PROBIOMICS LIMITED

A.B.N. 97 084 464 193

ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2011

CORPORATE INFORMATION

Directors

Patrick Douglas Ford

Simon O'Loughlin

Simon Taylor

Company Secretary

Ashok Jairath

Corporate Head Office and Principal Place of Business

Suite 1A, Level 2
802 Pacific Highway
GORDON NSW 2072
Telephone: (02) 9844 5422
Facsimile: (02) 9844 5445
A.C.N. 084 464 193
A.B.N. 97 084 464 193

Registered Office

Suite 1A, Level 2
802 Pacific Highway
GORDON NSW 2072
Telephone: (02) 9844 5422
Facsimile: (02) 9844 5445

Principal Solicitors

Dibbs Barker
Lawyers
Level 8, 123 Pitt Street,
SYDNEY NSW 2000

Patent & Trade Mark Attorney

Spruson & Ferguson
Patent and Trade Mark Attorneys
Level 35, St Martins Tower, 31 Market Street,
SYDNEY NSW 2000

Bankers

National Australia Bank Limited

Auditors

RSM Bird Cameron Partners
Level 12
60 Castlereagh Street,
SYDNEY NSW 2001

Share Register

Computershare Investor Services Pty Ltd
Level 12, 565 Bourke Street,
MELBOURNE VIC 3000
Ph: 1300 855 080
Fax: 02/8235 8212

Internet Address

www.probiomics.com.au

Contents

Directors' Report

Your directors submit their report on the company for the year ended 30 June 2011.

DIRECTORS

The names and details of the directors in office at any time during or since the end of the year are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr Patrick Douglas Ford	Mr Ford was appointed to the Board on 17th May 2005 and Chairman 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 Ltd 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. Mr Ford has not been a director of any other listed company during the past five years.
Mr Simon O'Louglin	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.
Mr Simon Taylor	Mr Simon 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. Simon's corporate experience includes project appraisal, advice on placements and fundraising. Simon is a member of the Australian Institute of Geologists. Mr. Taylor is a member of the Audit Committee and the Remuneration Committee.

COMPANY SECRETARY

Ashok Kumar Jairath **FCPA**	Mr Jairath has been Company Secretary of Probiomics Limited 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, biotech companies and as a business consultant in startups and turnarounds of a number of companies.

Interests in the shares and options of the company and related bodies corporate

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

Director	Number of ordinary shares	Unlisted employee options
Patrick Douglas Ford	3,935,999	5,000,000
Simon O'Loughlin	2,000,000	5,000,000
Simon Taylor	2,400,000	5,000,000

Refer to note 20 for further information on directors' remuneration, shares and options holdings.

OPERATING RESULTS

The result of the company for the financial year was a profit of $ 1,054.

DIVIDENDS

No dividends have been paid or have been recommended during the year.

PRINCIPAL ACTIVITIES

The principal activities during the year of the company were:

- The manufacture and bulk sale of probiotic products,
- Testing and development of the company's products through research and development.
- Licensing and global alliance with global companies for sale and distribution of Lactobacillus fermentum PCC.

There have been no significant changes in the nature of these activities during the year.

REVIEW OF OPERATIONS

Overview

The fore runner of Probimics Limited, Vasse Research Institute Pty Limited was formed in 1998, which was later renamed VRI BioMedical Limited and it listed on the ASX in December 2000.

Operating results for the year

The company's operation during the year resulted in a net profit of $ 1,054 despite the lower than expected sale of raw material. Sales of finished goods are no longer undertaken by the Company as it has a global sales and distribution agreement with the Chr Hansen. Chr Hansen has been vigorously marketing PCC in various territories but are yet to close a deal at the time of this report. Both Chr Hansen and the company is aware that it will take some time to close out international sales due to lack of brand recognition. Chr Hansen is a global leader in the development of natural ingredient solutions for food, pharmaceutical, nutritional and agricultural industries. It has 2,230 employees globally with a presence in 30 countries and has distributors and agents around the world. During 2010/2011 Chr Hansen had sales of approximately A$ 770 million.

Operational expenditure was in line with previous year - which itself was a decline of 63 % compared to the year before - due to a continued reduction in administrative and corporate expenditure, predominantly in the areas of occupancy cost, consultants fees, legal expenses and staff costs. The Cost of Goods Sold(denominated in Euros) increased due to a price increase as well from the margin compression from the significant appreciation the Australian dollar against the US$. This has resulted in a lower gross margin and the operating profit.

Liquidity and Capital Resources

The cash flow statement shows a decrease in cash in the year ended 30 June 2011 of $126,369 (2010 increase $152,072). The decrease in cash inflow in comparison with the prior year is due to a number of factors, including the repayment of the convertible notes of $ 50,000 on 21 September 2010. Additionally, the cash balance was also impacted by the strong A$ resulting in lower sales revenue on a year to year basis..

Capital expenditure

There was no purchase of property, plant and equipment during the year. The principal reason for no capital expenditure in the year was in line with company's strategy to optimise the existing resources. No capital expenditure commitments existed at balance sheet date.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes to the affairs of the Company other than it continues to explore global opportunities with its strategic partners Chr Hansen, in addition to its alliance with the US based Multi Level Marketing Company and the Development and Licensing Agreement with Nestle. To this end Nestle is continuing technical and clinical trials on PCC with the intention of launching specialised infants formula in 2013.

The company continues to explore further opportunities and any significant developments in this area will be announced to the shareholders, if and when they are realised

GOING CONCERN

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in note 15 to the financial statements, the company currently derives 99% of its sales from one customer. The company is dependent on receiving ongoing orders from that customer or identifying alternate revenue streams to continue generating profits and operating cash flows. The company does not have firm orders for all projected sales for the 12 month period from the date of this report. Further the current year cash flow projections include $150,000 in royalty and milestone payments. The company has contracts in place in respect of this revenue but should the counterparties decide to discontinue their customer relationship, the cash inflows may not be realised. If the royalties, commissions or sales revenue are not received, the company will not have insufficient cash resources to fund its ongoing operations from its operating cash flows.

This factor indicates a significant uncertainty as to whether the company will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the company will be able to continue as a going concern, after consideration of the following factors:

- The company has prepared detailed budgets based on past experience and directors best estimates of future sales, which indicate the company will continue to trade profitably and generate positive cash flows;
- The company has been able to generate expressions of interest from potential brokers in relation to capital raisings of $200,000 and
- The expectation that the company will be successful in generating additional sales revenue from the successful commercialisation and further development by the company of its probiotic technology, that is expected to result in royalty payments for the company.

Accordingly, the Directors believe that it is reasonably foreseeable that the company will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the company does not continue as a going concern.

AFTER BALANCE DATE EVENTS

No circumstances or matters have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

FUTURE DEVELOPMENTS

Other than matters referred to elsewhere in this report, further information as to likely developments in the operations of the company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The company's operations are not subject to any particular environmental regulations.

SHARE OPTIONS

Unissued shares
As at the date of this report, there were 19,500,000 unissued ordinary shares under option. Of these 17,000,000 were issued pursuant to the company's Employee Share Option Plan, and the remainder 2,500,000 were issued to Taylor Collison pursuant to an underwriting of a private placement in May 2009. Refer to note 16 for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year no employees or shareholders have exercised their options to acquire fully paid ordinary shares. Since the end of the financial year, no options have been exercised.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the company has paid premiums in respect of a contract insuring all the directors and officers of the company. The total amount of insurance contract premium paid was $11,916 (2010: $12,439).

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Probiomics Limited (the company).

Remuneration philosophy

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

Remuneration Committee

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Salaries are reviewed periodically by the Committee but there is no specific link to company performance as the company has, until recently, been engaged mainly in research and development and linking remuneration to R&D outcomes would be inappropriate in the company's view. In future, remuneration will be linked to the success in commercialisation of the probiotic.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective
The Board of Directors recognises that the success of the company will depend, largely, upon the quality of its directors and its senior management. For this reason the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated, highly skilled and appropriately qualified directors and executives.

Structure
The Company's Constitution and the ASX listing rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined by shareholders in general meeting is then available to be split between the Directors as agreed between themselves. The latest determination was at the Annual General Meeting held on 28th November 2003 when shareholders approved an aggregate remuneration amount of $250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between directors is reviewed annually. The Board takes into account the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. The Chairman receives a higher fee in recognition of the additional time commitment required of a Chairman.

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company on whose board they sit.

Remuneration is not linked to the performance of the company.

The remuneration of non-executive directors for the period ending 30 June 2011 is detailed in Table 1 of this report.

Senior manager and executive director remuneration

Objective
The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company so as to ensure total remuneration is competitive by market standards.

Structure
In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market conditions to ensure that the remuneration offered is sufficient to attract executives of the highest caliber.

All employees are engaged under the company's standard terms and conditions of employment and at present there are no contracts with any employees.

All employees are paid a basic salary only and at present there are no short-term incentive nor long-term incentive arrangements with any employee.

Remuneration is not linked to the performance of the company.

Fixed remuneration

The fixed remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Table 1: Director remuneration for the year ended 30 June 2011

		Primary benefits	**Post employment**	**Equity**	**Total**
		Directors fees	Superannuation	Options (a)	
		$	$	$	$
P D Ford	**2011**	**26,160**	**-**	**-**	**26,160**
Non-executive Chairman	2010	26,160	-	-	
S.O'Loughlin	**2011**	**24,000**	**2,160**	**-**	**26,160**
	2010	24,000	2,160	-	
S. Taylor	**2011**	**24,000**	**2,160**	**-**	**26,160**
	2010	25,440	720	-	

Table 2: Remuneration of the most highly paid executive officers of the consolidated entity for the year ended 30 June 2011

		Primary benefits	Post employment	Equity	Total
		Salary	Superannuation	Options (a)	
		$	$	$	**$**
A Jairath	**2011**	**99,000**	**-**	**-**	**99,000**
CFO and Company Secretary	2010	106,000	-	-	

Table 3: Options holdings of Key Management Personnel for the year ended 30 June 2011

	Grant date	Number granted	Value per option at grant date (a)	Number exercised	Number of options lapsed during year	Last Exercise date	Exercise price
P D Ford	26 Nov 08	5,000,000	$0.02	Nil	Nil	25 Nov 13	$0.02
S O'Loughlin	26 Nov 08	5,000,000	$0.02	Nil	Nil	25 Nov 13	$0.02
S Taylor	26 Nov 08	5,000,000	$0.02	Nil	Nil	25 Nov 13	$0.02
A Jairath	4 Dec 08	2,000,000	$0.01	Nil	Nil	3 Dec 13	$0.01

Employee Option Plan
An employee option plan is established whereby Probiomics Limited may, at the discretion of the Directors grant options to purchase ordinary shares in the Company to certain eligible employees. The options are granted for no consideration and are generally for a term of five years with the exercise price being determined at the discretion of the Directors. Generally the options vest immediately and can be exercised at any time during the term of the option period but are not transferable and are not quoted on ASX. No performance condition was attached to the options as they were considered to be part of the employee's remuneration package.

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

Employment Contracts
All current executives have consulting contracts. The company may terminate the executive's contract at any time by providing a written notice. On termination notice by the company any options that have vested or that will vest during the notice period will be released. The company may terminate the contract at any time without notice if serious misconduct has occurred.

DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

		Meetings of Committees	
	Directors' Meetings	**Audit and Risk Management**	**Remuneration**
Number of meetings held:	7	2	-
Number of meetings attended:			
			-
P D Ford	7	2	-
S O'Loughlin	6	2	-
S Taylor	6	2	-

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an Audit Committee and a Remuneration Committee, of the Board of Directors.

Members acting on the Board committees during the year were:

Audit and Risk Management	Remuneration
Simon O’Loughlin (Chairman)	Simon O’Loughlin (Chairman)
Simon Taylor	Simon Taylor
Patrick Ford	Patrick Ford

AUDITOR INDEPENDENCE DECLARATION

We have obtained the independence declaration from our auditors, RSM Bird Cameron, a copy of which is included on page 35 of this annual report.

NON-AUDIT SERVICES

No fees were paid to the entity’s auditor RSM Bird Cameron for non- audit services.

Signed in accordance with a resolution of the Directors.

Patrick Ford
Chairman
26th September 2011

Corporate Governance Statement

The Board of Directors of Probiomics Limited 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.

Probiomics has adopted the best practise 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. The suite of corporate governance material that the Company abides by is available under Investor tab of the company's website www.probiomics.com.au.

Principle 1: Lay solid foundation for management and oversight

Role of Board and management

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 this size, fewer than 20 employees, such a statement would be unnecessarily formal. Also, as the chief executive and chief financial officer attend all board meetings, 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 of the Company's disclosure and share trading policies as well ASX disclosure requirements. The constitution is available under the in Corporate Governance in the investor section of the Company's website.

Principle 2: Structure the board to add value

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report is included in the Directors' Report on page 3. Directors of Probiomics Limited 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 judgement.

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, the following directors of Probiomics Limited are considered to be independent.

Name	**Position**
Patrick Douglas Ford	Chairman &Non-Executive Director (re-elected 23 June 2008)
Mr Simon O'Louglin	Non-executive Director (appointed 31 July 2008)
Mr Simon Taylor	Non-executive Director (appointed 25 July 2008)

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.

The term in office of each director as at the date of this report is as follows:

Name	Term in office
P D Ford	3year & 3 months (re-elected 23 June 2008)
Mr Simon O'Louglin	1 year 2 months
Mr Simon Taylor	3 year 2 months

Board Committees

The board has two committees, viz:

- Audit and Risk Management Committee
- Remuneration Committee

The company did not have a separate nominations committee during the year. All nominations for appointment as a director are considered by the whole Board.

Performance Evaluation

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.

A formal evaluation process was conducted of the Chief Financial Officer / Company Secretary but the process was not published as was considered to be a confidential evaluation of individuals and publishing it would not be appropriate. Currently, the company does not have any employees and the current CFO / Company Secretary is engaged on consulting basis 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.

Conflict of Interests

There was no conflict of interest as none of the entities associated with the directors had business dealings with the Company.

Principle 3: Promoting ethical and responsible decision making

The company has a written code of conduct that is 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.

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 in 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 entity. 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 bard 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 committee.

The audit 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 committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit and Risk Management Committee during the year were:

S.O'Loughlin	Chairman
S. Taylor	
P Ford	

Qualifications of Audit Committee members

Mr O'Loughlin is on the board of numerous companies and is an experienced commercial lawyer.

Mr Taylor a qualified geologist and managing director of Newport Mining Limited and is on the board of number of companies.

Mr Ford holds a Bachelor of Commerce degree and is a stock broker with extensive experience of financial and accounting matters.

For details of the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 9 of the Directors' Report.

Attestation by Chief Executive Officer and Chief Financial Officer

The Chief Financial Officer, Mr Ashok Jairath has made a declaration required by the section 295A of the Corporation Act and recommended under Recommendation 4.1 and Recommendation 7.2 of the ASX Principles. The declaration states to the board in writing that to the best of his knowledge the integrity of the financial statements accord with relevant accounting standards, present a true and fair view, and are founded on a sound system of risk management and internal compliance and controls which operates efficiently and effectively in all material respects. The Company currently does not have a CEO.

External Audits

RSM Bird Cameron was appointed as the company's auditor at the AGM held on 23 June 2008. Auditor reports directly to the Audit & Risk Management Committee and has unrestricted access to the board members. Additionally, the auditor attends AGM and GMs and answers any questions raised by the shareholders. The auditor's main role is to provide the shareholders that the financial statements give a true and fair view of the company's financial position and are in compliance with Australian Accounting Standards.

Principle 5: Timely disclosure of material matters

The company has a continuous disclosure policy, which is available under the in Corporate Governance 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 ASX listing rules as well to ensure that 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 report 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.

The company auditor attended the AGM and is available to answer shareholder questions about the conduct of the audit and the preparation and the content of the auditor's report.

Principle 7: Recognition and management of risk.

The company's Audit Committee also acts as the Risk Management committee 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 in Corporate Governance in the investor section of the company's website.

Additionally, the CEO and CFO provide a statement to the board detailed under Principle 4: Safeguarding the integrity of financial reporting.

Principal 8: Remunerate fairly and responsibly

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

A full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period is contained in the remuneration report of the Directors' Report on pages 7, 8 and 9.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The board is responsible for determining and reviewing compensation arrangements for the directors themselves, the Executive Director and the executive team. The board has established a remuneration committee, comprising three directors.

Members of the Remuneration Committee throughout the year were:

S.O'Loughlin	Chairman
S. Taylor	
P Ford	

For details of the number of meetings of the Remuneration and Nominations Committee held during the year and the attendees at those meetings, refer to page 9 of the Directors' Report.

The committee does not have a formal charter as there are fewer than 20 employees to consider in the context of remuneration and such a formality is not considered an efficient use of the Directors' time.

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 $	2010 $
Sales Revenue	2(a)	**939,644**	751,897
Interest revenue	2(a)	**231**	432
Revenue		**939,875**	752,329
Cost of sales		**(513,473)**	(282,456)
Gross profit		**426,402**	469,873
Other income	2(b)	**45,338**	114,414
Research and development expenses		**(1,612)**	(19,860)
Intellectual property expenses		**(18,603)**	(81,393)
Administrative and corporate expenses	2(c)	**(445,120)**	387,292
Finance costs	2(c)	**(5,351)**	(15,598)
Profit /(Loss) before income tax		**1,054**	80,144
Income tax refund	3	**-**	-
Profit (Loss) after tax attributable to members		**1,054**	80,144
Other Comprehensive Income		**-**	-
Net Comprehensive Profit (Loss)		**1,054**	80,144
Basic profit (loss) per share (cents per share)	5	0.00	0.03
Diluted profit (loss) per share (cents per share)	5	0.00	0.03

The accompanying notes form part of these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2011

	NOTE	2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	**111,628**	237,997
Trade and other receivables	7	**106,480**	56,399
Total current assets		**218,108**	294,396
Non-current assets			
Plant and equipment	8	**2,625**	4,187
Total non-current assets		**2,625**	4,187
TOTAL ASSETS		**220,733**	298,583
LIABILITIES			
Current liabilities			
Trade and other payables	9	**96,390**	125,294
Financial liabilities	10	**-**	50,000
Total current liabilities		**96,390**	175,294
TOTAL LIABILITIES		**96,390**	175,294
NET ASSETS		**124,343**	123,289
EQUITY			
Issued capital	11	**27,761,399**	27,761,399
Reserves	12	**289,212**	289,212
Accumulated losses		**(27,926,268)**	(27,927,322)
TOTAL EQUITY		**124,343**	123,289

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Issued Capital $	Accumulated Losses $	Option Reserves $	Total Equity $
Balance at 1 July 2009		27,761,399	(28,007,466)	289,212	43,145
Profit for the year		-	80,144	-	80,144
Cost of share-based payments		-	-	-	-
Balance at 30 June 2010		27,761,399	(27,927,322)	289,212	123,289
Profit for the year		-	1,054	-	1,054
Balance at 30 June 2011		27,761,399	(27,926,268)	289,212	124,343

The accompanying notes form part of these financial statements.

Statement Cash Flow

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**883,510**	1,158,663
Payments to suppliers and employees		**(993,785)**	(1,003,687)
Receipt of Export Marketing Grant		**39,026**	32,913
Interest received		**231**	430
Finance costs		**(5,351)**	(36,247)
NET CASH USED IN OPERATING ACTIVITIES	6	**(76,369)**	152,072
CASH FLOWS FROM INVESTING ACTIVITIES			
NET CASH USED IN INVESTING ACTIVITIES		**-**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of convertible notes		**(50,000)**	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		**(50,000)**	-
NET INCREASE/(DECREASE) IN CASH HELD		**(126,369)**	152,072
CASH AT BEGINNING OF FINANCIAL YEAR		**237,997**	85,925
CASH AT END OF FINANCIAL YEAR	6	**111,628**	237,997

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers Probiomics Limited as an individual entity. Probiomics Limited is a company limited by shares, incorporated and domiciled in Australia.

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in note 15 to the financial statements, the company currently derives 99% of its sales from one customer. The company is dependent on receiving ongoing orders from that customer or identifying alternate revenue streams to continue generating profits and operating cash flows. The company does not have firm orders for all projected sales for the 12 month period from the date of this report. Further the current year cash flow projections include $150,000 in royalty and milestone payments. The company has contracts in place in respect of this revenue but should the counterparties decide to discontinue their customer relationship the cash inflows may not be realised. If the royalties, commissions or sales revenue are not received, the company will not have insufficient cash resources to fund its ongoing operations from its operating cash flows.

This factor indicates a significant uncertainty as to whether the company will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the company will be able to continue as a going concern, after consideration of the following factors:

- The company has prepared detailed budgets based on past experience and directors best estimates of future sales, which indicate the company will continue to trade profitably and generate positive cash flows;
- The company has been able to generate expressions of interest from potential brokers in relation to capital raisings of $200,000 and
- The expectation that the company will be successful in generating additional sales revenue from the successful commercialisation and further development by the company of its probiotic technology, that is expected to result in royalty payments for the company.

Accordingly, the Directors believe that the company will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the company does not continue as a going concern.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) 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.

(c) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of products includes direct materials and transportation costs. Costs are assigned on a first-in first-out basis.

(d) Plant and equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over the asset's useful life to the company commencing from the time the asset is held ready for use.

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

Plant and equipment – ranging from 2 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(e) Financial Instruments

Recognition and Initial Measurement

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

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

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

Classification and Subsequent Measurement

Loans and receivables

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

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

(f) 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.

(g) 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.

(h) Foreign Currency Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the gain or loss is directly recognised in other comprehensive income, otherwise the exchange difference is recognised in the income statement.

(i) Provisions

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

(j) Cash and Cash Equivalents

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

(k) 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

(l) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit & loss in the period in which they are incurred.

(m) Goods and Services Tax (GST)

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

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

(n) Comparative Figures

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

(o) Critical Accounting Estimates and Judgements

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

Key judgements – taxation losses

The company has substantial carry-forward losses for Australian taxation purposes. Deferred tax assets arising from both temporary differences and tax losses are not recognised as their realisation is not considered to be probable.

(p) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the entity has decided not to early adopt. These are not expected to have a material impact on the company.

The financial report was authorised for issue on 26th September 2011 by the board of directors.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

	2011 $	2010 $
NOTE 2: REVENUES AND EXPENSES		
(a) Revenue		
Sales revenue - sale of goods	**939,644**	751,897
Interest revenue received from other persons	**231**	432
	939,875	752,329
(b) Other income		
Other income	**45,338**	114,414
	45,338	114,414
(c) Expenses		
Finance costs paid to external parties	**5,351**	15,598
Depreciation	**1,562**	2,497
Foreign currency translation losses	**66,628**	13,165

NOTE 3: INCOME TAX

	2011 $	2010 $
Prima facie tax payable (benefit) on profit (loss) from ordinary activities before income tax at 30% (2010: 30%)	**316**	24,043
Expenditure not allowable for income tax purposes	**560**	3,415
Losses not brought to account	**-**	-
Utilisation of Tax Losses	**(876)**	(27,458)
Income tax expense (benefit) attributable to the company	**-**	-
The applicable weighted average effective tax rates are as follows:	**0%**	(0%)

No research and development rebate was received in respect of the year ended 30 June 2011.

At 30 June 2011 the company had not brought to account a deferred tax asset (at 30%) of $7,634,257 made up of tax losses of $7,610,685 and timing differences of $23,572 (2010: tax losses of $7,611,561 and timing differences of $20,247) as realisation of the benefit is not probable.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	$	$

NOTE 4: DIVIDENDS PAID AND DECLARED

No dividends have been paid or declared in the reporting period.

NOTE 5: EARNINGS PER SHARE

Earnings (loss) used to calculate basic and diluted EPS	**1,054**	80,144
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**294,235,077**	294,235,077
Weighted average number of options outstanding not included in diluted EPS calculations as the options are anti-dilutive in nature.	**2,572,528**	2,647,074

NOTE 6: CASH AND CASH EQUIVALENTS

Cash at bank and on hand	**111,628**	237,997
Reconciliation of cash flow from operations with loss after income tax		
Profit (Loss) after income tax	**1,054**	80,144
Non-cash flows in profit		
Depreciation	**1,562**	2,497
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(50,081)**	336,621
(Decrease)/increase in trade and other payables	**(28,904)**	(267,190)
Net cash flows from operating activities	**(76,369)**	152,072

NOTE 7: TRADE AND OTHER RECEIVABLES

Trade receivables	**99,110**	50,621
Other receivables	**7,370**	5,778
	106,480	56,399
Australian dollar equivalent of amounts receivable in US dollars not formally hedged	**92,177**	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

	2011 $	2010 $
NOTE 8: PLANT & EQUIPMENT		
Plant and equipment at cost	**27,438**	27,438
Accumulated depreciation	**(24,813)**	(23,251)
	2,625	4,187

Movements in carrying amounts
Movement in the carrying amounts between the beginning and the end of the financial year

	2011 $	2010 $
Balance at 1 July	**4,187**	6,684
Additions	**-**	-
Disposals	**-**	-
Depreciation charge for the year	**(1,562)**	(2,497)
Balance at 30 June	**2,625**	4,187

NOTE 9: TRADE AND OTHER PAYABLES

	2011 $	2010 $
Trade payables	**13,957**	54,810
Accrued expenses	**78,424**	67,490
GST liability	**1,039**	24
Employee superannuation payable	**2,094**	2,094
PAYG payable	**876**	876
	96,390	125,294

Trade payables are non-interest bearing and are generally settled on 60 day terms.

	2011 $	2010 $
Australian dollar equivalent of amounts payable in US dollars not formally hedged	**-**	17,890

NOTE 10: FINANCIAL LIABILITIES

	2011 $	2010 $
Convertible notes	**-**	50,000

The company paid out the unsecured convertible notes of $50,000 (2010: $-) in September 2010.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

	2011 $	2010 $
NOTE 11: ISSUED CAPITAL		
Ordinary shares – issued and fully paid	**27,761,399**	27,761,399

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

Movement in ordinary shares on issue	**Number of shares**	**$**
Ordinary shares at 1 July 2010	**394,235,077**	27,761,399
Nil issues	**-**	-
Ordinary shares at 30 June 2011	**294,235,077**	27,761,399

NOTE 12: RESERVES

Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

NOTE 13: CAPITAL AND LEASING COMMITMENTS

The company had no capital or leasing commitments at 30 June 2010 or 30 June 2011.

NOTE 14: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The company has no contingent liabilities or assets as of 30 June 2011.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: SEGMENT INFORMATION

Business segment

The company operates in only one primary and business segment – the biotechnology segment.

Geographical segments

The company's geographical segments are determined based on the location of the company's assets.

The following table presents revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 30 June 2011 and 30 June 2010.

	Australia		USA		Europe		Total	
	2011	2010	**2011**	**2010**	**2011**	2010	**2011**	2010
Revenue								
External sales	**-**	13,606	**926,207**	588,291	**13,437**	150,000	**939,644**	751,897
Other income	**45,338**	114,414	-	-	**-**	-	**45,338**	114,414
Segment revenue and other income	**45,338**	128,020	**926,207**	588,291	**13,437**	150,000	**984,982**	866,311
Other segment information								
Segment assets	**128,556**	298,583	**92,177**	-	**-**	-	**220,733**	298,583
Segment liabilities	**96,390**	175,294	-	-	**-**	-	**96,390**	175,294
Segment depreciation	**1,562**	2,497	-	-	**-**	-	**1,562**	2,497

The company has one major customer in the US, which accounts for 99% of the revenues

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: SHARE BASED PAYMENTS

Employee Share Option Plan
An employee option plan is established whereby Probiomics Limited may, at the discretion of the directors grant options to purchase ordinary shares in the company to certain eligible employees. The options are granted for no consideration and are generally for a term of five years with the exercise price being determined at the discretion of the directors. Generally the options can be exercised at any time during the term of the option period but are not transferable and are not quoted on ASX. Currently there is one employee who hold valid options.

The following table sets out the number and the weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2011	***2011***	***2010***	***2010***
	No.	*WAEP*	***No.***	*WAEP*
Outstanding at the beginning of the year	**17,000,000**	**$0.11**	17,000,0000	$0.11
Granted during the year	**-**	**-**	-	-
Expired during the year	**-**	**-**	-	-
Outstanding at the end of the year	**17,000,000**	**$0.11**	17,000,000	$0.11
Exercisable at the end of the year	**17,000,000**		17,000,000	

The outstanding balance as at 30 June 2011 is represented by:

- 15,000,000 options over ordinary shares with an exercise price of $0.02 each, exercisable by 25 November 2013;
- 2,000,000 options over ordinary shares with an exercise price of $0.01 each, exercisable by 3 December 2013,

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is 30 months (2010: 42 months).

NOTE 17: EVENTS AFTER THE BALANCE SHEET DATE

There are no reportable events after balance date

	2011	2010
	$	$
NOTE 18: AUDITORS' REMUNERATION		
Remuneration of the current auditor, RSM Bird Cameron Partners, for:		
Auditing or reviewing the financial report	**37,169**	38,500
	37,169	38,500

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19: INTEREST OF KEY MANAGEMENT PERSONNEL

(a) Names and positions held of key management personnel in office at any time during the financial year are:

Key Management Person	Position
P D Ford	Chairman & Non-executive director
S O'Loughlin	Non-executive director (appointed 31 July 2008)
S Taylor	Non-executive director (appointed 25 July 2008)
A. K. Jairath	Chief Financial Officer & Company Secretary

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

(b) Option holdings of key management personnel

						Vested at 30 June 2011		
	Balance 1.7.2010	*Granted as compe-nsation*	*Optio ns exerci sed*	*Options lapsed*	*Balance 30.6.2011*	*Total*	*Exercisable*	*Not-exerci sable*
Directors								
P D Ford	5,000,000	-	-	-	5,000,000	5,000,000	5,000,000	-
S O'Loughlin	5,000,000	-		-	5,000,000	5,000,000	5,000,000	
S Taylor	5,000,000	-		-	5,000,000	5,000,000	5,000,000	
Executives								
A Jairath	2,000,000	-		-	2,000,000	2,000,000	2,000,000	
Total	17,000,000	-	-	-	17,000,000	17,000,000	17,000,000	-

(c) Shareholdings of key management personnel

	Balance 1.7.2010	*Granted as compensation*	*Net change other **	*Balance 30.6.2011*
Directors				
P D Ford (i)	3,935,999	-	-	3,935,999
S. O'Loughlin	2,000,000	-	-	2,000,000
S Taylor	2,400,000	-	-	2,400,000
Executives				
A. Jairath	-	-	-	-
Total	8,335,999	-	-	8,335,999

* Net change other refers to shares purchased or sold during the financial year.

(i) P D Ford has a beneficial interest in P. Ford Superannuation Ltd & Diskdew Pty Limited which owned 3,519,333 & 416,666 shares respectively at 30 June 2011.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20: RELATED PARTY TRANSACTIONS

Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 19: Interests of Key Management Personnel (KMP).

NOTE 21: FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management

The company's financial instruments consist mainly of deposits with banks, accounts receivable and payable and convertible notes.

The directors' overall risk management strategy seeks to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

The company does not have any derivative instruments at 30 June 2011.

Financial risk exposures and management

The main risks the company is exposed to through its financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is managed as the convertible notes have a fixed rate of 10% per annum.

Foreign currency risk

The company is exposed to fluctuations in foreign currencies. Approximately 98% of the company's sales and 93% of the cost of sales are denominated in US dollars and Euros respectively. The company does not hedge its foreign currency transactions as the cost of hedging cannot be justified due to the current size of the business. Should the volume of foreign currency business becomes sizeable, the Company will consider hedging.

Credit risk

The company trades only with recognised, creditworthy third parties. It is the company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The receivable balances are monitored on an ongoing basis. The company's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the company as it only has a few major customers at this stage of its development.

With respect to credit risk arising from other financial assets of the company, which comprise cash and cash equivalents, the company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the company trades only with recognised third parties, there is no requirement for collateral security.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

(a) Financial Risk Management (continued)

Liquidity risk

The company's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required.

(b) Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period of all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

	Weighted average interest rate 2011 %	Non-interest bearing 2011 %	Floating interest rate 2011 $	Fixed interest rate maturing within 1 year 2011 $	Total 2011 $
Financial Assets					
Cash and cash equivalents	4.5	-	111,628	-	111,628
Receivables	-	106,480	-	-	106,480
Total financial assets		106,480	111,628	-	218,108
Financial liabilities					
Trade and other payables	-	96,369	-	-	96,396
Convertible notes	10%	-	-	-	-
Total financial liabilities		96,396	-	-	96,396

	Weighted average interest rate 2010 %	Non-interest bearing 2010 %	Floating interest rate 2010 $	Fixed interest rate maturing within 1 year 2010 $	Total 2010 $
Financial Assets					
Cash and cash equivalents	4.5	-	237,997	-	237,997
Receivables	-	56,399	-	-	56,399
Total financial assets		56,399	237,997	-	294,369
Financial liabilities					
Trade and other payables	-	125,294	-	-	125,294
Convertible Notes	10%	-	-	-	50,000
		392,484	-	50,000	175,294

Trade and other payables are expected to be paid within 6 months.

(c) Net Fair Values

The net fair value of assets and liabilities approximates their carrying value. No financial assets and liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and notes to the financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

(d) Sensitivity Analysis

The company has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. The effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, and Euros with all other variables remaining constant, is not expected to be significant.

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes are in accordance with the *Corporations Act 2001* and:
    a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
    b. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date;
2. the Chief Finance Officer has declared that:
    a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
    b. the financial statements and notes for the financial year comply with the Accounting Standards; and
    c. the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This resolution is made in accordance with a resolution of the Board of Directors.

Please note that the Company currently does not have a Chief Executive Officer and as such the Directors' Declaration includes only the Chief Finance Officer declaration.

Patrick Ford
Chairman

Sydney, 26th September 2011

RSM Bird Cameron Partners
Chartered Accountants

RSM Bird Cameron Partners
Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +61 2 9233 8933 F +61 2 9233 8521
www.rsmi.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Probiomics Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron

RSM BIRD CAMERON PARTNERS
Chartered Accountants

Wayne Beauman
Partner

Sydney, NSW

Dated: 23 September 2011

RSM Bird Cameron Partners
Chartered Accountants

RSM Bird Cameron Partners
Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +61 2 9233 8933 **F** +61 2 9233 8521

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

PROBIOMICS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Probiomics Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Probiomics Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

RSM Bird Cameron Partners
Chartered Accountants

Opinion

In our opinion:

(a) the financial report of Probiomics Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the company is dependent on receiving ongoing orders from a key customer, royalty payments and milestone payments or identifying alternate revenue streams to continue generating profits and operating cash flows. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 9 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Probiomics Limited for the year ended 30 June 2011 complies with section 300A of the Corporations Act 2001.

RSM Bird Cameron

RSM BIRD CAMERON PARTNERS
Chartered Accountants

Wayne Beauman
Partner

Sydney, NSW
Dated: 27 September 2011

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 19 September 2011.

(a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of security are:

			Ordinary shares	
			Number of holders	**Number of shares**
1	-	1,000	206	160,666
1,001	-	5,000	375	948,235
5,001	-	10,000	181	1,446,765
10,001	-	100,000	457	19,023,178
100,001	and over		263	272,656,233
			1,543	294,235,077

(b) Twenty largest shareholders

The names of the twenty largest holders of ordinary shares are:

		Ordinary shares	**% of shares**
1	Nutsville Pty Ltd	24,880,952	8.46
2	Mckell Place Nominees Pty Ltd	13,295,000	4.52
3	Symington Pty Ltd	13,250,000	4.50
4	Jamel Investments Pty Ltd	10,698,323	3.64
5	Kok Keen Chong + Mrs Hue Nghi Chong	10,133,783	3.44
6	I.E Properties Pty Ltd	8,347,332	2.84
7	Mambat Pty Ltd	8,062,008	2.74
8	Mr Alan Grant –Smith Mrs Susan Grant Smith & S Grant-Smith SF A/C 12	7,255,920	2.47
9	Octafil Pty Ltd	7,176,827	2.44
10	Greenslade Holdings Pty Ltd	5,366,666	1.82
11	Bell Potter Nominees Ltd BB Nominees	5,243,250	1.78
12	Sambo Holdings WA Pty Ltd	4,000,000	1.36
13	Woodhurst Pty Ltd	4,000,000	1.36
14	Mr Edwin Paul Cayzer Mrs Lorraine Cayzer Mineral and Traders Super Fund	3,745,565	1.27
15	Frere & Associates Pty Ltd < Derick Frere Super Fund A/C>	3,559,491	1.21
16	P Ford Superannuation Pty Ltd <Patrick Ford Super Fund A/C>	3,519,333	1.20
17	Kangsav Pty Limited	3,434,427	1.17
18	Wootoona Investments Pty Limited	3,393,339	1.15
19	Calama Holdings Pty Limited	3,214,285	1.09
20	Corporate Property Services Pty Ltd <KW Share A/C>	3,100,000	1.05
		145,676,501	49.51

ASX ADDITIONAL INFORMATION (continued)

(c) Substantial shareholders

The company had 1 substantial shareholders, as defined by the Corporations Act 2001, as at the date of this report.

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Unquoted equity on issue

Class of security	Number of securities	Number of holders
Employee Options over ordinary shares	2,000,000	1