PROBIOMICS LIMITED

A.B.N. 97 084 464 193

ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2010

CORPORATE INFORMATION

Directors

Patrick Douglas Ford

Simon O'Loughlin

Simon Taylor

Company Secretary

Ashok Kumar Jairath

Corporate Head Office and Principal Place of Business

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GORDON NSW 2072
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Registered Office

Suite 1A, Level 2
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Principal Solicitors

Spruson & Ferguson
Lawyers
Level 35, St Martins Tower, 31 Market 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
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Directors' Report

Your directors submit their report on the company for the year ended 30 June 2010.

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 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 and Avenue Resources Ltd and a non executive director of Living Cell Technologies Ltd, 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 Newport Mining 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 $80,144.

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 $ 80,144 despite the lower than expected sale of raw material overseas since the beginning of the year, coupled with 18% appreciation in the Australian dollar year on year. This situation has now been reversed and the company has healthy sales pipe line until the end of 2010. Sales of finished goods in the local market were reasonable despite the lack of distribution net work. This situation has now been addressed with the appointment of Chr Hansen in November 2009 through the global sales and distribution agreement to sell OTC and related products worldwide. 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 are aware that it will take some time to close out international sales due to lack of PCC brand recognition. Chr Hansen is a global leader in the development of natural ingredient solutions for food, pharmaceutical, nutritional and agricultural industries. It has 2,150 employees globally with presence in 30 countries and has distributors and agents around the world. During 2008/2009 Chr Hansen had sales of approx A$ 900 million.

Operational expenditure declined by a further 32% compared to previous year - which in 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.

	2010	
Business segment	**Revenues**	**Results**
	$	**$**
Probiotic product sales	751,897	79,712
Non-segment and unallocated revenues	432	432
Total revenues and profit (loss) from ordinary activities before income tax expense	752,329	80,144

Liquidity and Capital Resources

The cash flow statement shows an increase in cash in the year ended 30 June 2010 of $152,072 (2009 decrease $110,902). The increase in cash inflow in comparison with the prior year is due to a number of factors. The main being that the company realised cash receipts of $1,158,663 from customer sales, coupled with export marketing grant of $ 32,913. Offsetting this was lower operational payments compared to the previous year. This reduction in operating activities in comparison to 30 June 2009 was due largely to the company's ability to improve receipts from customers and reduce costs in the current financial year.

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

In November 2009, the company signed a global sales and distribution agreement with Chr Hansen and is excited about the potential of this agreement. The sale of bulk active to US based Multi Level Marketing Company and the Development and Licensing Agreement with Nestle also remains key to the success of the Company. 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 potential of PCC particularly in the veterinary and companion animal application. 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 70.5% of its sales from one customer. The company is dependant on receiving ongoing orders from the 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.

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 expectation that the company will be successful in generating additional sales revenue; and
- the successful commercialisation and further development of its probiotic technology 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.

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 and its subsidiaries. The total amount of insurance contract premium paid was $12,439 (2009: $14,325).

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 2010 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 2010

		Primary benefits	Post employment	Equity	Other	Total
		Directors fees	Superannuation	Options (a)	Directors' & Officers' Insurance	
		$	$	$	$	$
P D Ford	**2010**	**26,160**	**-**	**-**	**3,110**	**29,270**
Non-executive Chairman	2009	26,583	2,392	10,965	2,630	42,570
S.O'Loughlin	**2010**	**24,000**	**2,160**	**-**	**3,110**	**29,270**
	2009	**22,000**	1,980	10,965	2,630	37,575
S. Taylor	**2010**	**25,440**	**720**	**-**	**3,110**	**29,270**
	2009	**23,980**	-	10,965	2,630	37,575

Table 2: Remuneration of the most highly paid executive officers of the consolidated entity for the year ended 30 June 2010

		Primary benefits	Post employment	Equity	Other	Total
		Salary	Superannuation	Options (a)	Directors' & Officers' Insurance	
		$	$	$	$	**$**
A Jairath	**2010**	**106,000**	**-**	**-**	**3,110**	**109,110**
CFO and Company Secretary	2009	92,5000	-	5,687	2.630	100,817

Table 3: Options holdings of Key Management Personnel for the year ended 30 June 2010

	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.

Executives are those employees who are directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity. The two former employees listed above were the only employees in that category.

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:	9	2	-
Number of meetings attended:			
			-
P D Ford	8	2	-
S O'Loughlin	9	2	-
S Taylor	8	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

21st September 2010

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	2year & 3 months (re-elected 23 June 2008)
Mr Simon O'Louglin	2 year 2 months
Mr Simon Taylor	2 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.

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 & S. O'Loughlin have business dealings with the Company. In accordance with the section 8.5 of the Company's constitution, Mr Ford declared his interest and took no part in discussions and decision relating to the entity.

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: Encourage performance

A formal evaluation process was conducted for all employees including the Executive Director and 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 recently resigned CEO and the current CFO / Company Secretary are engaged on consulting basis and are 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

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 2010

	NOTE	2010 $	2009 $
Sale of goods	2(a)	**751,897**	1,103,288
Interest revenue	2(a)	**432**	3,226
Revenue		**752,329**	1,106,514
Cost of sales		**(282,456)**	(583,446)
Gross profit		**469,873**	523,068
Other income	2(b)	**101,249**	44,407
Research and development expenses		**(19,860)**	(76,232)
Intellectual property expenses		**(81,393)**	(96,175)
Administrative and corporate expenses	2(c)	**(374,127)**	(567,525)
Finance costs	2(c)	**(15,598)**	(38,449)
Profit /(Loss) before income tax		**80,144**	(210,906)
Income tax refund	3	**-**	-
Profit (Loss) after tax attributable to members		**80,144**	(210,906)
Other Comprehensive Income		**-**	-
Net Comprehensive Profit (Loss)		**80,144**	(210,906
Basic profit (loss) per share (cents per share)	5	0.03	(0.10)
Diluted profit (loss) per share (cents per share)	5	0.03	(0.10)

The accompanying notes form part of these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2010

	NOTE	2010 $	2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	**237,997**	85,925
Trade and other receivables	7	**56,399**	393,020
Total current assets		**294,396**	478,945
Non-current assets			
Plant and equipment	8	**4,187**	6,684
Total non-current assets		**4,187**	6,684
TOTAL ASSETS		**298,583**	485,629
LIABILITIES			
Current liabilities			
Trade and other payables	9	**125,294**	371,755
Government grants		**-**	20,729
Financial liabilities	10	**50,000**	50,000
Total current liabilities		**175,294**	442,484
TOTAL LIABILITIES		**175,294**	442,484
NET ASSETS		**123,289**	43,145
EQUITY			
Issued capital	11	**27,761,399**	27,761,399
Reserves	12	**289,212**	289,212
Accumulated losses		**(27,927,322)**	(28,007,466)
TOTAL EQUITY		**123,289**	43,145

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Issued Capital $	Accumulated Losses $	Option Reserves $	Total Equity $
Balance at 1 July 2008		26,933,518	(27,796,560)	239,920	(623,122)
Shares issued during the year		852,000	-	-	852,000
Transaction cost on share issues		(24,119)	-	-	(24,119)
Loss for the year		-	(210,906)	-	(210,906)
Cost of share-based payments		-	-	49,292	49,292
Balance at 30 June 2009		27,761,399	(28,007,466)	289,212	43,145
Shares issued during the year		-	-	-	-
Transaction cost on share issues		-	-	-	-
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

The accompanying notes form part of these financial statements.

Statement Cash Flow

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**1,158,663**	947,563
Payments to suppliers and employees		**(1,003,687)**	(1,429,767)
Receipt of Export Marketing Grant		**32,913**	-
Interest received (paid)		**430**	3,226
Finance costs		**(36,247)**	(12,500)
NET CASH USED IN OPERATING ACTIVITIES	6	**152,072**	(491,478)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant and equipment		**-**	2,695
Purchase of plant and equipment		**-**	-
NET CASH USED IN INVESTING ACTIVITIES		-	2,695
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		**-**	402,000
Payment of share issue costs		-	(24,119)
Proceeds from issue of convertible notes		**-**	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		-	377,881
NET INCREASE/(DECREASE) IN CASH HELD		**152,072**	(110,902)
CASH AT BEGINNING OF FINANCIAL YEAR		**85,925**	196,827
CASH AT END OF FINANCIAL YEAR	6	**237,997**	85,925

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

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 to which they apply. 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 70.5% of its sales from one customer. The company is dependant on receiving ongoing orders from the 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.

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 expectation that the company will be successful in generating additional sales revenue; and
- the successful commercialisation and further development of its probiotic technology 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.

(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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Income tax (continued)

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.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation (continued)

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.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 equity to the extent that the gain or loss is directly recognised in equity, 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.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) Adoption of New and Revised Accounting Standards

The company has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

(i) Presentation of financial statements

The company has applied the revised AASB 101Presentation of Financial Statements (2007) from 1 January 2009. The revision of this standard now requires the company to present all non-owner changes to equity (‘comprehensive income’) in the statement of comprehensive income. The company has presented the income statement and non-owner changes in equity in one statement of comprehensive income. All owner changes in equity are presented separately in the statement of changes in equity.

The presentation requirements have been applied for the entire reporting period and comparative information has been re-presented to also comply with the revised AASB 101.

(ii) Segment reporting

The company has applied AASB 8 Operating Segments with effect from 1 July 2009. Previously operating segments were reported in accordance with AASB 114 Segment reporting. AASB 8 requires the entity to identify operating segments and disclose segment information on the basis of internal reports that are provided to, and reviewed by, the chief operating decision maker of the company to allocate resources and assess performance. In the case of the company the chief operating decision maker is the Board of Directors.

As a result of the adoption of AASB 8, the company’s reportable segments have changed. Operating segments now represent the basis on which the company reports its segment information to the Board on a monthly basis. Comparative segment information has been represented to comply with the requirements of AASB 8. The change in policy has resulted in a change to the disclosure presented and not the company’s profit or earnings per share.

The financial report was authorised for issue on 21st September 2010 by the board of directors.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

	2010 $	2009 $
NOTE 2: REVENUES AND EXPENSES		
(a) Revenue		
Sales revenue - sale of goods	**751,897**	1,103,288
Interest revenue received from other persons	**432**	3,226
	752,329	1,106,514
(b) Other income		
Other income	**101,249**	44,407
	101,249	44,407
(c) Expenses		
Cost of sales	**282,456**	583,446
Finance costs paid to external parties	**15,598**	38,449
Depreciation	**2,497**	4,206
Foreign currency translation losses	**13,165**	27,978
Bad and doubtful debts – trade receivables	**-**	12,295
Net loss on disposal of plant and equipment	**-**	3,514
Share based payment expense	**-**	49,292

NOTE 3: INCOME TAX

	2010 $	2009 $
The components of income tax expense (benefit) comprise:		
Current income tax		
Research and development rebate received in respect of the year ended 30 June 2007	**-**	-
Income tax expense (benefit) reported in the income statement	**-**	-
Prima facie tax payable (benefit) on profit (loss) from ordinary activities before income tax at 30% (2009: 30%)	**24,043**	(63,272)
Expenditure not allowable for income tax purposes	**3,415**	2,961
Losses not brought to account	**-**	60,311
Utilisation of Tax Losses	**(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 2010.

At 30 June 2010 the company had not brought to account a deferred tax asset (at 30%) of $7,611,561 made up of tax losses of $7,591,314 and timing differences of $20,247 (2009: tax losses of $7,618,772 and timing differences of $27,664) as realisation of the benefit is not probable.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	$	$

NOTE 4: DIVIDENDS PAID AND DECLARED

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

NOTE 5: EARNINGS PER SHARE

	2010	2009
Earnings (loss) used to calculate basic and diluted EPS	**80,144**	(210,906)
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**294,235,077**	234,158,365
Weighted average number of options outstanding not included in diluted EPS calculations as the options are anti-dilutive in nature.	**2,647,074**	3,076,522

NOTE 6: CASH AND CASH EQUIVALENTS

	2010	2009
Cash at bank and on hand	**237,997**	**85,925**

Reconciliation of cash flow from operations with loss after income tax

	2010	2009
Profit (Loss) after income tax	**80,144**	**(210,906)**
Non-cash flows in profit		
Depreciation	**2,497**	**4,206**
Net loss on disposal of plant and equipment	**-**	**3,514**
Cost of share options	**-**	**49,292**
Changes in assets and liabilities:		
(Increase)/decrease in inventories	**-**	**24,708**
(Increase)/decrease in trade and other receivables	**336,621**	**(148,540)**
(Increase)/decrease in prepayments	**-**	**-**
(Decrease)/increase in trade and other payables	**(267,190)**	**(213,752)**
Net cash flows from operating activities	**152,072**	**(491,478)**

NOTE 7: TRADE AND OTHER RECEIVABLES

	2010	2009
Trade receivables	**50,621**	376,164
Other receivables	**5,778**	16,856
	56,399	393,020
Australian dollar equivalent of amounts receivable in US dollars not formally hedged	**-**	373,540

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

	2010 $	2009 $
NOTE 8: PLANT & EQUIPMENT		
Plant and equipment at cost	**27,438**	28,604
Accumulated depreciation	**(23,251)**	(21,920)
	4,187	6,684
Movements in carrying amounts		
Movement in the carrying amounts between the beginning and the end of the financial year		
Balance at 1 July	**6,684**	16,404
Additions	**-**	-
Disposals	-	(5,514)
Depreciation charge for the year	**(2,497)**	(4,206)
Balance at 30 June	**4,187**	6,684

NOTE 9: TRADE AND OTHER PAYABLES

	2010 $	2009 $
Trade payables	**54,810**	274,236
Accrued expenses	**67,490**	92,213
GST liability	**24**	506
Employee superannuation payable	**2,094**	2,094
PAYG payable	**876**	2,706
	125,294	371,755

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

	2010 $	2009 $
Australian dollar equivalent of amounts payable in US dollars not formally hedged	**17,890**	171,855

NOTE 10: FINANCIAL LIABILITIES

	2010 $	2009 $
Convertible notes	**50,000**	50,000

The company currently has on issue $50,000 (2009: $50,000) unsecured convertible maturing on 24th September 2010. The note holder has an option to convert to ordinary shares at 4 cents per share or be repaid. The interest on the notes is 10% per annum and is payable in arrears at the end of every quarter.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

	2010 $	2009 $
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 2008	**202,235,077**	26,933,518
Issued 20 August 2008 for cash	**30,000,000**	300,000
Transaction costs on share issues	-	(18,000)
	232,235,077	27,215,518
Issued 25 May 2009 for cash	**17,000,000**	102,000
Transaction costs on share issues	-	(6,119)
Issued 25 May conversion of $ 450,000 Convertible Notes	**45,000,000**	450,000
Ordinary shares at 30 June 2009	**294,235,077**	27,761,399
Nil Shares Issued		
Ordinary shares at 30 June 2010	**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 2009 or 30 June 2010.

NOTE 14: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The company has no contingent liabilities or assets as of 30 June 2010

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

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 2010 and 30 June 2009.

	Australia		**USA**		**Europe**		**Total**	
	2010	2009	**2010**	**2009**	**2010**	2009	**2010**	2009
Revenue								
External sales	**13,606**	18,348	**588,291**	1,084,940	**231,500**	-	**833,397**	1,103,288
Other revenues from external customers	**20,181**	47,633			-	-	**20,181**	47,633
Segment revenue	**33,787**	65,981	**588,291**	1,084,940	**231,500**	-	**853,578**	1,150,921
Other segment information								
Segment assets	**298,583**	112,089	-	-	-	-	**298,583**	485,629
Segment liabilities	**175,294**	216,629	-	-	-	-	**175,294**	216,629
Segment depreciation	**2,497**	4,206	-	-	-	-	**2,497**	4,206

The company has one major customer in the US, which accounts for 70.5% of the revenues

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

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:

	2010 No.	***2010*** *WAEP*	*2009 No.*	*2009 WAEP*
Outstanding at the beginning of the year	**17,000,0000**	**$0.11**	**9,825,000**	**$0.10**
Granted during the year	**-**	**-**	**17,000,000**	**$0.14**
Expired during the year	**-**	**-**	**(9,825,000)**	**$0.10**
Outstanding at the end of the year	**17,000,000**	**$0.11**	**17,000,000**	**$0.14**
Exercisable at the end of the year	**17,000,000**		**17,000,000**	

The outstanding balance as at 30 June 2010 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 2010 is 42 months (2009: 54 months).

NOTE 17: EVENTS AFTER THE BALANCE SHEET DATE

There are no reportable events after balance date

NOTE 18: AUDITORS' REMUNERATION

	2010 $	2009 $
Remuneration of the current auditor, RSM Bird Cameron Partners, for:		
Auditing or reviewing the financial report	**38,500**	**39,854**
	38,500	**39,854**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

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 2010		
	Balance 1.7.2009	*Granted as compe-nsation*	*Options exercised*	*Options lapsed*	*Balance 30.6.2010*	*Total*	*Exercisable*	*Not-exercisable*
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 1.7.2009	*Granted as compensation*	*Net change other **	*Balance 30.6.2010*
Directors				
P D Ford (i)	3,935,999	-	-	3,935,999
S. O'Loughlin	1,000.000	-	1,000,000	2,000,000
S Taylor	-	-	2,400,000	-
Executives				
A. Jairath	-	-	-	-
Total	4,935,999	-	3,400,000	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 2010.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 20: RELATED PARTY TRANSACTIONS

1) During the year Probiomics Limited was provided services, on normal terms and conditions, by Diskdew Pty Ltd totalling $ 4,000. Mr P D Ford is a director of Diskdew Pty Ltd.

2) During the year Probiomics Limited was provided legal services, on normal terms and conditions by O'Loughlin Lawyers totalling $ 851. Mr S O'Loughlin is a partner in O'Loughlin Lawyers.

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 2010.

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 2010

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 **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	50,000
Total financial liabilities		392,484	-	50,000	175,294

	Weighted average interest rate **2009** **%**	Non-interest bearing **2009** **%**	Floating interest rate **2009** **$**	Fixed interest rate maturing within 1 year **2009** **$**	Total **2009** **$**
Financial Assets					
Cash and cash equivalents	4.595%	-	85,925	-	85,925
Receivables	-	393,020	-	-	393,020
Total financial assets		393,020	85,925	-	478,945
Financial liabilities					
Trade and other payables		392,484	-	-	392,484
Convertible Notes	-	-	-	50,000	50,000
Total financial liabilities	10%	392,484	-	50,000	442,484

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 2010

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.

NOTE 22: NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective:

Reference and Title	**Summary**	**Application date (financial years beginning)**
AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136, 139]*	Amends a number of standards as a result of the annual improvements project.	1 January 2010
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	Amends AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.	1 January 2010
AASB 9 Financial Instruments	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013
2009-11 Amendments to Australian Accounting Standards arising from AASB 9	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12 as a result of the issuance of AASB 9.	1 January 2013
2009-12 Amendments to Australian Accounting Standards	Amends AASB 8 Operating Segments as a result of the revised AASB 124. Amends AASB 5, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052 as a result of the annual improvement project.	1 January 2011
2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19	Amends AASB 1 due to the issuance of Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments.	1 July 2010
2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	Amends Interpretation 14 AASB 119 – The limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	1 January 2011

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, are accordance with the *Corporations Act 2001* and:
    a. comply with Accounting Standards and the Corporations Regulations 2001; 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 have each 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 21st September 2010

RSM Bird Cameron Partners
Chartered Accountants

RSM Bird Cameron Partners
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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Probiomics Limited for the year ended 30 June 2010, 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

W E BEAUMAN
Partner

Sydney, NSW
Dated: 21 September 2010

RSM Bird Cameron Partners
Chartered Accountants

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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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 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.

RSM Bird Cameron Partners
Chartered Accountants

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*, provided to the directors of Probiomics Limited on 21 September 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's 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 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 in the financial report which indicates that the company is dependant on receiving ongoing orders from a key customer 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, indicate the existence of a significant uncertainty which may cast significant doubt about the company's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 6 to 9 of the directors' report for the financial year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Probiomics Limited for the financial year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron

RSM BIRD CAMERON PARTNERS
Chartered Accountants

Wayne Beauman
Partner

Sydney, NSW
Dated: 22 September 2010

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 20 September 2010.

(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	204	160,326
1,001	-	5,000	381	973,606
5,001	-	10,000	191	1,531,130
10,001	-	100,000	484	19,812,575
100,001	and over		283	271,757,440
			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	Mr Alan Grant –Smith Mrs Susan Grant Smith & S Grant-Smith SF A/C 12	10,565,920	3.59
6	I.E Properties Pty Ltd	8,347,332	2.84
7	Mambat Pty Ltd	8,062,008	2.74
8	Kok Keen Chong + Mrs Hue Nghi Chong	7,969,354	2.71
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	P Ford Superannuation Pty Ltd <Patrick Ford Super Fund A/C>	3,519,333	1.20
16	Calama Holdings Pty Ltd Mambat Super Fund	3,214,285	1.09
17	Frere & Associates Pty Ltd < Derick Frere Super Fund A/C>	3,059,491	1.04
18	Biogia AB Tegnergatan, Sweden	3,000,000	1.02
19	Acres Holdings Pty Ltd	3,000,000	1.02
20	Ms Joanne Holland	2,949,461	1.00
		145,343,767	49.40

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