of America
US$	US dollar
Veritas	Veritas Securities Limited ABN 94 117 124 535
Voting Shares	a Share to which voting power attaches

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PUBLIC OFFER APPLICATION FORM

PRIORITY OFFER APPLICATION FORM

CORPORATE DIRECTORY

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Share Registry Computershare Investor Services Pty Ltd GPO Box 2115 Melbourne VIC 3001 452 Johnston Street Abbotsford VIC 3067 P: 1300 369 702 (within Australia) or + 61 3 9415 4283 (outside Australia)	**Investigating Accountants** RSM Bird Cameron Corporate Pty Limited Level 12, 60 Castlereagh St Sydney NSW 2000 P: +61 2 9233 8933