

PROBIOMICS LIMITED

A.B.N. 97 084 464 193

**ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2009**

CORPORATE INFORMATION

Directors

Patrick Douglas Ford (appointed chairman 24 July 2008)

Prof Ronal Penny AO (resigned 6 August 2008)

Dr Bradley Walsh (appointed 23 June 2008, resigned 7 August 2008)

Simon O'Loughlin (appointed 31 July 2008)

Simon Taylor (appointed 25 July 2008)

Company Secretary

Ashok Kumar 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

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
Ph: 1300 855 080
Fax: 02/8235 8212

Internet Address

www.probiomics.com.au

Contents

	Page
Directors' Report	3
Corporate Governance Statement	11
Income Statement.....	15
Balance Sheet.....	16
Statement of Changes in Equity	17
Cash Flow Statement	18
Notes to the Financial Statements	19
Directors' Declaration	33
Auditors Independence Declaration	34
Independent Audit Report	35
ASX Additional Information	37

Directors' Report

Your directors submit their report on the company for the year ended 30 June 2009.

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 (appointed chairman 24 July 2008)	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'Loughlin (appointed 31 July 2008)	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 a non executive director of Living Cell Technologies Ltd, WCP Resources Ltd, Chesser Resources Ltd, Aura Energy Ltd and Petratherm Ltd.
Mr Simon Taylor (appointed 25 July 2008)	Mr Simon Taylor is a geologist with 17 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, Bondi Mining Ltd and Newport Mining Limited and the founding director of Geeland Pty Ltd providing consulting services to resource companies and financial corporations as a resource analyst. 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.
Professor Ronald Penny (resigned 6 August 2008)	Professor Penny was appointed to the Board on 17th February 2005. Professor Penny is a member of the Audit Committee and the Remuneration committee of the Board. Professor Penny is one of Australia's leading immunologists. He graduated with Honours from the University of Sydney in 1960 following which he undertook further studies in haematology, oncology and immunology in the UK and the USA. Professor Penny set up the first Clinical Immunology Unit in NSW at the Royal Prince Alfred Hospital. In 1979 he was the recipient of the first Doctorate of Science awarded to a member of a clinical department by the University of NSW followed by a Personal Chair in Clinical Immunology in 1988. Professor Penny has published over 350 medical and scientific papers in prestige national and international journals. Professor Penny is currently Emeritus Professor of Medicine, University of NSW, Senior Clinical Advisor, NSW Health, Chairman of the Justice Health Board and Chairman of the NSW Blood Products Advisory Committee and is a

	director of publicly listed Cryosite Limited. Professor Penny has not been a director of any other listed public company during the past four years.
Dr Bradley Walsh (appointed 23 June 2008, resigned 7 August 2008)	Dr Brad Walsh was appointed to the board on 23 June 2008 and resigned 24 July 2008. Dr Walsh has a PhD in protein chemistry and 20 years experience in the field of biotechnology. From 1996 to early 2002 he oversaw the establishment of the world's first high-throughput proteomics facility including staffing, design and fit-out of the laboratories. He also set up the business systems used to run the facility. He managed the operations and contract activities of the facility as well as directing the technology development program. Dr Walsh is also a director Minomic International Limited (an unlisted public company) and Minomic Pty Ltd.

COMPANY SECRETARY

Ashok Kumar Jairath F CPA	Mr Jairath has been Company Secretary of Probiomics Limited since July 2007. He is a Fellow of CPA Australia. Mr Jairath has over 25 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	1,000,000	5,000,000
Simon Taylor	nil	5,000,000

Refer to note 21 for further information on directors' remuneration, shares and options holdings.

OPERATING RESULTS

The result of the company for the financial year was a loss of \$210,906.

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 distribution under contract, of probiotic products,
- The further testing and development of the company's products by the conduct of clinical trials.

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

REVIEW OF OPERATIONS

Overview

Vasse Research Institute Pty Limited was formed in 1998. It changed its name to VRI BioMedical Pty Limited in December 1999 and to VRI BioMedical Limited when it converted to a public company in March 2000. The company listed on the Australian Stock Exchange in December 2000.

The company changed its name to Probiomics Limited in April 2005 to better reflect its focus on its probiotic products.

Operating results for the year

Revenues from ordinary activities were up by 18.5% predominantly due to increase in sales of PCC bulk overseas. Sales of finished product were reasonable despite the lack of distribution network. There were no sales to Nuvanta in S.E. Asia. The company is currently addressing these issues together with expansion into North American and European markets. As part of this strategy, the company recently completed trials of its probiotic in conjunction with Christian Hansen and Griffith University. A summary of the results of the trials were announced to ASX on 25th August 2009.

Operational expenditure declined by further 63 % compared to the previous year due to a continued reduction in administrative and corporate expenditure, predominantly in the areas of occupancy cost, consultants fees, legal expenses and staff costs.

	2009	
<i>Business segment</i>	Revenues	Results
	\$	\$
Probiotic product sales	1,103,288	(258,539)
Non-segment and unallocated revenues	47,633	47,633
Total revenues and profit (loss) from ordinary activities before income tax expense	1,150,921	(210,906)

Liquidity and Capital Resources

The cash flow statement shows a decrease in cash in the year ended 30 June 2009 of \$110,902 (2008 decrease \$101,745). The decrease in cash inflow in comparison with the prior year is caused by a number of factors. The company raised less capital in 2008/2009, \$402,000 from share issue, compared to \$515,000 raised through share issue and \$500,000 from convertible notes in 2007/2008. However, this was offset by lower net cash used in operating activities which absorbed \$491,478 (2008: \$1,089,640). This reduction in operating activities in comparison to 30 June 2008 was due largely to the company's ability to improve receipts from customers and reduce costs in the current financial year.

Convertible Note and Share issues during the year

The company issued two lot of shares during the year to fund the company's operations. In August 2008, \$300,000 was raised through issue of 30,000,000 shares at \$0.01 per share, and a further \$102,000 was raised on 25th May 2009 through issue of 17,000,000 shares at \$0.006 per share. Additionally, the company converted \$450,000 convertible notes to equity at \$0.01 per share through the issue of 45,000,000.

Capital expenditure

There was no purchase of property, plant and equipment during the year. The capital expenditure in the previous year to 30 June 2008 was \$6,536. 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 in the affairs company during the year and it continues to concentrate on its core products and intellectual property. The focus of the company remains to secure global licensing and distribution agreements with major companies for its probiotic products in Australia and overseas and to improve both the knowledge of our products and the uses for our products in the global health market. In line with this strategy, the company has

recently concluded trials in cooperation with the major global distributor Chr Hansen and is continuing trials with the global food and nutrition company Nestle Nutrition.

GOING CONCERN

The company generated a net loss of \$210,906 (2008: \$1,331,146) and negative cash flows from operations of \$491,477 (2008: \$ 1,089,640) in the year ended 30 June 2009. As at balance date, the company had a net asset position of \$43,145 (2008: negative \$623,122).

During the year convertible notes of \$450,000 were converted to equity on 25 May 2009 at \$0.01 per share. Post 30 June 2009, the convertible notes of \$50,000 payable in September 2009 were rolled over for another year. Also, \$402,000 was raised during the year from sophisticated investors through share placement.

The continuing viability of the company and its ability to continue as a going concern and meet its debts as they fall due in future years are dependent upon:

- (i) the company being successful in negotiating and obtaining additional funding; and
- (ii) the successful commercialisation and further development of its probiotic technology.

The directors believe that the company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. The directors regularly monitor the company's cash position. They also consider a number of strategic and operational plans and initiatives on an on-going basis to ensure that adequate funding continues to be available for the company to meet its business objectives.

In the event that the company becomes unable to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different from those currently stated in the financial report.

The company has no debt to financial institutions.

AFTER BALANCE DATE EVENTS

- (a) On 17 July, a report titled "Probiotics, illness and immunity in athletes" based on a study conducted at the Australian Institute of Sports in conjunction with Griffith University, sponsored 50% each by the company and Ch Hansen, was received by the company. A summary of the finds of this study were announced to the markets on 25 August 2009. The detailed study will be released once it is accepted for publication in a scientific journal.
- (b) Convertible notes of \$50,000 maturing in September 2009 have been rolled over for another 12 months.

No other matters or circumstances 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. The options are unlisted and were issued pursuant to the company's Employee Share Option Plan. Refer to note 18 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 \$14,325 (2008: \$11,840).

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 2009 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 2009

		Primary benefits	Post employment	Equity	Other	Total
		Directors fees	Superannuation	Options (a)	Directors' & Officers' Insurance	
		\$	\$	\$	\$	\$
B M Gardiner	2009	-	-	-	-	-
Chairman (retired)	2008	22,917	2,062	-	2,368	27,347
P D Ford	2009	26,583	2,392	10,965	2,630	42,570
Non-executive Chairman	2008	45,000	4,050	-	2,368	51,418
R Penny	2009	-	-	-	588	588
Non-executive	2007	45,000	4,050	-	1,368	51,418
B. Walsh	2009	4,716	-	-	588	5,304
	2008	-	-	-	-	-
S.O'Loughlin	2009	22,000	1,980	10,965	2,630	37,575
	2008	-	-	-	-	-
S. Taylor	2009	23,980	-	10,965	2,630	37,575
	2008	-	-	-	-	-

Table 2: Remuneration of the most highly paid executive officers of the consolidated entity for the year ended 30 June 2009

		Primary benefits	Post employment	Equity	Other	Total
		Salary	Superannuation	Options (a)	Directors' & Officers' Insurance	
		\$	\$	\$	\$	\$
S Craig Chief Executive	2009	22,500	-	-	2,630	25,130
	2008	49,980	-	-	790	50,770
A Jairath CFO and Company Secretary	2009	92,500	-	5,687	2,630	100,817
	2008	123,480	-	-	2,171	125,651
K R Slatyer Chief Executive	2009	-	-	-	-	-
	2008	133,333	12,000	0	1,578	146,911
P B Magoffin CFO and Company Secretary	2009	-	-	-	-	-
	2008	11,250	1,012	0	197	12,459

Table 3: Options holdings of Key Management Personnel for the year ended 30 June 2009

	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	\$0.002	Nil	Nil	25 Nov 13	\$0.002
S O'Loughlin	26 Nov 08	5,000,000	\$0.002	Nil	Nil	25 Nov 13	\$0.002
S Taylor	26 Nov 08	5,000,000	\$0.002	Nil	Nil	25 Nov 13	\$0.002
A Jairath	4 Dec 08	2,000,000	\$0.001	Nil	Nil	3 Dec 13	\$0.001

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 number of meetings attended by each director were as follows:

	Directors' Meetings	Meetings of Committees Audit and Risk Management	Remuneration
Number of meetings held:	9	3	1
Number of meetings attended:			
P D Ford	9	3	1
S O'Loughlin	8	3	1
S Taylor	6	3	1
R Penny	1	-	-
B. Walsh	1	-	-

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 Gord

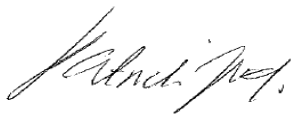
AUDITOR INDEPENDENCE DECLARATION

We have obtained the independence declaration from our auditors, RSM Bird Cameron, a copy of which is included on page 34 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

25th September 2009

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)
Ronald Penny	Non-executive Director (resigned 6 August 2008)
Dr Bradley Walsh	Non-executive Director (appointed 23 June 2008, resigned 7 August 2008)
Mr Simon O'Loughlin	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	1 year & 3 months (re-elected 23 June 2008)
R Penny	3 year & 6 months
Dr Bradley Walsh	1 month
Mr Simon O'Loughlin	1 year 2 months
Mr Simon Taylor	1 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 board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the company to the audit 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 board of numerous companies and is an experienced commercial.

Mr Taylor is an experienced analyst with stock broking firm Taylor Collison 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. Chief Executive Office Stuart Craig resigned on 31 July 2009 and was not available to make a declaration. 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.

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.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$	2008 \$
Sale of goods	2(a)	1,103,288	674,563
Interest revenue	2(a)	3,226	8,289
Revenue		1,106,514	682,852
Cost of sales		(583,446)	(505,546)
Gross profit		523,068	177,306
Other income	2(b)	44,407	257,526
Research and development expenses		(76,232)	(45,615)
Intellectual property expenses		(96,175)	(99,607)
Marketing expenses		-	(10,000)
Administrative and corporate expenses	2(c)	(567,525)	(1,564,126)
Finance costs	2(c)	(38,449)	(46,630)
Loss before income tax		(210,906)	(1,331,146)
Income tax refund	3	-	-
Loss after tax attributable to members of the parent		(210,906)	(1,331,146)
Basic loss per share (cents per share)	5	(0.10)	(0.75)
Diluted loss per share (cents per share)	5	(0.10)	(0.75)

The accompanying notes form part of these financial statements.

Balance Sheet

AS AT 30 JUNE 2009

	NOTE	2009 \$	2008 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	85,925	196,827
Trade and other receivables	7	393,020	244,480
Inventories	8	-	24,709
Total current assets		478,945	466,016
Non-current assets			
Plant and equipment	9	6,684	16,404
Total non-current assets		6,684	16,404
TOTAL ASSETS		485,629	482,420
LIABILITIES			
Current liabilities			
Trade and other payables	10	371,755	584,813
Short term provisions	11	-	-
Government grants		20,729	20,729
Financial liabilities	12	50,000	500,000
Total current liabilities		442,484	1,105,542
Non-current liabilities			
Long term provisions	11	-	-
Total non-current liabilities		-	-
TOTAL LIABILITIES		442,484	1,105,542
NET ASSETS		43,145	(623,122)
EQUITY			
Issued capital	13	27,761,399	26,933,518
Reserves	14	289,212	239,920
Accumulated losses		(28,007,466)	(27,796,560)
TOTAL EQUITY		43,145	(623,122)

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Issued Capital \$	Accumulated Losses \$	Option Reserves \$	Total Equity \$
Balance at 1 July 2007		24,444,140	(26,465,414)	239,920	218,646
Shares issued during the year		515,500	-	-	515,500
Transaction cost on share issues		(26,122)	-	-	(26,122)
Loss for the year		-	(1,331,146)	-	(1,331,146)
Cost of share-based payments		-	-	-	-
Balance at 30 June 2008		26,933,518	(27,796,560)	239,920	(623,122)
Shares issued during the year	13	852,000	-	-	852,000
Transaction cost on share issues	13	(24,119)	-	-	(24,119)
Loss for the year		-	(210,906)	-	(210,906)
Cost of share-based payments	14	-	-	49,292	49,292
Balance at 30 June 2009		27,761,399	(28,007,466)	289,212	43,145

The accompanying notes form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		947,563	864,188
Payments to suppliers and employees		(1,429,767)	(1,929,069)
Receipt of tax rebate on R&D expenditure		-	-
Interest received		3,226	8,371
Finance costs		(12,500)	(33,130)
NET CASH USED IN OPERATING ACTIVITIES	6	(491,478)	(1,089,640)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant and equipment		2,695	5,053
Purchase of plant and equipment		-	(6,536)
NET CASH USED IN INVESTING ACTIVITIES		2,695	(1,483)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		402,000	515,500
Payment of share issue costs		(24,119)	(26,122)
Proceeds from issue of convertible notes		-	500,000
NET CASH PROVIDED BY FINANCING ACTIVITIES		377,881	989,378
NET INCREASE/(DECREASE) IN CASH HELD		(110,902)	(101,745)
CASH AT BEGINNING OF FINANCIAL YEAR		196,827	298,572
CASH AT END OF FINANCIAL YEAR	6	85,925	196,827

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

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 company generated a net loss of \$210,906 (2008: \$1,331,146) and negative cash flows from operations of \$491,477 (2008: \$1,089,640) in the year ended 30 June 2009. As at balance date, the company had a net asset position of \$ 43,145 (2008: negative (\$623,122)). These financial conditions indicate the existence of a material uncertainty which may cast doubt about the ability of the Company to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business. The Directors believe the adoption of the going concern basis of accounting by the company is appropriate for the following reasons:

- Post June 2009, the convertible notes of \$50,000 disclosed in the current liabilities and redeemable in September 2009 have been re-negotiated and extended until 24 September 2010.
- The directors regularly monitor the Company's cash position and they are also considering a number of strategic and operational plans and initiatives on an on-going basis to ensure that adequate funding continues to be available for the company to meet its business objectives; and
- The Company will be successful in the commercialisation and further development of its probiotic technology, leading to increasing sales and the ability to negotiate and obtain additional funding.

The financial statements do not include adjustments relating to the recoverability and classification of asset amounts or to the amounts and classification of liabilities that might be necessary if the Company does not continue as 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 as 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Income tax (continued)

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 2009

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 2009

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 are recognised in income statement 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Goods and Services Tax (GST) (continued)

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.

The financial report was authorised for issue on 25th September 2009 by the board of directors.

NOTE 2: REVENUES AND EXPENSES

(a) Revenue

Sales revenue - sale of goods	1,103,288	674,563
Interest revenue received from other persons	3,226	8,289
	1,106,514	682,852

(b) Other income

Government grants refunded	-	-
Licence agreement milestone payments	-	175,000
Other income	44,407	82,526
	44,407	257,526

(c) Expenses

Cost of sales	583,446	505,546
Finance costs paid to external parties	38,449	46,630
Depreciation	4,206	14,408
Foreign currency translation losses	-	1,499
Bad and doubtful debts – trade receivables	12,295	-
Net loss on disposal of plant and equipment	3,514	29,131
Write-off of obsolete stock	-	142,952
Share based payment expense	49,292	-

NOTE 3: INCOME TAX

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	-	(267,524)
Income tax expense (benefit) reported in the income statement	-	(267,524)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

	2009 \$	2008 \$
NOTE 3: INCOME TAX (continued)		
Prima facie tax payable (benefit) on profit (loss) from ordinary activities before income tax at 30% (2008: 30%)	(63,272)	(399,344)
Expenditure not allowable for income tax purposes	2,961	8,957
Losses not brought to account	60,311	390,387
Research and development tax rebate	-	-
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 2008.

At 30 June 2009 the company had not brought to account a deferred tax asset (at 30%) of \$7,646,436 made up of tax losses of \$7,618,772 and timing differences of \$27,664 (2008: tax losses of \$7,573,784 and timing differences of \$53,088) as realisation of the benefit is not probable.

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	210,906	1,331,146
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	234,158,365	176,741,771
Weighted average number of options outstanding not included in diluted EPS calculations as the options are anti-dilutive in nature.	3,076,522	10,089,686

NOTE 6: CASH AND CASH EQUIVALENTS

Cash at bank and on hand	85,925	196,827
Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(210,906)	(1,331,146)
<i>Non-cash flows in profit</i>		
Depreciation	4,206	14,408
Net loss on disposal of plant and equipment	3,514	29,131
Cost of share options	49,292	-
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in inventories	24,708	133,160
(Increase)/decrease in trade and other receivables	(148,540)	(153,242)
(Increase)/decrease in prepayments	-	3,993
(Decrease)/increase in trade and other payables	(213,752)	255,416
(Decrease)/increase in provisions	-	(41,360)
Decrease/(increase) in government grants	-	-
Net cash flows from operating activities	(491,478)	(1,089,640)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
NOTE 7: TRADE AND OTHER RECEIVABLES		
Trade receivables	376,164	188,789
Other receivables	16,856	55,691
	393,020	244,480
Australian dollar equivalent of amounts receivable in US dollars not formally hedged	373,540	106,169
NOTE 8: INVENTORIES		
Raw materials at cost	-	24,709
Finished goods at cost	-	-
	-	24,709
NOTE 9: PLANT & EQUIPMENT		
Plant and equipment at cost	28,604	40,609
Accumulated depreciation	(21,920)	(24,205)
	6,684	16,404
Movements in carrying amounts		
Movement in the carrying amounts between the beginning and the end of the financial year		
Balance at 1 July	16,404	58,460
Additions	-	6,536
Disposals	(5,514)	(34,184)
Depreciation charge for the year	(4,206)	(14,408)
Balance at 30 June	6,684	16,404
NOTE 10: TRADE AND OTHER PAYABLES		
Trade payables	274,236	393,898
Accrued expenses	92,213	156,230
GST liability	506	911
Employee superannuation payable	2,094	8,533
PAYG payable	2,706	25,241
	371,755	584,813
Trade payables are non-interest bearing and are generally settled on 60 day terms.		
Australian dollar equivalent of amounts payable in US dollars not formally hedged	171,855	126,513

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
NOTE 11: PROVISIONS		
Current		
Employee annual leave		
Opening balance at 1 July	-	38,223
Additional provisions	-	-
Amounts used	-	(38,223)
Closing balance at 30 June	-	-
Non-current		
Employee long service leave		
Opening balance at 1 July	-	3,137
	-	
Unused amounts reversed		(3,137)
Closing balance at 30 June	-	-

NOTE 12: FINANCIAL LIABILITIES

Convertible notes	50,000	500,000
-------------------	--------	---------

The company currently has on issue \$50,000 (2008: \$500,000) unsecured convertible notes of \$500,000 maturing in September 2010. The note holders have 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.

NOTE 13: ISSUED CAPITAL

Ordinary shares – issued and fully paid	27,761,399	26,933,518
---	------------	------------

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 30 June 2007	176,460,077	26,444,140
Issued 26 June 2008 for cash	25,775,000	515,500
Transaction costs on share issue	-	(26,122)
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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 14: RESERVES

Option Reserve

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

NOTE 15: CAPITAL AND LEASING COMMITMENTS

The company had no capital or leasing commitments at 30 June 2008 or 30 June 2009.

NOTE 16: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- (a) The previously reported alleged claim by a US based consultant has been settled at a total cost of \$45,896.
- (b) The company reported last year that it had received a claim from a former employee. The claim has not been settled at the date of this report. The company has denied liability and is defending the claim. It is not possible to estimate the amount of any eventual payment or receipt in relation to this claim.

NOTE 17: 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 2009 and 30 June 2008.

	Australia		USA		Total	
	2009	2008	2009	2008	2009	2008
Revenue						
External sales	18,348	29,504	1,084,940	645,059	1,103,288	674,563
Other revenues from external customers	47,633	265,815	-	-	47,633	265,815
Segment revenue	65,981	295,319	1,084,940	645,059	1,150,921	940,378
Other segment information						
Segment assets	112,089	482,420	373,540	-	485,629	482,420
Capital expenditure	-	6,536	-	-	-	6,536
Segment liabilities	216,629	1,105,542	175,855	-	392,484	1,105,542
Segment depreciation	4,206	14,408	-	-	4,206	14,408

The company does not perform an analysis of costs and expenses by segment. All costs and expenses are measured on a combined basis and are not allocated between segments.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 18: 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 are two employees 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:

	2009 No.	2009 WAEP	2008 No.	2008 WAEP
Outstanding at the beginning of the year	9,825,000	\$0.10	12,950,000	\$0.13
Granted during the year	19,500,000	\$0.10	-	-
Expired during the year	(9,825,000)	\$0.10	(3,125,000)	\$0.24
Outstanding at the end of the year	19,500,000	\$0.10	9,825,000	\$0.10
Exercisable at the end of the year	19,500,000		9,825,000	

The outstanding balance as at 30 June 2009 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, and
- 2,500,000 options over ordinary shares with an exercise price of \$0.02 each, exercisable by 24 May 2014.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 is 55 months (2008: 4.8 months).

The weighted average fair value of options granted during the year was \$0.01

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

The following table lists the inputs to the model used for the years ended 30 June 2009.

	2009
Expected volatility %	85
Risk-free interest rate %	4
Expected life of options (years)	5
Option exercise price	\$0.20
Weighted average share price at grant date (\$c)	\$0.007

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

The fair value of the cash-settled options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 19: EVENTS AFTER THE BALANCE SHEET DATE

- a) On 17 July, a report titled "Probiotics, illness and immunity in athletes" based on a study conducted at the Australian Institute of Sports in conjunction with Griffith University, sponsored 50% each by the company and Ch Hansen, was received by the company. A summary of the finds of this study were announced to the markets on 25 August 2009. The detailed study will be released once it is accepted for publication in a scientific journal.

Convertible notes of \$ 50,000 maturing in September 2009 have been rolled over for another 12 months

	2009 \$	2008 \$
NOTE 20: AUDITORS' REMUNERATION		
Remuneration of the current auditor, RSM Bird Cameron Partners, for:		
Auditing or reviewing the financial report	39,854	26,000
Other services – Independent Accountants Report for a possible prospectus	-	38,000
Remuneration of the previous auditor, Ernst & Young, for:		
Auditing or reviewing the financial report	-	73,776
Other services – special audit required by the regulator	-	-
	39,854	137,776

NOTE 21: 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)
Prof R Penny	Non-executive director (retired 6 August 2008)
B Walsh	Non-executive director (retired 7 August 2008)
S. Craig	Chief Executive Officer (resigned 31 July 2009)
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

	Balance 1.7.2008	Granted as compe- nsation	Optio ns exerci sed	Options lapsed	Balance 30.6.2009	Vested at 30 June 2009			Not- exerci sable
						Total	Exercisable		
Directors									
B M Gardiner	1,000,000	-	-	1,000,000					-
R Penny	1,250,000	-	-	1,250,000					-
P D Ford	1,000,000	5,000,000	-	1,000,000	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									
K R Slatyer	5,000,000	-	-	5,000,000					-
P B Magoffin	1,000,000	-	-	1,000,000					-
A Jairath		2,000,000			2,000,000	2,000,000	2,000,000		
Total	9,250,000	17,000,000	-	9,250,000	17,000,000	17,000,000	17,000,000		-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

(c) Shareholdings of key management personnel

	<i>Balance 1.7.2008</i>	<i>Granted as compensation</i>	<i>Net change other *</i>	<i>Balance 30.6.2009</i>
Directors				
P D Ford (i)	3,935,999	-	-	3,935,999
S. O'Loughlin	-	-	1,000,000	1,000,000
S Taylor	-	-	-	-
Executives				
K R Slatyer	-	-	-	-
P B Magoffin	-	-	-	-
P W French	-	-	-	-
P L Conway	-	-	-	-
Total	<u>3,935,999</u>	<u>-</u>	<u>1,000,000</u>	<u>4,935,999</u>

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

- (i) P D Ford has a beneficial interest in Diskdew Pty Limited which owned 3,935,999 shares at 30 June 2009.

NOTE 22: RELATED PARTY TRANSACTIONS

- During the year Probiomics Limited was provided services, on normal terms and conditions, by Diskdew Pty Ltd totalling \$18,182. Mr P D Ford is a director of Diskdew Pty Ltd. During the year ended 30 June 2008, due to an oversight, consulting fees of \$8,000 received as indirect payments by Diskdew Pty Ltd were not disclosed in the annual report.
- During the year Probiomics Limited was provided legal services, on normal terms and conditions by O'Loughlin Lawyers totalling \$ 10,381. Mr S O'Loughlin is a partner in O'Loughlin Lawyers.

NOTE 23: 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 2009.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

(a) Financial Risk Management (continued)

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.

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 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	10%	-	-	50,000	50,000
Total financial liabilities		392,484	-	50,000	442,484

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

(b) Financial Instrument Composition and Maturity Analysis

	Weighted average interest rate 2008 %	Non-interest bearing 2008 %	Floating interest rate 2008 \$	Fixed interest rate maturing within 1 year 2008 \$	Total 2008 \$
Financial Assets					
Cash and cash equivalents	5.95%	-	196,827	-	196,827
Receivables	-	244,480	-	-	244,480
Total financial assets		244,480	196,827	-	441,307
Financial liabilities					
Trade and other payables		584,813			584,813
Convertible Notes	-		-	500,000	500,000
Total financial liabilities		584,813	-	500,000	1,084,813

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.

(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 24: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards issued or amended which are applicable to the entity have not been adopted in preparation of the financial statements at reporting date.

AASB	Summary	Application Date (financial years beginning)	Expected Impact
AASB 8 : Segment Reporting	New standard which replaces AASB 114. Applies to listed entities only.	1 January 2009	Disclosures only
AASB 101: Presentation of Financial Statements	Revised standard – amends disclosure requirements and format of financial statements	1 January 2009	Disclosures only

Other Accounting Standards issued or amended which are applicable in the future financial period are not expected to have a material impact.

Directors' Declaration

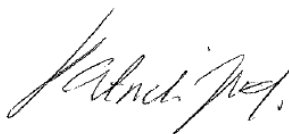
The directors of the company declare that:

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 2009 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 25th September 2009

RSM Bird Cameron Partners

Chartered Accountants

Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +6 2 9233 8933 F +61 2 9233 8521
www.rsml.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 2009, 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: 25 September 2009

Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.

34



RSM Bird Cameron Partners

Chartered Accountants

Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +6 2 9233 8933 F +61 2 9233 8521
www.rsmi.com.au

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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, 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.

Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.

35



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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 2009 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 incurred a net loss of \$210,906 and had net cash outflows from operating activities of \$491,478 for the year ended 30 June 2009. These conditions, along with other matters as set forth in Note 1, 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, 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 in the directors' report for the financial year ended 30 June 2009. 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 2009 complies with section 300A of the *Corporations Act 2001*.



RSM BIRD CAMERON PARTNERS
Chartered Accountants



W E Beauman
Partner

Sydney, NSW
Dated: 25 September 2009

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 24 September 2009.

(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	203	163,244
1,001	-	5,000	391	1,004,606
5,001	-	10,000	195	1,568,093
10,001	-	100,000	482	18,964,054
100,001	and over		277	272,535,080
			1,548	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	15,295,000	5.20
3	Symington Pty Ltd	13,250,000	4.50
4	Jamel Investments Pty Ltd	10,698,323	3.64
5	I.E Properties Pty Ltd	8,347,332	2.84
6	Mambat Pty Ltd	8,062,008	2.74
7	Mr Alan Grant –Smith Mrs Susan Grant Smith & S Grant-Smith SF A/C 12	7,855,920	2.67
8	Octafil Pty Ltd	7,176,827	2.44
9	Greenslade Holdings Pty Ltd	5,866,666	1.99
10	Bell Potter Nominees Ltd BB Nominees	5,243,250	1.78
11	Swiss Partners Pty Ltd	5,000,000	1.70
12	Sambo Holdings WA Pty Ltd	4,000,000	1.36
13	Taycol Nominees Pty Ltd	4,000,000	1.36
14	Woodhurst Pty Ltd	4,000,000	1.36
15	Acres Holdings Pty Ltd	3,941,666	1.34
16	Mr Edwin Paul Cayzer Mrs Lorraine Cayzer Mineral and Traders Super Fund	3,745,565	1.27
17	Diskdew Pty Ltd P Ford Super Fund	3,519,333	1.20
18	Kangsav Pty Ltd	3,229,872	1.10
19	Calama Holdings Pty Ltd Mambat Super Fund	3,214,285	1.09
20	Biogia AB Tegnergatan, Sweden	3,000,000	1.02
		144,326,999	49.06

ASX ADDITIONAL INFORMATION (continued)

(c) Substantial shareholders

The company had 2 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