Hunter Immunology Limited

(ABN 92 106 556 094)

Target's Statement

in response to Takeover Offers by Probiomics Limited ABN 97 084 464 193 to acquire ALL your Hunter Shares, Tranche 1 Note Interests and Hunter Options in Hunter Immunology Limited

Each of your Independent Hunter Directors recommends that you ACCEPT each of the Takeover Offers for all your Hunter Securities in the absence of a Superior Proposal

To accept any or all of the Takeover Offers, complete, sign and return the applicable Acceptance and Transfer Form(s) enclosed with the Bidder's Statement in accordance with the instructions set out in those forms

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to its contents, you should promptly consult your legal, financial or other professional adviser

CORPORATE DIRECTORY

Directors

Mr Ian Mutton (Non-Executive Chairman)
Mr David Radford (Managing Director)
Mr Glenn Crisp (Non-Executive Director)
Dr Jeremy Curnock Cook (Non-Executive Director)
Dr Doug Wilson (Non-Executive Director)

Company Secretary

Ms Laura Raymer

Website

www.hunterimmunology.com.au

Principal Place of Business

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4 Bridge Street
Sydney NSW 2000
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Solicitors

HWL Ebsworth
Level 14, Australia Square
264-278 George Street
Sydney NSW 2000

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KEY DATES

Event	Anticipated Date
ASX announcement of Takeover Offers and Series of Transactions	11 October, 2011
Lodgement of Bidder's Statement with ASIC	13 December, 2011
Lodgement of Target's Statement with ASIC	13 December, 2011
Takeover Record Date	13 December, 2011
Dispatch of Bidder's Statement and Target's Statement to Hunter Securityholders and commencement of Takeover Bid Period	20 December, 2011
Dispatch of: • Notice of Meeting to Probiomics Shareholders; and • Prospectus	5 January, 2012
Close of Public Offer Period (in respect of Public Offer)	6 February, 2012
Convening of Probiomics Shareholder's Meeting	7 February, 2012
Notify ASX of results of Probiomics Shareholder's Meeting	7 February, 2012
Lodge application to ASX for Re-admission of Probiomics Securities	8 February, 2012
Close of Takeover Bid Period †	9 March, 2012
Issue of: • Bid Consideration, being Probiomics Shares and Replacement Probiomics Options; and • Public Offer Shares, Public Offer Options and Director Options	14 March, 2012
Share Consolidation takes effect	21 March, 2012
Completion of dispatch of new holding statements to all Probiomics Securityholders to reflect: • issue of Probiomics Securities (see above); and • changes in holdings of Probiomics Securities as a result of Share Consolidation	28 March, 2012
Change of Probiomics name to "Bioxyne Limited" becomes effective	30 March, 2012

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

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

IMPORTANT INFORMATION

Target's Statement and Takeover Offers

This is a Target's Statement dated **13 December, 2011** given by Hunter to Probiomics and each Hunter Securityholder under the provisions of Part 6.5 of Chapter 6 of the Corporations Act. It sets out the disclosures required by the Corporations Act together with the terms of each Takeover Offer.

You should read this Target's Statement carefully and in its entirety.

This Target's Statement was approved by a unanimous resolution of all Independent Hunter Directors.

Australian Securities & Investments Commission

A copy of this Target's Statement was lodged with ASIC on **13 December, 2011**.

Neither ASIC nor any of its officers takes any responsibility for the contents of this Target's Statement.

Investment decision

This Target's Statement does not take into account the individual investment objectives, financial situation or any particular needs of any Hunter Securityholder or any other person. Hunter Securityholders may wish to seek independent legal, financial and taxation advice before making a decision as to whether or not to accept a Takeover Offer.

Forward looking statements

Some of the statements appearing in this Target's Statement are in the nature of forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events.

You should be aware that such statements are not statements of fact and there can be no certainty of outcome in relation to matters to which the statements relate. Forward looking statements and statements in the nature of forward looking statements are only predictions and are subject to inherent risks and uncertainties before actual outcomes are achieved. Those risks and uncertainties:

- are not all within the control of Hunter or Probiomics and cannot be predicted with assured accuracy by Hunter or Probiomics;
- include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which Hunter or Probiomics, their respective related bodies corporate and/or joint ventures and associated undertakings operate or propose to operate; and
- include general economic conditions, acts of terrorism, health epidemics, acts of nature prevailing exchange rates and interest rates and conditions in the financial markets that may cause objectives to change or may cause outcomes not to be realised or realised differently than originally contemplated or described.

Although Hunter believes that the expectations reflected in any forward looking statements included in this Target's Statement are reasonable, no assurance can be given that such expectations will prove to be correct. Actual outcomes, events or results are likely to differ – possibly to a material extent - from the outcomes, events or results expressed or implied in any forward looking statement and any statement in the nature of a forward looking statement in this Target's Statement.

None of Hunter, or its respective officers, or persons named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (expressed or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any outcomes expressed or implied in any forward looking statement and any statement in the nature of a forward looking statement.

All Hunter Securityholders are cautioned not to place undue reliance on any forward looking statement or any statement in the nature of a forward looking statement having regard to the fact that the outcome may not be achieved. The forward looking statements and statements in the nature of forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Privacy Statement

Personal information relating to your Hunter Securities may be collected by Probiomics in accordance with its rights under the Corporations Act. Furthermore, Probiomics may share this information with its advisers and service providers where necessary for the purposes of a Takeover Offer. Generally, you have a right to access the personal information which Probiomics and its agents may hold about you.

How to accept a Takeover Offer

Acceptances must be received by the Closing Date.

Full details of how to accept any Takeover Offer are set out in **Section 2** and **Section 7** of **Appendix 1** of the Bidder's Statement and in the instructions set out in the Acceptance and Transfer Forms that are enclosed in the Bidder's Statement.

Notice to non-Australian Hunter Securityholders

The distribution of this Target's Statement may, in some countries, be restricted by law or regulation of those countries. Accordingly, persons who come into possession of this Target's Statement should inform themselves of, and observe, those restrictions.

Enquiries

If you are in any doubt as to how to deal with any of the matters raised in this Target's Statement, you should consult with your broker or your legal, financial or other professional adviser.

Should you have any questions about any of these Takeover Offers or how to accept any of them, please call Hunter's Takeover Offers Information Line on (02) 9793 7267 from within Australia or on +61 2 9793 7267 from outside Australia.

Defined terms

Defined terms used in this Target's Statement are capitalised. Definitions of these terms are set out in **Section 8**. Unless the contrary intention appears, the context requires otherwise or terms are defined in **Section 8**, words and phrases contained in this Target's Statement have the same meaning and interpretation as given to them in the Corporations Act.

References to Time

All references to time in this Target's Statement are references to Australian Eastern Daylight Saving Time (**AEDST**).

References to Bidder's Statement

All references in this Target's Statement to the Bidder's Statement or any part or section of the Bidder's Statement, will be deemed to be part of this Target's Statement. Neither Probiomics nor any Probiomics Director takes any responsibility for the contents of this Target's Statement, or any part or parts thereof, including any references herein to the Bidder's Statement or any part or section of the Bidder's Statement. Neither Hunter nor any Hunter Director takes any responsibility for the contents of the Bidder's Statement or any part or parts thereof.

References to Prospectus and Notice of Meeting

All references in this Target's Statement to the Prospectus or the Notice of Meeting are references to either the prospectus that Probiomics will be issuing in connection with the Public Offer or the notice of meeting that Probiomics will be issuing for the purpose of convening the Meeting. Neither Hunter nor any Hunter Director takes any responsibility for the contents of the Prospectus, the Notice of Meeting or any part or parts thereof.

The Hunter Directors understand that the Prospectus and the Notice of Meeting will be issued shortly after the dispatch of this Target's Statement and the Bidder's Statement.

SUMMARY OF THE OFFER

Probiomics has made off market offers for all of your Hunter Securities. Further details on Probiomics are contained in **Section 5** of this Target's Statement and **Section 2** of the Bidder's Statement. Probiomics' Takeover Offers propose the issue and allotment to Hunter Securityholders of:

- nine (9) Probiomics Shares for each one (1) Hunter Share;
- nine (9) Probiomics Shares for each one (1) Tranche 1 Note Interest; and
- nine (9) Replacement Probiomics Options for each one (1) Hunter Option,

that each Hunter Securityholder holds on the Takeover Record Date and that is the subject of a duly completed Acceptance and Transfer Form, and otherwise upon the terms and conditions of the Takeover Offers set out in **Appendix 1** and **Appendix 2** of the Bidder's Statement.

Probiomics (formerly known as VRI BioMedical Limited) was incorporated in 1998 and listed on the ASX in December 2000, to fund the research and development of a portfolio of projects in mucosal immunology. Since listing, its shares have been continuously quoted and traded in the market operated by the ASX.

Probiomics is an Australian biotechnology company developing proprietary probiotic and bio-molecular technology for commercial applications in consumer health, functional foods and pharmaceutical products. In particular, it carries on the business of research, development and commercial exploitation of technologies in the area of mucosal immunology.

In late 2003, Probiomics resolved to focus primarily on the commercialisation and further development of its proven probiotic technology, with its lead probiotic, PCC, a novel and patent protected strain of *Lactobacillus fermentum*.

Probiomics is at the forefront of the wellness industry through its innovative approach to its proprietary probiotic products and remedies. Probiotics – being beneficial bacteria which promote good intestinal health, essential for general wellbeing – are well recognised as beneficial in dairy-based foods and drinks for promoting intestinal health. However, not all probiotic strains have the desired results. In a number of clinical trials, probiotics have shown exceptional clinical efficacy in a range of intestinal and immune disorders. On the basis of this data, Probiomics is commercialising PCC-based products as over-the-counter dietary supplements, novel functional foods and innovative therapeutics.

Hunter and Probiomics entered into a non-binding Memorandum of Understanding with each other in October 2011 to work towards completing the Hunter Acquisition and Public Offer envisaged in this Target's Statement.

The Takeover Offers consist of three separate offers to acquire all, and not some, of your Hunter Securities on the terms set out in **Section 6** of this Target's Statement and **Appendix 1** and **Appendix 2** of the Bidder's Statement.

The Takeover Offers are conditional upon the Bid Conditions, the most significant of which are as follows:

- Probiomics receives valid acceptances for each of at least 90% (by number) of all Hunter Shares, all Tranche 1 Note Interests and all Hunter Options by the end of the Takeover Bid Period;
- the cancellation, exercise or transfer of all Tranche 2 Notes to Probiomics;

- the passage of all the Essential Resolutions at the Meeting of Probiomics Shareholders, namely, the approval of:
  - (a) a change in the scale of Probiomics' activities arising out of the Hunter Acquisition;
  - (b) the issue of a minimum of 200,000,000 and a maximum of 400,000,000 Public Offer Shares at $0.011 per Public Offer Share and a minimum of 66,666,667 Public Offer Options and a maximum of 133,333,334 Public Offer Options, each exerciseable at $0.0165 per Public Offer Option on or before 31 March 2013, for every 3 Public Offer Shares issued under the Public Offer;
  - (c) a consolidation of Probiomics' issued capital on a 20 to 1 basis; and
  - (d) the appointment of David Radford as a director of Probiomics on and from the Completion Date;
- Probiomics raising no less than $2,200,000 under the Public Offer;
- ASX consenting to the re-admission of Probiomics to the Official List;
- no Material Adverse Change occurring in respect of the Hunter Group or any member of the Hunter Group;
- no new material commitments being made by any member of the Hunter Group;
- no member of the Hunter Group undertaking certain conduct, such as declaring or distributing any dividends, altering their capital structure or making any change to their constitutions, without the written consent of Probiomics;
- the S&P/ASX 200 Index published by ASX being, for not more than 2 consecutive trading days during the Takeover Bid Period, below the level of 3,650;
- no material litigation being commenced against any member of the Hunter Group;
- Hunter Shareholder approval of the issue of Hunter Shares to David Radford (see **Section 4.9.4** and **Section 7.4** of this Target's Statement for further details); and
- certain other prescribed occurrences not occurring, more particularly any event referred to in **Section 20** of **Appendix 2** to the Bidder's Statement.

See **Appendix 2** of the Bidder's Statement for further details of the Bid Conditions.

The issue of the Bid Consideration for acceptances of the Takeover Offers will be made within 1 month after the later of receipt of your Acceptance Form and the date on which the Offers become unconditional (and in any event, on or before 21 days after the end of the Takeover Bid Period). Further details of the timing and conditions of payment are set out in **Section 9** of **Appendix 1** of the Bidder's Statement

The Closing Date of the Takeover Offers is currently scheduled to be 5pm (AEDST) on **9 March,** 2012, unless the Takeover Bid Period is extended by Probiomics or by operation of the Corporations Act. Any such extension will be announced in accordance with the Corporations Act.

Your Independent Hunter Directors unanimously recommend that you ACCEPT the Takeover Offers in the absence of a Superior Proposal. To accept any Takeover Offer complete, sign and return the applicable Acceptance and Transfer Form in accordance with the instructions set out in the Bidder's Statement and that Acceptance and Transfer Form.

HOW TO ACCEPT A TAKEOVER OFFER

You should read this Target's Statement and the Bidder's Statement carefully and in full before making a decision whether to accept any Takeover Offer.

(a) **General**

(i) Subject to **Section 2** and **Section 7** of **Appendix 1** of the Bidder's Statement, you may accept a Takeover Offer for all of your Hunter Securities only.

(ii) You may accept a Takeover Offer at any time during the Takeover Bid Period by completing and signing the applicable Acceptance and Transfer Form in accordance with the terms of the applicable Takeover Offer and the instructions on that Acceptance and Transfer Form.

(iii) You must ensure that each applicable Acceptance and Transfer Form (including any documents required by the terms of the applicable Takeover Offer and the instructions on the applicable Acceptance and Transfer Form) is or are received before the end of the Takeover Bid Period, at one of the addresses shown on that Acceptance and Transfer Form.

(b) **Hunter Securities of which you are entitled to be registered as holder**

To accept a Takeover Offer for any Hunter Security which is not held in your name, but of which you are entitled to be registered as holder, you must:

(i) complete and sign the applicable Acceptance and Transfer Form in accordance with the terms of the Takeover Offer and the instructions on that Acceptance and Transfer Form; and

(ii) ensure that the applicable Acceptance and Transfer Form (including any documents required by the terms of the applicable Takeover Offer and the instructions on that Acceptance and Transfer Form) is or are received before the end of the Takeover Bid Period, at one of the addresses shown on that Acceptance and Transfer Form.

(c) **Acceptance Form and other documents**

(i) The Acceptance and Transfer Form forms part of the Takeover Offer in respect of a Hunter Security that is the subject of that Acceptance and Transfer Form.

(ii) If your Acceptance and Transfer Form (including any documents required by the terms of the applicable Takeover Offer and the instructions on that Acceptance and Transfer Form) is or are returned by post, for your acceptance to be valid you must ensure that they are posted or delivered in sufficient time for them to be received by Probiomics at one of the addresses shown on that Acceptance and Transfer Form before the end of the Takeover Bid Period.

(iii) The postage of that Acceptance and Transfer Form and other documents is at your own cost and risk.

Hunter Securityholders should also refer to Section 1.2 of the Bidder's Statement for further details on how to accept a Takeover Offer.

Your Independent Hunter Directors unanimously recommend that you ACCEPT the Takeover Offer in the absence of a Superior Proposal

CHAIRMAN'S LETTER

Dear Hunter Securityholder,

Your Independent Hunter Directors recommend that you ACCEPT each of the Takeover Offers from Probiomics in the absence of a Superior Proposal.

The Takeover Bid announced by Probiomics on 11 October 2011 comprises the following Takeover Offers:

- nine (9) Probiomics Shares for each one (1) of your Hunter Shares;
- nine (9) Probiomics Shares for each one (1) of your Tranche 1 Note Interests; and
- nine (9) Replacement Probiomics Options (with an equivalent exercise date) for each one (1) of your Hunter Options.

Hunter's response is set out in this Target's Statement. It:

- contains your Directors' formal response to the Takeover Offers; and
- sets out in detail the Independent Hunter Directors' reasons for recommending that you accept each of the Takeover Offers, in the absence of a Superior Proposal.

Your Independent Hunter Directors have unanimously formed the view that the Takeover Offers represent fair value in the current market in the absence of a Superior Proposal. That view has been formed after regard as been had to the following matters:

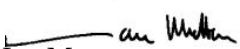
- ***Fair and reasonable*** – The Independent Expert has concluded the Share Takeover Offer and Option Takeover Offer are fair and reasonable, in the absence of a superior proposal.
- ***Ready market for your investment*** – Hunter Shareholders will gain access to an ASX listed group in which they will be able to improve their ability to value their investment and trade their securities.
- ***Improved Access Capital Markets from being ASX listed*** – Hunter Shareholders will gain the benefit, through becoming shareholders in a listed company that has a wider access to capital markets.
- ***Growth*** - The increased scale will provide the Merged Group with enhanced financial capacity and flexibility to advance the development of the projects and to pursue other potential growth opportunities.
- ***Stronger balance sheet*** – Upon completion of the Hunter Acquisition, the Merged Group will be in a stronger financial position to pursue future growth opportunities.

You are encouraged to read both the Bidder's Statement and Target's Statement in full and to consider the Takeover Offers having regard to your personal circumstances.

The Directors encourage you to seek your own independent financial and taxation advice prior to deciding whether to accept the Takeover Offers.

Your Directors will continue to keep you informed of all material developments relating to the Takeover Offers.

Yours Sincerely



Ian Mutton
Chairman

1 CONSIDERATIONS FOR AND AGAINST ACCEPTING THE TAKEOVER OFFERS

1.1 Considerations for accepting the Takeover Offers

Your Independent Hunter Directors unanimously recommend that you accept all applicable Takeover Offers in the absence of a Superior Proposal. Your Independent Hunter Directors consider the following considerations are relevant in relation to your decision to accept or not to accept the Takeover Offers.

1	Creation of a biotech group that is better placed to enhance the value of Hunter's biotech projects
2	The Independent Expert has concluded that the Share Takeover Offer and the Option Takeover Offer are fair and reasonable, in the absence of a Superior Proposal
3	Synergistic benefits arising from the complementary asset base and therapeutic and business focus of Hunter and Probiomics
4	The Independent Hunter Directors believe that the Takeover Offers represent fair value in the current market in the absence of a Superior Proposal
5	The Merged Group will have an increased scale, improved fundraising capability and an increased complementary asset base
6	Major Hunter Securityholders have committed or indicated their support for the Takeover Offers
7	Potential availability of Capital Gains Tax relief under the Share Takeover Offer and Option Takeover Offer
8	The Takeover Offers have unanimous support from Independent Hunter Directors
9	No brokerage or stamp duty is payable by Hunter Securityholders who accept the Takeover Offers
10	There are risks to Hunter and the Hunter Securityholders if the Takeover Offers are not accepted

A. *Creation of a biotech group that is better placed to enhance the value of Hunter's biotech projects*

Over the past two years your directors have explored a number of alternatives to enhance the value of shareholder interests including directly listing Hunter on a recognised stock market, combined with a substantial capital raising, and reverse takeovers into existing listed companies with substantial cash reserves. The key objectives of the Hunter in pursuing these opportunities were to:

- secure a source of capital to enable Hunter to complete the testing of the advanced staged Phase IIb clinical trials of its compound HI-1640V (an enteric-coated tablet containing killed bacteria (Haemophilus influenzae) that has demonstrated positive results in Phase IIa trials, particularly in patients with moderate to severe Chronic Obstructive Pulmonary Disease (**COPD**));
- secure a source of capital to realise the commercial value of Hunter's intellectual property following testing;
- provide Hunter Securityholders with additional liquidity in Hunter Securities; and
- grow the Company.

The Takeover Offers are an excellent opportunity for Hunter Securityholders to become part of a merged entity that:

- will be listed on an internationally recognised stock exchange – namely, the ASX;
- is and will remain in the business of research, development and commercial exploitation of technologies in the area of mucosal immunology;
- has complementary intellectual property including proprietary ownership of a unique probiotic strain – PCC - which has been clinically proven to have excellent qualities, particularly in promoting systemic immune response; and
- will have a superior capacity to raise future capital required to advance the Company's projects, as compared to Hunter's current status as a small, unlisted company.

B. ***The Independent Expert has concluded that each of the Share Takeover Offer and the Option Takeover Offer is fair and reasonable in the absence of a higher offer***

Hunter engaged DMR Corporate Pty Ltd as an independent expert to prepare the Independent Expert's Report in relation to each of the Share Takeover Offer and the Option Takeover Offer. A full copy of the Independent Expert's Report is included with this Target's Statement as **Annexure A**. You are encouraged to read this report in its entirety.

In **Section 3** of the Independent Expert's Report, the Independent Expert states the following opinion:

> *"We have therefore concluded that, in the absence of a higher offer, the Share Offer made to Hunter shareholders is* ***fair and reasonable****."*

In this regard, the Independent Expert concluded that the minority value of a parcel of 9 Probiomics Shares after completion of the proposed takeover will be in a range of $0.06 to $0.10, with a mid point of $0.08 per parcel of 9 Probiomic Shares. Whilst the mid point value lies at the bottom range of the value of a minority Hunter Share ($0.08 to $0.12), this analysis does not ascribe any value to Probiomics' tax losses. The inclusion of a value on account of the Probiomics tax losses would increase the mid point of the value of a parcel of 9 Probiomics Shares after completion of the proposed takeover to a value that lies within the valuation range of the Hunter Shares and on that basis, the Independent Expert concluded that the Share Takeover Offer was fair.

In addition, the Independent Expert concluded that the Share Takeover Offer was reasonable as the advantages of accepting the Share Takeover Offer and the disadvantages of rejecting the Share Takeover Offer both outweighed the disadvantages of accepting the Share Takeover Offer.

In the Independent Expert's Report, the Independent Expert also concluded:

> *"in our opinion the Option Offer made to the Hunter option holders is* ***fair and reasonable****."*

In determining the fairness of the Option Takeover Offer, the Independent Expert concluded that mid point of the estimated values of the Replacement Probiomics Options lies within the range of estimated values of the current Hunter Options. For this reason the Independent Expert concluded that the Option Takeover Offer was fair.

After considering the advantages and disadvantages of accepting the Option Takeover Offer and the advantages and disadvantages of rejecting the Option Takeover Offer, the Independent Expert also concluded that the Option Takeover Offer was reasonable.

C. ***Synergistic Benefits arising from the Complementary Asset Base and Therapeutic and Business Focus***

The Independent Hunter Directors consider that Probiomics has a package of proprietary probiotic and biomolecular technology for commercial application in consumer health, functional foods and pharmaceutical products that will complement the Hunter intellectual property base.

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

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

Existing distribution/licensing agreements to which Probiomics is a party are expected to allow Hunter to leverage such links to enable greater distribution of its assets.

The Independent Hunter Directors consider that Probiomics' portfolio of technologies represents a potential investment opportunity and that this opportunity is complementary to Hunter's existing exploration portfolio.

D. ***Share Takeover Offer represents an appropriate price for your Hunter Shares***

Probiomics Shares trade on the ASX. The last recorded sale price of Probiomics Shares on the ASX before the date of the public announcement of the Takeover Offers on 10 October 2011 was $0.006.

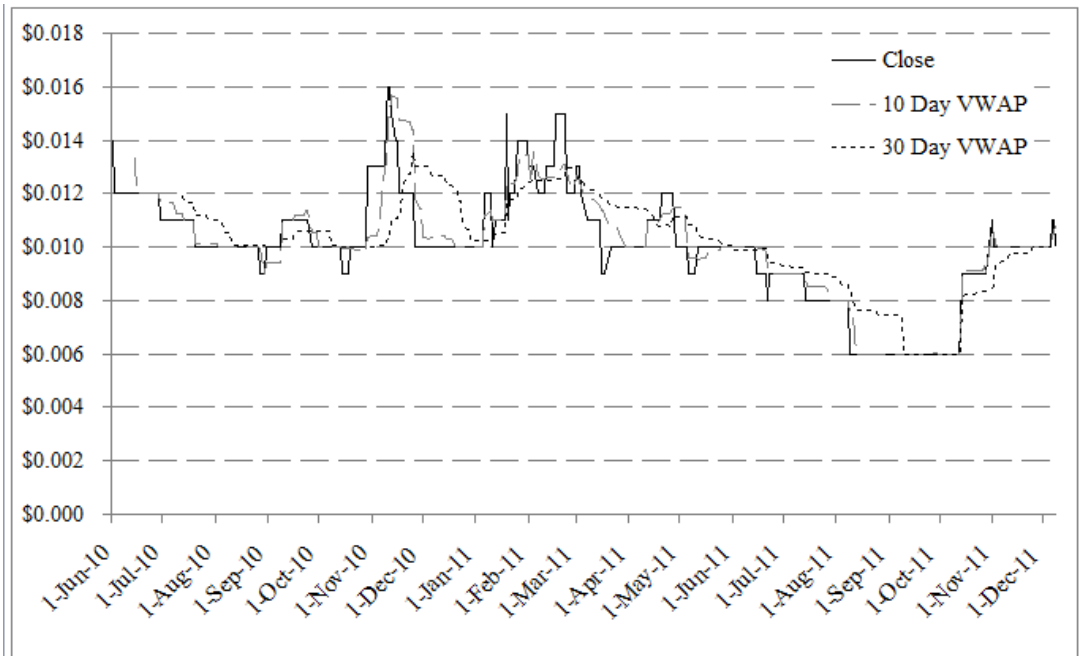
The highest, lowest and latest prices at which Probiomics Shares traded on the ASX in the three months prior to the lodgment of this Target's Statement, as quoted on ASX, are as follows:

Highest - 31 October 2011	$0.011
Lowest - 13 September 2011	$0.006
Last - 12 December 2011	$0.010

The VWAP of Probiomics Shares on the ASX in the period prior to the date of the Hunter Acquisition announcement (11 October 2011) was as follows:

Last 10 days	$0.006
Last 30 days	$0.006

Trading of Probiomics Shares on the ASX in the approximately 18 months prior to and since the Announcement Date is shown in the graph below:



Source: IRESS

As an unlisted Australian public company with assets still at the testing stage, Hunter has to date not received any Superior Proposal for Hunter Securities or for its assets.

The most recent capital raisings undertaken by Hunter were as follows:

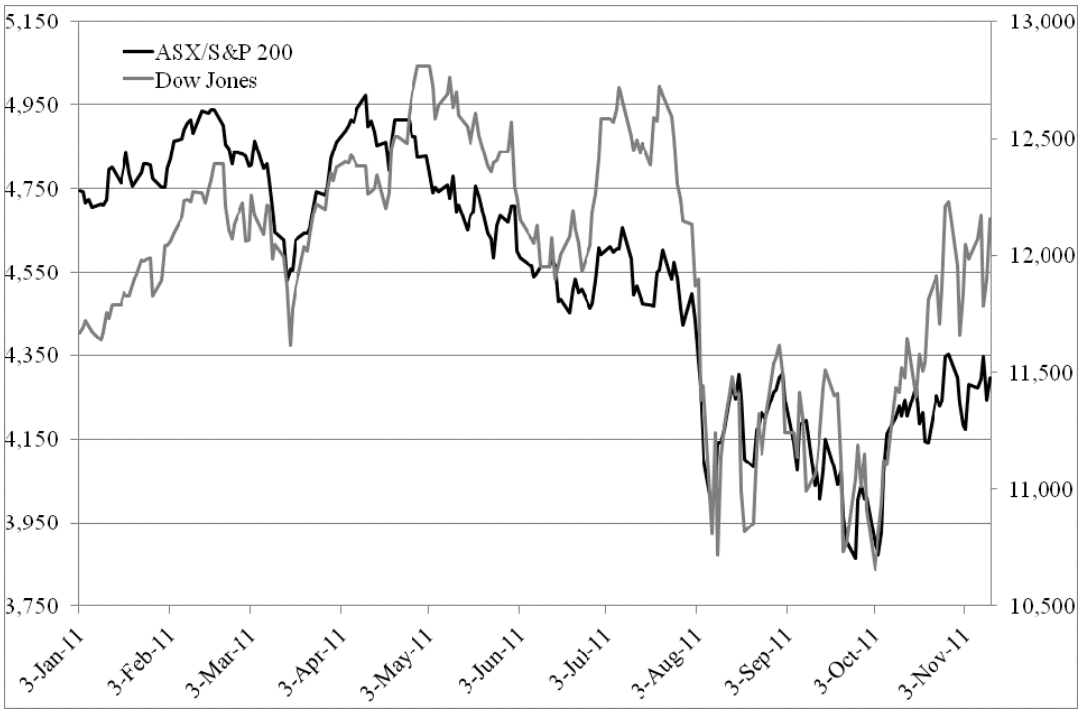
Security and Date of Issue	**Price Per Security**	**Hunter Securities Issued**	**Amount Raised in Fundraising**
Convertible Notes	$1.00	60,000,000‡	$3,000,000
Ordinary Shares			
– July 2011	$0.20†	1,051,200	$210,240
– January 2011	$0.20††	3,835,262	$767,052

‡ *These Hunter Convertible Notes convert at $0.05 per Hunter Share. In certain circumstances, these Hunter Convertible Notes convert into Hunter Shares at the equivalent of $0.02 per Hunter Share. However it is a condition of the Takeover Offers that a Hunter Convertible Note, and any interest accrued but not paid in respect of that Hunter Convertible Note, must convert at no less than $0.05 per Hunter Share.*

† *Included one option for two shares subscribed for in the issue, exercisable at $0.35 per option and expiring 30 September 2012*

†† *Included one option for two shares subscribed for in the issue, exercisable at $0.35 per option and expiring 31 March 2013*

The Directors believe that global market conditions and investor sentiment have significantly deteriorated since the last issue of Hunter Shares, with Australian and international share markets experiencing significant falls since the times of each respective share issue (as presented below).



Source: IRESS

Given the fact that there is effectively no trading or liquidity in any Hunter Securities, the Hunter Directors consider that the capital raisings referred to above provide a means of assessing the current value of Hunter Securities.

The recent prices at which Hunter has raised equity are comparable with the implied value of the Takeover Offers of $0.099 per Hunter Security and a total assigned equity value for Hunter of $29.23 million (including the equity value at the bid price of 14,057,821 Hunter Shares to be issued to Hunter's Managing Director immediately prior to completion of the Takeover Bid).

The Independent Hunter Directors therefore believe that the value per Hunter Share being offered under the Share Takeover Offer is fair in the context of the current market and in the absence of a Superior Proposal.

The Independent Hunter Directors therefore advise their unanimous recommendation that Hunter Shareholders should accept the Share Takeover Offer and Option Takeover Offer in the absence of a Superior Proposal.

E. ***The combined entity will have an increased scale, improved fundraising capability and an increased complementary asset base***

If Probiomics successfully acquires all Hunter Securities, the Merged Group would have a deemed market capitalisation of approximately $37.23 million (assuming that Probiomics receives the Maximum Subscription under the Public Offer), based on the assumption of a post Share Consolidation value of $0.22 per Probiomics Share (being the equivalent post Share Consolidation price at which Probiomics Shares are being offered pursuant to the Public Offer).

Relative to Hunter on a standalone basis, it is expected that this increased scale has the potential to provide greater recognition among the investor community.

As Probiomics is listed on ASX, it has greater access to a wider range of sources of finance than are currently available to Hunter as an unlisted public company. As Hunter moves forward with the testing and commercialisation of its assets, it will require a level of funding that it has not been able to secure as an unlisted company. The Merged Group will also have a significantly larger spread of shareholders that in turn is likely to assist in future financing needs. In order to develop the Hunter assets, further funding may be necessary, and the Independent Hunter Directors consider that the enhanced capacity to source this funding will be materially advanced by the proposed merger with Probiomics.

F. *Major Hunter Securityholders have committed or indicated their support for the Takeover Offers*

Major Hunter Securityholders in aggregate (representing 61.0% of the total issued Hunter Securities), have either entered into Pre-Bid Agreements with Probiomics or given non-binding statements to the Hunter Directors that they intend to accept the Takeover Offers in respect of all their Hunter Securities:

Name	**Hunter Securities** †	**% Holding** †
Wigram Trading Pty Ltd‡‡	31,905,834	13.8%
Phillip Asset Management Limited as trustee for the IB Australian Bioscience Fund‡‡	28,944,292	12.5%
Cherryoak Investments Pty Ltd < ATF C&N Family Trust>‡‡	22,138,231	9.6%
Christine Clancy & Robert Clancy < Clancy Superannuation Fund>‡	21,254,200	9.2%
PT Soho Industri Pharmasi‡‡	11,363,662	4.9%
Newcastle Innovation Limited‡‡	10,400,000	4.5%
Hirst Shabian & Hirst Advisory Services Pty Ltd < Shabian A/C>‡	7,929,816	3.5%
Paul Bolt‡‡	6,662,500	3.0%
Total	**140,598,535**	**61.0%**

† *Calculated after assuming the conversion of the Tranche 2 Convertible Notes and allotment of Hunter Shares in exchange for accrued interest on the Tranche 1 Notes and Tranche 2 Notes on 31 January 2012. Should the date of conversion of the Hunter Convertible Notes be later than this date, additional Probiomics Shares will be issued as a consequence of additional interest accruing on the Hunter Convertible Notes. The rate of additional Probiomics Shares that would need to be issued is set out in* ***Section 4.9.2*** *of this Target's Statement, in respect of both Tranche 1 Note Interests and Tranche 2 Notes.*

‡ *Entered into Pre-Bid Agreements with Probiomics.*

‡‡ *Provided non-binding letters of intent to the Hunter Directors that the Hunter Securityholder will (in the absence of a Superior Proposal), as is applicable:*

- *accept the applicable Takeover Offer in respect of all their respective Hunter Securities; or*
- *convert their Tranche 2 Notes into Hunter Shares and receive Hunter Shares for the accrued interest under their Hunter Convertible Notes and accept a Takeover Offer for all of the resulting Hunter Shares,*

prior to or upon the occurrence of the Re-admission Notification Date.

See also **Section 7.5** of this Target's Statement and **Section 4.7** of the Bidder's Statement for more detail in regard to the current intentions of Major Hunter Securityholders.

G. *Potential availability of Capital Gains Tax relief under the Share Offer and Option Offer*

Hunter Securityholders may have access to scrip for scrip rollover relief, in which case they will not incur Capital Gains Tax as a result of accepting the Takeover Offers.

If, as a result of the Share Takeover Offer, Probiomics acquires 80% or more of the Hunter Shares, Hunter Shareholders who would otherwise make a capital gain from the disposal of their Hunter Shares pursuant to the applicable Takeover Offer may be able to choose to obtain full scrip for scrip for scrip rollover relief.

If scrip for scrip rollover relief is available and is chosen by Hunter Shareholders who would otherwise have made a capital gain on the disposal of their Hunter Shares under the applicable Takeover Offer, all of the capital gain from the disposal may be disregarded. The capital gains tax provisions would then only apply on a later taxable event (such as disposal) happening to Probiomics Shares received as consideration under the applicable Takeover Offer.

Capital Gains Tax scrip-for-scrip rollover relief may also be available to Hunter Optionholders who would otherwise make a capital gain from the disposal of their Hunter Options pursuant to the Option Takeover Offer.

H. ***The Takeover Offers have the unanimous support of the Independent Hunter Directors***

The Independent Hunter Directors unanimously support the Takeover Offers, in the absence of a Superior Proposal, as the best opportunity currently available for Hunter Securityholders to achieve an enhanced value of their investment in Hunter.

The Independent Hunter Directors each recommend that all Hunter Securityholders accept each applicable Takeover Offer in the absence of a Superior Proposal.

None of the Hunter Directors are currently aware of any other Proposal.

The Independent Hunter Directors and David Radford are of the opinion that David Radford has a material personal interest in the outcome of the Takeover Offers and hence should not make any recommendation as to whether or not any Hunter Securityholder should, in the absence of a Superior Proposal, accept or reject any applicable Takeover Offer in respect of all their Hunter Securities. See also **Section 7.4** of this Target's Statement and **Section 9.14** of the Bidder's Statement for details of Mr Radford's material personal interest.

I. ***No brokerage or stamp duty is payable by Hunter Securityholders who accept the Takeover Offers***

No brokerage fees or stamp duty will be payable by any Hunter Securityholder (other than certain Ineligible Foreign Hunter Securityholders) as a result of accepting any of these Takeover Offers.

J. ***There are risks to Hunter and the Hunter Securities if the Takeover Offer is not successful***

If the Takeover Offer is unsuccessful and no other Proposal for Hunter is made, Hunter Securityholders will be exposed to the ongoing risks associated with an investment in Hunter. In particular these risks include:

- Hunter (as an unlisted entity with untested assets in the current global economic situation) being unable to raise sufficient financing required to develop its assets;
- Hunter Securityholders not realising the potential value of their investment in the Company;
- continued low liquidity of trading in Hunter Securities; and
- should the Takeover Offers by Probiomics be unsuccessful, Hunter Shareholders' current interest in Hunter may be significantly diluted as a result of conversion of the Hunter Convertible Notes. Refer to **Section 4.9.2** of this Target's Statement for a summary of the key terms of the Hunter Convertible Notes, including the terms upon which the Hunter Convertible Notes may convert into Hunter Shares.

Details in relation to the risks of becoming a Probiomics Securityholder are set out in **Section 4.12**.

1.2 Considerations against accepting the Takeover Offers

A. *Reduced exposure to Hunter assets*

If Hunter Securityholders accept the applicable Takeover Offers and the Takeover Offers are declared Unconditional, Hunter Securityholders' interests in Hunter's assets and the value that could be realised through a successful development of the assets will be diluted. However, that dilution should be weighed against the dilution that is likely to occur if Hunter is required to raise working capital to fund its projects through further equity raisings, as well as the fact that Hunter Securityholders will gain significant exposure to the intellectual property of Probiomics if the Takeover Offers are successfully completed.

B. *Inability to accept a Superior Proposal if one was to emerge*

Except in the limited circumstances provided for in the Corporations Act, accepting the Takeover Offer will preclude Hunter Securityholders from accepting a Superior Proposal from a third party, should one emerge during the Takeover Bid Period. Accepting a Takeover Offer would preclude a Hunter Securityholder from selling the Hunter Securities that were the subject of that acceptance. However, such acceptance will not deny a Hunter Securityholder the benefit of an improved Bid Consideration offered by Probiomics in respect of a Hunter Security of the same bid class. Under the Corporations Act, an improved bid consideration is required to be extended to all Hunter Securityholders of the relevant bid class, including those who have already accepted a Takeover Offer.

At the date of this Target's Statement:

- Probiomics has given no indication that it intends to increase the Bid Consideration; and
- the Independent Hunter Directors are not aware of any Proposal or Superior Proposal, other than the Takeover Offers.

C. *The price of Probiomics Securities fluctuates*

Hunter Securityholders are being offered Probiomics Securities for their Hunter Securities at a fixed ratio regardless of the price each Probiomics Security subsequently trades at or is otherwise valued. If Hunter Securityholders accept a Takeover Offer, the value of their investment in Probiomics will be exposed to any rise or fall in the price or value of a Probiomics Security.

After considering the reasons for accepting the Takeover Offers and the reasons against accepting the Takeover Offers, the Independent Hunter Directors unanimously recommend that the Hunter Securityholders accept the Takeover Offers in the absence of a Superior Proposal.

2 FREQUENTLY ASKED QUESTIONS

This section answers some frequently asked questions about the Takeover Offer. It is not intended to address all issues relevant to Hunter Securityholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer
Who is the Bidder?	Probiomics Limited ABN 97 084 464 193. Please refer to **Section 5** of this Target's Statement for further information on Probiomics.
Who is the Target?	Hunter Immunology Limited ABN 92 106 556 094. Please refer to **Section 4** of this Target's Statement for further information on Hunter.
What are the Takeover Offers?	Probiomics is making an off-market bid to acquire **ALL** of your Hunter Securities, through three separate but interdependent off-market Takeover Offers on the terms and conditions set out in **Appendix 1** and **Appendix 2** of the Bidder's Statement.
What is the Bid Consideration being offered?	Probiomics is offering, as applicable: (a) nine (9) Probiomics Shares for each one (1) Hunter Share; (b) nine (9) Probiomics Shares for each one (1) Tranche 1 Note Interest; and (c) nine (9) Replacement Probiomics Options for each one (1) Hunter Option, that you hold on the Takeover Record Date and otherwise upon the terms and conditions of the Takeover Offers set out in **Appendix 1** and **Appendix 2** of the Bidder's Statement.
Who can accept the Takeover Offers?	Any person who is registered as a Hunter Securityholder on the Takeover Record Date, other than certain Ineligible Foreign Hunter Securityholders.
Can I accept the Takeover Offers if I am an Ineligible Foreign Hunter Securityholder?	If you are an Ineligible Foreign Hunter Securityholder, you may accept an applicable Takeover Offer in respect of your Hunter Securities. However, if Probiomics is not satisfied that it is permitted to make a Takeover Offer to you because it may, by making a Takeover Offer to you, breach the applicable laws of the jurisdiction in which you normally reside, you will not be entitled to receive the Probiomics Securities that you would otherwise be entitled to receive under the Takeover Offers as consideration for your acceptance of the relevant Takeover Offer. Instead, you will receive, from the Sale Nominee, the net cash proceeds arising from the sale of those Probiomics Securities. If you are unsure as to whether you are entitled to receive Probiomics Securities on accepting an applicable Takeover Offer in respect of your Hunter Securities, you can call the Probiomics' Takeovers Offers Information Line on 1300 369 702 (within Australia) or on +61 3 9415 4283 (outside Australia).

Question	Answer
	(Also see **Section 4** of **Appendix 1** of the Bidder's Statement for more details.)
When can I accept the Takeover Offers?	At any time during the Takeover Bid Period.
When does the Takeover Bid Period close?	The Takeover Bid is currently scheduled to close at 5pm (AEDST) on 9 March, 2012, unless that time and date is extended or the Takeover Offers are withdrawn.
What choices do I have as a Hunter Securityholder?	As a Hunter Securityholder, you can: • accept a Takeover Offer or Takeover Offers for all of the Hunter Securities you hold; • sell your Hunter Securities (unless you previously accepted a Takeover Offer for those Hunter Securities and have not validly withdrawn your acceptance). However, Hunter Directors do not believe there is a strong liquid market for the sale of your Hunter Securities; or • reject each Takeover Offer by doing nothing. A detailed explanation as to the choices available to Hunter Securityholders with regards to the Takeover Offers is set out in **Section 3** of this Target's Statement.
What do the Independent Hunter Directors recommend?	The Independent Hunter Directors unanimously recommend you ACCEPT the Takeover Offer in the absence of a Superior Proposal.
What is this Target's Statement?	This document is the Target's Statement, it being Hunter's formal response to the Takeover Offers as set out in the Bidder's Statement, and includes the recommendation of the Independent Hunter Directors in relation to the Takeover Offers. All Hunter Directors encourage you to review the information in this Target's Statement and the Bidder's Statement thoroughly.
What is the Bidder's Statement?	The Bidder's Statement is the document containing, inter alia, the terms of the Takeover Offers. You should have received a copy of the Bidder's Statement along with this Target's Statement.
What do the Independent Hunter Directors intend to do with their Hunter Securities?	Each of the Hunter Directors intends to accept or procure the acceptance of the Takeover Offers in respect of any Hunter Securities that they, or their Associates own or control or otherwise have a relevant interest in.

Question	Answer
How do I accept the Takeover Offers?	Details are set out in the section entitled "How to Accept a Takeover Offer" on page 9 of this Target's Statement, in **Section 2** and **Section 7** of **Appendix 1** of the Bidder's Statement, and also on the accompanying Acceptance and Transfer Form found at the end of the Bidder's Statement. Essentially, Hunter Securityholders should: (a) read this Target's Statement and the Bidder's Statement in full; (b) consider all information provided in the Bidder's Statement and Target's Statement, including the risk factors set out in **Section 4.12** of this Target's Statement; (c) consult your broker, financial or other professional adviser if you are in any doubt as to what action, if any, you should take or how to accept the Takeover Offers; and (d) validly accept the Takeover Offers by completing the applicable Acceptance and Transfer Form enclosed in the Bidder's Statement by following the instructions provided on it, and return the signed applicable Acceptance and Transfer Forms in the self-addressed envelope enclosed in the Bidder's Statement or to the address below: c/ Computershare Investor Services Pty Limited GPO Box 2115 MELBOURNE VIC 3001 or 452 Johnston Street ABBOTSFORD VIC 3067 All Acceptance and Transfer Forms must be received by or on behalf of Probiomics before 5pm (AEDST) on 9 March, 2012, the end of the Takeover Bid Period, unless that time and date is extended or the Takeover Offers are withdrawn. The Takeover Offers are not registered in any jurisdiction outside Australia and New Zealand (unless an applicable Foreign Law treats it as registered as a result of this Bidder's Statement being lodged with ASIC). It is your sole responsibility to satisfy yourself as to whether you are permitted by any Foreign Law applicable to you to accept a Takeover Offer.
If I accept a Takeover Offer, when will I receive the Bid Consideration?	If you validly accept a Takeover Offer and provide all necessary documents at the time of that acceptance, you will be paid by the end of whichever of the following periods ends earlier: (a) 1 month after the applicable Takeover Offer is accepted, or if that Takeover Offer is subject to a Bid Condition, within 1 month after the takeover contract arising from the acceptance of the Takeover Offer becomes unconditional; and

Question	Answer
	(b) 21 days after the end of the Takeover Bid Period provided that the Bid Conditions are satisfied or waived by the end of the Takeover Bid Period (see **Section 9** of **Appendix 1** of the Bidder's Statement for more details).
What happens if I take no action?	If you do nothing in relation to the Takeover Offer, you will not receive the Bid Consideration and (unless you otherwise sell your Hunter Securities) you will remain a Hunter Securityholder unless Probiomics proceeds to compulsory acquisition. You should be aware of the risks outlined in **Section 4.12** of this Target's Statement.
What rights will attach to Probiomics Shares issued to me as Bid Consideration?	The Probiomics Shares to be issued as Bid Consideration in accordance with the terms of the applicable Takeover Offers will be fully paid and rank equally in all respects for dividends and all other rights with existing Probiomics Shares. A detailed description of the rights and liabilities attaching to Probiomics Shares is set out in **Section 9.3** of the Bidder's Statement.
What rights will attach to the Replacement Probiomics Options issued to me as Bid Consideration?	The Replacement Probiomics Options to be issued as Bid Consideration in accordance with the terms of the Option Takeover Offer and any Probiomics Shares issued pursuant to an exercise of any Replacement Probiomics Options in accordance with its terms, will be fully paid and rank equally in all respects for dividends and all other rights with existing Probiomics Shares. A detailed description of the rights and liabilities attaching to the Replacement Probiomics Options to be issued as Bid Consideration in accordance with the terms of the Option Takeover Offer is set out in **Section 6.2(b)** of the Bidder's Statement and the General Option Terms set out in **Section 3.8** of the Bidder's Statement.
Will I be able to trade in any or all of Probiomics Securities (which includes any Replacement Probiomics Options) issued to me as Bid Consideration?	Other than as provided immediately below, any Hunter Securityholder who: (a) is, or is proposed or intended to become, a director of Probiomics or of any other related party of Probiomics; (b) has provided any services to Probiomics or any related entity of Probiomics or who, in the opinion of ASX, is involved in or has had any influence in the Series of Transactions; or (c) holds, or during the 12 months prior to the date of application for Re-admission held, either alone or with any Associate, at least 10% of the number of Voting Shares, (each a **Related Hunter Securityholder**) will not be permitted to trade in any of the Probiomics Shares issued to that Related Hunter Securityholder as Bid Consideration, until the expiry of the second anniversary of the Re-admission Date.

Question	Answer
	In accordance with the terms of relief obtained by Probiomics from ASX: (a) any Hunter Securityholder who is not a Related Hunter Securityholder (each an **Unrelated Hunter Securityholder**) and who: (i) subscribed for Hunter Securities and paid at least $0.099 per Hunter Security (**Bid Consideration Value**), or (ii) subscribed for Hunter Securities more than 12 months prior to the Re-admission Date, will be entitled to trade in any or all of Probiomics Shares that it is issued with as a result of its acceptance of a Takeover Offer in respect of those Hunter Securities, at any time after the date of that issue; (b) any: (i) Related Hunter Securityholder that was issued Hunter Securities for cash consideration; and (ii) Unrelated Hunter Securityholder who subscribed for any Hunter Shares less than 12 months prior to the Re-admission Date, and who paid less than the Bid Consideration Value per Hunter Security, will have some or all of the Probiomics Shares that it is issued with as a result of its acceptance of a Takeover Offer, classified as “restricted securities”. The practical effect of that classification will be that that Hunter Securityholder will not be permitted to trade in any of those “restricted” Probiomics Shares until the lapse of the period of restriction – commonly called the “escrow period”. The number of Probiomics Shares issued under a Takeover Offer to a Hunter Securityholder referred to in paragraph (b) immediately above that will be “restricted” from trading will be determined by application of the following "cash formula": **X = [A/B] x C** Where: **X** means the number of “restricted” Probiomics Shares that will not be permitted to be traded for the duration of the escrow period; **A** means the monetary amount per Probiomics Share by which the Bid Consideration Value in respect of a Hunter Security exceeds the cash amount paid for that Hunter Security by the Hunter Securityholder; **B** means Bid Consideration Value; and **C** means the number of Probiomics Shares issued to that Hunter Securityholder as a result of its acceptance of a Takeover Offer; and (c) the duration of the escrow period that will be applied to a Hunter Securityholder that is treated by ASX as if they are a "seed capitalist" of Probiomics will be: (i) in the case of a Related Hunter Securityholder – 24 months from

Question	Answer
	the Re-admission Date; and (ii) in the case of an Unrelated Hunter Securityholder – 12 months commencing on the date on which the relevant Hunter Securityholder was issued with the Hunter Securities that it agrees to transfer to Probiomics in consideration for Bid Consideration.
Will my Probiomics Securities issued to me as Bid Consideration be listed on ASX?	In accordance with the requirements of the Corporations Act: (a) Probiomics will have applied within 7 days from the start of the Takeover Bid Period for the quotation by ASX of all Probiomics Shares to be issued and allotted as part of the Bid Consideration; and (b) each Takeover Offer is subject to a condition that ASX must give permission to the quotation of Probiomics Shares to be issued as Bid Consideration, no later than 7 days after the end of the Takeover Bid Period. Official Quotation of those Probiomics Shares to be issued as Bid Consideration is not automatic and will depend upon ASX exercising its discretion to admit those Probiomics Shares to the Official List. That exercise is expected to occur as apart of the overall Re-admission (see **Section 20** of **Appendix 1** of the Bidder's Statement). Subject to a sufficient spread of holders of Public Offer Options being achieved by the end of the Public Offer, Probiomics will be applying for the Official Quotation of all Public Offer Options. Probiomics will also apply for the Offici Quotation of any Probiomics Shares that may subsequently be issued pursuant to the exercise of any Probiomics Option in accordance with their respective terms.
What are the tax implications of acceptance?	You should consult a financial, tax or other professional adviser on the tax implications of acceptance. A general summary of the Australian tax consequences for Hunter Securityholders who accept a Takeover Offer is set out in **Section 8** of the Bidder's Statement.
Do I pay brokerage fees or stamp duty if I accept?	If you are not an Ineligible Foreign Hunter Securityholder, you will not pay any brokerage fees or stamp duty on the disposal of any of your Hunter Securities if you accept a Takeover Offer. All such stamp duty will be paid by the Probiomics. It is estimated that stamp duty of approximately $176,000 will be payable in connection with the Hunter Acquisition. If you are an Ineligible Foreign Hunter Securityholder who: (a) accepts an applicable Takeover Offer in respect of your Hunter Securities; and (b) normally resides in a jurisdiction, the applicable laws of which, in the opinion of Probiomics, prohibit or render impracticable the making of a Takeover Offer to you,

Question	Answer
	you will receive from the Sale Nominee the proceeds of sale of that number of Probiomics Securities to which you would otherwise be entitled to receive under the Takeover Offers, **less** your proportionate share of the expenses of the sale and of appointing the Sale Nominee (including brokerage, stamp duty and other selling costs, taxes and charges).
Can Bidder extend the Takeover Bid Period?	Yes. Subject to the requirements of the Corporations Act, the Takeover Bid Period can be extended at Probiomics' election. Hunter Securityholders will be sent written notice of any extension, and any extension will also be announced to the ASX.
What happens if Probiomics increases the Bid Consideration?	If Probiomics increases the Bid Consideration for any Hunter Security, all Hunter Securityholders who accept a Takeover Offer (whether they have accepted that Takeover Offer before or after the increase in Bid Consideration is announced) in respect of a Hunter Security of the same bid class will be entitled to receive the increased Bid Consideration, should that Takeover Offer become or be declared Unconditional.
Are there any conditions to the Takeover Offers?	Yes. The terms of the Bid Conditions are set out in full in **Appendix 2** of the Bidder's Statement. Some of the Bid Conditions include: (a) Probiomics receives valid acceptances for each of at least 90% (by number) of all Hunter Shares, all Tranche 1 Note Interests and all Hunter Options by end of the Takeover Bid Period; (b) the cancellation, exercise or transfer of all Tranche 2 Notes to Probiomics; (c) the passage of all the Essential Resolutions at the Meeting; (d) Probiomics raising no less than $2,200,000 under the Public Offer; (e) ASX consenting to the Re-admission of Probiomics; (f) no Material Adverse Change occurring in respect of the Hunter Group or any member of the Hunter Group; (g) no new material commitments being made by any member of the Hunter Group; (h) no member of the Hunter Group undertaking certain conduct, such as declaring or distributing any dividends, altering their capital structure or making any change to their constitutions, without the consent of Bidder; (i) the S&P/ASX 200 Index published by ASX being, for not more than 2 consecutive trading days during the Takeover Bid Period, below the level of 3,650; (j) no material litigation being commenced against any member of the Hunter Group; and (k) Hunter Shareholder approval of the issue of Hunter Shares to David Radford (see **Section 4.9.4** and **Section 7.4** of this Target's Statement for further details); and

Question	Answer
	(l) certain other prescribed occurrences not occurring. For a complete description of the Bid Conditions, please see **Appendix 2** of the Bidder's Statement.
Is there a minimum acceptance condition?	Yes. Each Takeover Offer is conditional on, inter alia, Probiomics acquiring at least 90% (by number) of all Hunter Securities on issue.
When will the Takeover Offer become Unconditional?	See **Section 10** and **Section 11** of **Appendix 1** of the Bidder's Statement.
What happens if I do not accept a Takeover Offer?	If you do not accept a Takeover Offer, you will remain a holder of the Hunter Security that was the subject of that Takeover Offer and will not be issued with any Probiomics Shares or any Replacement Probiomics Options, as is applicable. However, if Probiomics acquires a relevant interest in at least ninety per cent (90%) (by number) of all the Hunter Securities before the end of the Takeover Bid Period, Probiomics intends to proceed to compulsorily acquire all your Hunter Securities. If this occurs, you will be issued with the same Bid Consideration at the conclusion of the compulsory acquisition process, as if you had accepted the applicable Takeover Offer in respect of all your Hunter Securities. However, in those circumstances, you will receive the Bid Consideration later than if you had accepted that Takeover Offer in respect of the Hunter Securities that were the subject of that Takeover Offer, prior to the end of the Takeover Bid Period.
What are the significant risks of a Takeover Offer?	You should carefully consider the risk factors that could affect the performance of Probiomics and the Merged Group before deciding whether or not to accept a Takeover Offer. Many of these risks are outside the control of Probiomics or Hunter, or their respective management, and cannot be mitigated. A summary of these risks is set out in **Section 4.12** of this Target's Statement.
What if I require further information?	Call Hunter's Takeover Offer Information Line on (02) 9793 7267 from within Australia or on +61 2 9793 7267 from outside Australia.

3 YOUR CHOICES AS A HUNTER SHAREHOLDER

Hunter encourages you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to whether or not you should accept the applicable Takeover Offers in respect of all your Hunter Securities.

As a Hunter Securityholder, you currently have three choices available to you.

a) CHOICE 1: Accept the Takeover Offers

You may choose to accept the Takeover Offers that are made in respect of your Hunter Securities. You are only able to accept a Takeover Offer in respect of **all, and not some only**, of your Hunter Securities that are the subject of that Takeover Offer. This is the approach recommended by all the Independent Hunter Directors in the absence of a Superior Proposal. Details of the Bid Consideration that you will receive if you accept the Takeover Offer are set out in **Section 2** of this Target's Statement as well as in **Section 3** of the Bidder's Statement. You will only receive the Bid Consideration if the Bid Conditions are all either satisfied or waived.

The consequences of accepting the Takeover Offers are discussed in **Section 1** of this Target's Statement. If you accept the applicable Takeover Offers, you will not be able to sell your Hunter Securities unless, at the time you decide that you no longer wish to accept the Takeover Offers, you have the right to withdraw your acceptance and you exercise that right. The limited circumstances in which acceptances of the Takeover Offer may be withdrawn are set out in **Section 15** of **Appendix 1** of the Bidder's Statement.

b) CHOICE 2: Sell Your Hunter Securities

The Hunter Directors consider that there is no viable liquid market for Hunter Securityholders to be able to sell their Hunter Securities.

However, during the Takeover Bid Period, you may sell your Hunter Securities, provided you have not accepted a Takeover Offer for those Hunter Securities. If you sell your Hunter Securities and that transaction is effected, you may receive the agreed consideration for your Hunter Securities sooner than if you accept the Takeover Offer while that Takeover Offer is subject to any Bid Conditions.

If you sell any or all of your Hunter Securities, you:

- will lose the ability to accept a Takeover Offer in respect of those Hunter Securities;
- may be liable for Capital Gains Tax or income tax on the sale of those Hunter Securities; and
- will lose the opportunity to receive future returns from Hunter.

You should refer to your tax adviser to determine the tax implications of such a sale.

c) CHOICE 3: Take No Action

If you do not wish to sell your Hunter Securities and do not wish to accept the Takeover Offers, you should take no action. You should note that:

- if you choose not to accept the Takeover Offers, Probiomics will not be able to acquire your Hunter Securities unless the Takeover Offers are declared Unconditional and Probiomics holds at least 90% (in number) of the Hunter Securities at the end of the Takeover Bid Period. In this event, Probiomics will become entitled to compulsorily acquire those Hunter Securities that it does not already own (see **Section 6.7** of this Target's Statement for further information regarding compulsory acquisition);

- if Probiomics acquires more than 50% but less than 90% (in number) of the Hunter Securities and all of the Bid Conditions are satisfied or waived, and you continue to hold Hunter Securities, you will be exposed to the risks associated with being a minority Hunter Securityholder Some of these risks are explained in **Section 6.8** of this Target's Statement; and
- if the Takeover Offers fail to be declared Unconditional and no other Proposals for Hunter are made, Hunter will remain an unlisted public company. If this occurs, the Hunter Directors will continue to work to generate value for all Hunter Securityholders.

4 INFORMATION ON HUNTER

4.1 Introduction and History

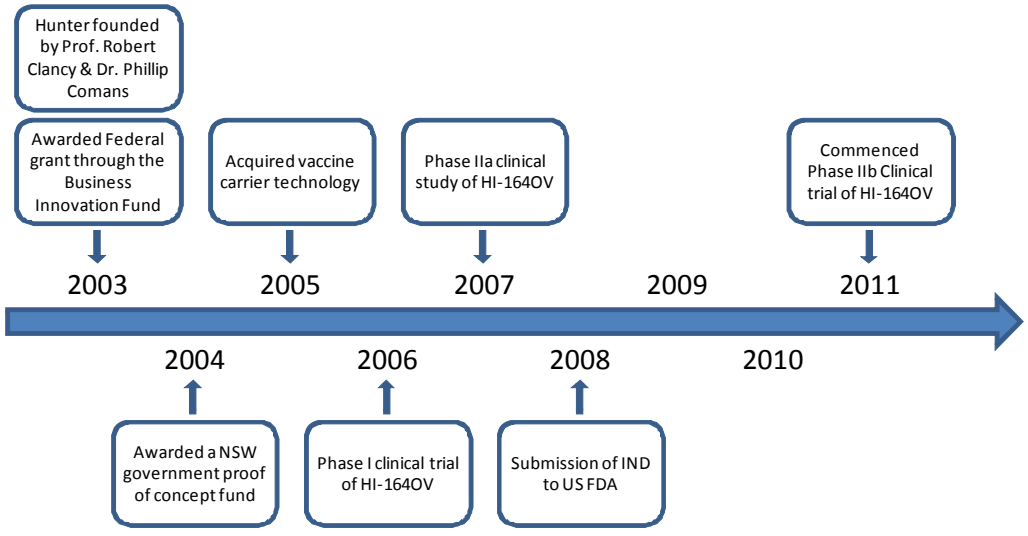
Hunter is a clinical-stage biotechnology company formed in 2003 to develop a range of orally-administered vaccines to reduce the number and severity of exacerbations in patients with Chronic Obstructive Pulmonary Disease (**COPD**). An exacerbation or flare-up is a sudden worsening of symptoms which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

COPD, which includes emphysema and chronic bronchitis, is largely caused by smoking although in some developing countries, pollution also plays a significant role. COPD is characterised by progressive and irreversible airflow obstruction and the underlying pathology of the disease, including narrowing of the small airways and destruction of the lung.

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

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

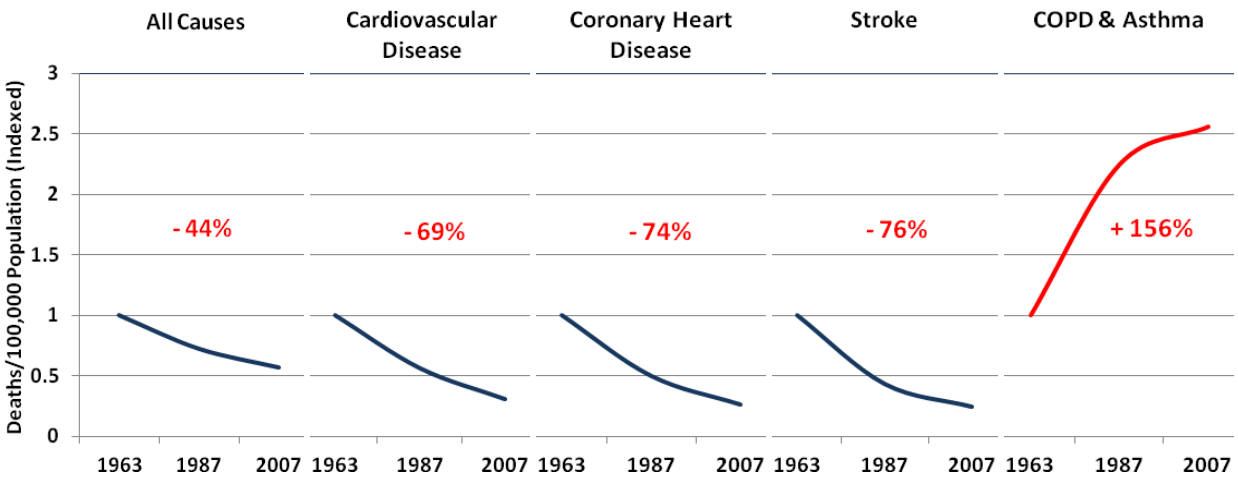
A time line of Hunter's activities and developments over the last 8 years are set out below:



4.2 COPD – Incidence, Treatment and Markets

COPD is a major cause of morbidity and mortality globally. It is the fourth leading cause of chronic mortality in the United States. Unlike many other serious health issues the death rate from COPD is rapidly increasing.

Percentage Change in Age Adjusted Death Rates
For Cardiovascular and Noncardiovascular Diseases, US 1963, 1987 & 2007



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

Relative to other health disorders:

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

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

Since COPD is a progressive disease characterised by airflow limitation that is partially reversible, early diagnosis that leads on to initiation of proven management strategies through a range of treatment options offers patients the best chance to reduce the overall impact of COPD and to stem or slow the progression of the disease into the more severe stages. In recent years, progress has been made regarding management strategies and non-pharmacological interventions that have been shown to be cost effective.

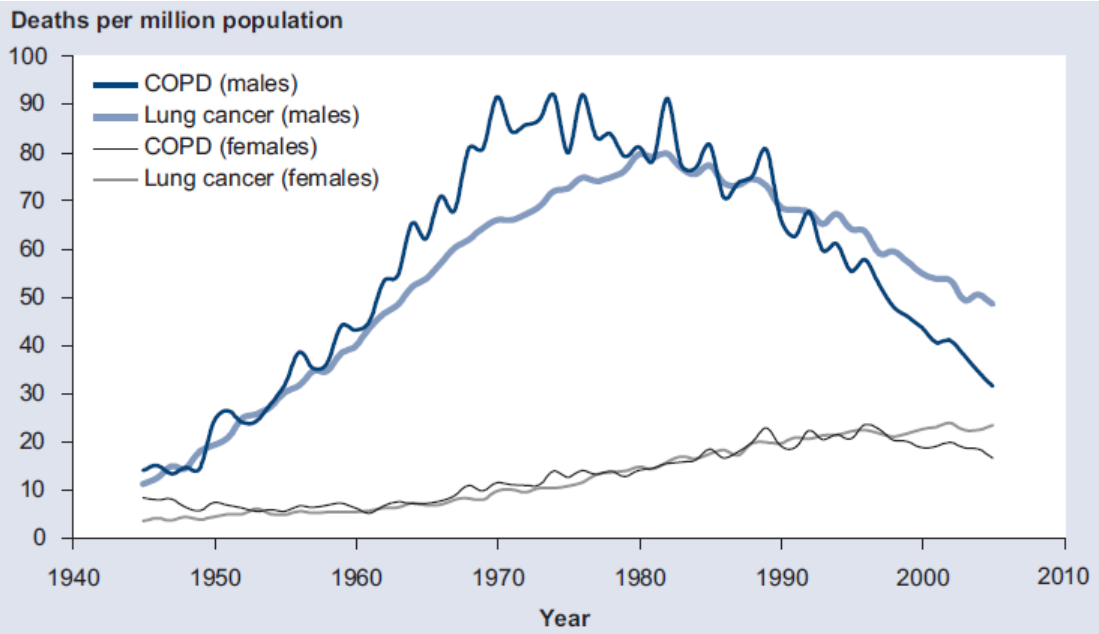
Patients typically do not recover rapidly but slowly decline over some years so presenting themselves, their families and the public health services with major disturbances and huge costs, not just for drugs but also for the patient's needs in hospital. Individual patients become more and more a burden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

4.2.1 COPD in Australia and its impact on the economy

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

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

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



COPD = chronic obstructive pulmonary disease.

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

Source: AIHW National GRIM Books.

Smoking is the most important causal factor for COPD. In 2007, 18% of Australian males and 15.2% of Australian females over the age of 14 years smoked daily. Smoking-related diseases have increased substantially in women, and death rates from COPD in women are expected to rise accordingly. The death rate from COPD among indigenous Australians is five times that for non-indigenous Australians, and smoking is a leading cause of healthy years lost by indigenous people both in Australia and New Zealand.

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

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

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

4.2.2 International incidence of COPD

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

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

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

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

4.3 Hunter's HI-164OV

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

Research efforts by Hunter's clinical team and NMIG led to the development of HI-164OV and its subsequent clinical evaluation. HI-164OV, an enteric-coated tablet containing killed bacteria (Haemophilus influenzae) has demonstrated positive Phase IIa data, particularly in patients with moderate to severe COPD.

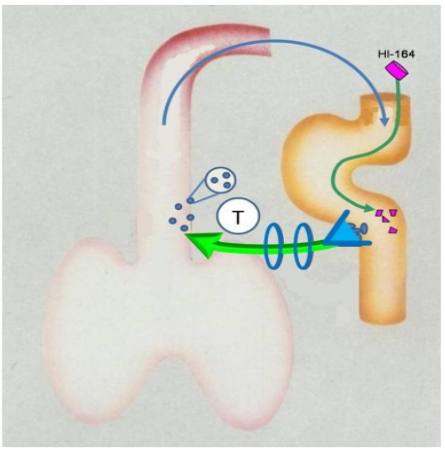


Fig 1: *Mechanism of action of HI-164OV.*

4.4 Strategy for Development of HI-164OV

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

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

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

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

(a) Haemophilus influenzae – for severe allergic asthma and Otitis media (other applications for HI-164OV);

(b) Pseudomonas aeruginosa – for COPD and Cystic Fibrosis;

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

(d) Candida albicans – for thrush.

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

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

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

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

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

The clinical outcome of the data is on track to be available in the second quarter of calendar year 2012.

4.5 Commercialisation Strategy

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

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

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

4.6 Other Therapeutic Opportunities around HI-164OV

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

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

4.7 Competitive landscape

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

No competitive vaccines for H.Influenzae in COPD have been identified.

4.8 Regulatory Issues Surrounding the Development of HI-164OV

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

The major issues raised in the Clinical Hold letter were:

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

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

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

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

4.9 Capital Structure of Hunter

As at the date of this Target's Statement, Hunter's capital structure comprises:

(i) Hunter Shares;

(ii) Hunter Convertible Notes; and

(iii) Hunter Options.

4.9.1 Hunter Shares

As at the date of this Target's Statement, Hunter has 165,158,131 Hunter Shares on issue.

4.9.2 Hunter Convertible Notes

Hunter has the following Hunter Convertible Notes on issue as at the date of this Target's Statement:

(i) **Tranche 1 Notes -** 25,000,000 convertible notes dated on or about 20 January 2010 of which:

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

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

(iii) **Tranche 2 Notes -** 3,000,000 convertible notes dated on or about 26 October 2011 and 14 November 2011 of which:

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

(iv) The Tranche 2 Notes entitle the holders of the Tranche 2 Notes to interest which accrues, on a proportionate basis, at the rate of $657.50 per day in respect of all the Tranche 2 Notes. In accordance with the provisions of the Tranche 2 Notes, Hunter is permitted to pay that accrued interest by means of issuing additional Hunter Shares (**Tranche 2 Hunter Share**), on the same terms as existing Hunter Shares, at the rate of $0.05 per Tranche 2 Hunter Share, that being the equivalent of an additional 13,150 Tranche 2 Hunter Shares per day.

4.9.3 Hunter Options

Exercise Price and Option Period

As at the date of this Target's Statement, Hunter has on issue various options exerciseable over Hunter Shares. None of the Hunter Options on issue are quoted or traded on any market operated by ASX.

The exercise price and expiry date for exercise for these Hunter Options are set out in the table below. These Hunter Options may be exercised at any time prior to their respective expiry date and any Hunter Options not so exercised shall automatically expire on their applicable expiry date.

Expiry date	Exercise Price	Number
30/9/2012	$0.35	525,600
21/12/2012	$0.39	900,000
31/3/2013†	$0.35	1,917,631
1/9/2013	$0.12	2,360,000
14/5/2014	$0.35	6,000,000
		11,703,231

† *In addition, Hunter proposes to issue 5,000,000 Hunter Options exercisable over Hunter Shares at $0.35 per Hunter Share on or before 31 March 2013 (**MPS Options**) to Martin Place Securities Pty Limited after, and conditional upon, the passage of all the Essential Resolutions at the Meeting, all Takeover Offers being declared Unconditional and the Minimum Subscription being received under the Public Offer. The MPS Options are to be issued by Hunter in payment for advisory and other professional services provided by Martin Place Securities Pty Limited to Hunter.*

Probiomics Replacement Executive Option terms

It is proposed that Probiomics will, pursuant to the Series of Transactions, issue the following Replacement Probiomics Options, as Bid Consideration for all Hunter Options on issue at the end of the Takeover Bid Period:

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

The key terms of the Hunter Options are as follows:

- each Hunter Option entitles the holder to one Hunter Share;
- Hunter Options can be exercised at any time prior to the expiry date in whole or in part;
- Hunter Options are freely transferable;
- in order to exercise a Hunter Option, the holder of that Hunter Option must return a notice of exercise with payment;
- the Hunter Shares granted upon the exercise of the Hunter Options will rank equally with all other Hunter Shares;
- there are no participation rights or entitlements inherent in the Hunter Options;
- a holder of Hunter Options cannot participate in further share issues while the Hunter Option remains on foot other than a bonus issue; and

- if the share capital of Hunter is reconstructed, the rights of the holders of Hunter Options are to be reconstructed, if necessary, in accordance with the Listing Rules.

4.9.4 Capital Structure Prior to Completion of the Takeover Bid

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

	Hunter Shares	Bid Consideration Shares	
		Pre Consolidation	Post Consolidation
Total existing Hunter Shares	165,158,131	1,486,423,179	74,321,159
Probiomics Shares to be issued as Bid Consideration for the Tranche 1 Note Interests	N/A	454,545,455	22,727,273
Hunter Shares to be issued on conversion of Tranche 2 Notes	60,000,000	540,000,000	27,000,000
Hunter Shares to be issued in consideration for payment of accrued interest on Hunter Convertible Notes [1]	5,493,242	49,439,182	2,471,959
Hunter Shares to be issued to David Radford prior to the close of the Takeover Bid Period [2]	14,057,821	126,520,391	6,326,020
Total		**2,656,928,206**	**132,846,411**

1. *Based on assumed conversion of Hunter Convertible Notes effective 31 January 2012. Should the date of conversion of the Hunter Convertible Notes be later than this date additional Bid Consideration Shares will be issued as a consequence of additional interest accruing on the Hunter Convertible Notes. The rate of additional Bid Consideration Shares that would need to be issued is set out in **Section 4.9.2** of this Target's Statement, in respect of both Tranche 1 Note Interests and Tranche 2 Notes.*
2. *Pursuant to David Radford's employment contract (refer to **Section 7.4** of this Target's Statement), he will be allotted Hunter Shares equivalent to 5% of the issued capital of Hunter (including the equivalent number of Hunter Shares to be issued on conversion of the Convertible Notes and Hunter Shares to be issued in exchange for accrued interest on the Hunter Convertible Notes). The final number of Hunter Shares to be issued will be dependent on the date of conversion or acquisition of the Hunter Convertible Notes pursuant to the Takeover Offer. The issue of these Hunter Shares to David Radford is subject to Hunter Shareholder approval.*

4.10 Financial Information for Hunter Group

The recent performance of Hunter Group is summarised below. The historical financial information below relates to Hunter Group on a stand alone basis and accordingly does not reflect any impact of the Takeover Bid or the Public Offer. It is a summary only and does not contain all the disclosures usually provided in an annual report prepared in accordance with the Australian Accounting Standards and the Corporations Act.

The full financial statements for Hunter Group for the financial periods below, which include the notes to the financial statements, can be found in Hunter Group's annual reports and are available on Hunter's website at www.hunterimmunology.com.au.

Consolidated balance sheets

Set out below are the consolidated balance sheets for Hunter Group for the last 3 financial years ending 30 June on each of 2009, 2010 and 2011.

Year ended 30 June	2011 $	2010 $	2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	705,692	3,860,133	878,128
Trade and other receivables	1,040,611	455,488	405,866
Total current assets	**1,746,303**	**4,315,621**	**1,283,994**
Non-current assets			
Deposits	200,000	200,000	-
Plant and equipment	-	-	-
Total non-current assets	**200,000**	**200,000**	**-**
TOTAL ASSETS	**1,946,303**	**4,515,621**	**1,283,994**
LIABILITIES			
Current liabilities			
Trade and other payables	796,357	426,333	552,522
Government Grants			
Financial liabilities			
Total current liabilities	**796,357**	**426,333**	**552,522**
Non Current liabilities			
Interest bearing liabilities	4,581,444	3,931,749	
Deferred tax liability	260,751	365,599	
Total non current liabilities	**4,842,195**	**4,297,348**	
TOTAL LIABILITIES	**5,638,552**	**4,723,681**	**552,522**
NET ASSETS	**(3,692,249)**	**(208,060)**	**731,472**
EQUITY			
Issued capital	16,767,001	16,589,039	15,368,796
Reserves	654,146	473,540	293,307
Accumulated losses	(21,113,396)	(17,270,639)	(14,930,631)
TOTAL EQUITY	**(3,692,249)**	**(208,060)**	**731,472**

Consolidated income statements

Set out below are the consolidated income statements of the Hunter Group for the last 3 financial years ending 30 June on each of 2009, 2010 and 2011.

Year ended 30 June	2011 $	2010 $	2009 $
Sales Revenue	302,633		
Interest revenue		50,422	50,316
Revenue	**302,633**	**50,422**	**50,316**
Cost of sales			
Gross profit	**302,633**	**50,422**	**50,316**
Other income			
Research and development expenses	(2,143,882)	(978,640)	(938,094)
Business development	(597,239)	(178,826)	(357,566)
Marketing	(58,277)	(35,051)	(108,484)
Intellectual property expenses	-	-	-
Administrative and corporate expenses	(1,820,053)	(1,270,498)	(2,739,792)
Finance costs	(653,354)	(333,857)	(14,130)
Profit /(Loss) before income tax	**(4,970,172)**	**(2,746,450)**	**(4,107,750)**
Income tax refund	1,040,516	406,442	352,000
Profit (Loss) after tax attributable to members	**(3,929,656)**	**(2,340,008)**	**(3,755,750)**
Other Comprehensive Income	-	-	-
Net Comprehensive Profit (Loss)	**(3,929,656)**	**(2,340,008)**	**(3,755,750)**
Basic profit (loss) per share (cents per share)	($0.0245)	($0.0146)	($0.0244)
Diluted profit (loss) per share (cents per share)	($0.0245)	($0.0146)	($0.0244)

4.11 Directors

Ian Mutton (Non-Executive Chairman)

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

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

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

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

Upon and conditional upon the completion of the Takeover Bid, and the Re-admission occurring, David will assume the role of Chief Executive Officer and Managing Director of the Merged Group.

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

Glenn founded Crisp Legal in 1995 as a specialist property construction and development law firm. Glenn has 24 years experience in legal services. His experience covers the assessment of opportunities/risks of development proposals, the negotiating of large scale engineering and construction projects including project participants and alternatives for the raising of equity and debt finance. Glenn is an advisor to a number of Boards and Advisory "Councils" for a number of companies in property development, property services and construction industries. Glenn regularly lectures to, and conducts workshops for, clients, industry groups and professional associations in particular on project administration/management, compliance and risk issues, corporate governance and director's duties. Glenn chairs the audit and remuneration committees of Hunter.

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

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

Doug Wilson MB, ChB, PhD, FRACP, FRCPA (Non-executive Director)

Dr Wilson has been a clinical immunologist and has trained in New Zealand, the UK, and at the Walter and Eliza Hall Institute Melbourne with Sir Gustav Nossal, and was also Associate Professor of Medicine at the Auckland Medical School. Doug joined the international pharmaceutical industry becoming Senior Vice President and head of Medicine and Regulatory Affairs for a major drug company, Boehringer Ingelheim, in the USA, responsible for all the clinical aspects of drugs in development, and for most interactions with the FDA. He then took over those functions for the company globally in Germany. During that time he was either part of or led teams which saw over 10 drugs approved by FDA in the USA and many others worldwide. He was Chairman of the company's International Medical Committee, and of the International Labelling Committee, and part of the group overseeing all drugs in development, supervising teams in the USA and Germany. During that time he participated in the development of over 80 drugs in many different jurisdictions. He was the medical parent of Spiriva one of the largest selling

drugs for COPD. Boehringer Ingelheim have been very active in the treatment of COPD for over 30 years. Since returning to New Zealand he has been consulting for a number of biotech companies and is Chairman of Phylogica, an ASX listed company.

It is proposed that after the completion of the Hunter Acquisition and Public Offer:

- Patrick Ford, the current Non-Executive Chairman of Probiomics will remain a director of Probiomics – see **Section 2.5** of the Bidder's Statement;
- each of the abovementioned Hunter Directors will be appointed as a director of Probiomics; and
- Simon Taylor and Simon O'Loughlin, the two non-executive directors of Probiomics will retire from their respective office as a Probiomics Director.

4.12 Risks associated with being a Probiomics Securityholder

An investment in Probiomics – which is effectively what each Hunter Securityholder will be making by accepting one or more Takeover Offers for its Hunter Securities - involves risks and should be regarded as a speculative investment.

This section describes a range of risks associated with an investment in Probiomics. Each of the risks set out below, either individually or in combination could, if they eventuate, have a materially adverse impact on Probiomics' business, financial condition and/or results from operations.

Some risks can be appropriately mitigated by the use of safeguards and appropriate commercial action, while other risks are outside the control of Probiomics and cannot be mitigated.

Potential investors should specifically consider each of the factors contained in this section in light of their investment objectives and financial circumstances in order to fully appreciate the risks associated with an investment in Probiomics. If investors are in any doubt about what to do, investors should seek professional advice from their accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

The Hunter Directors believe that many of the risks associated with becoming a Probiomics Securityholder will be similar to those to which Hunter Securityholders are already exposed as a result of their investment in Hunter. The Independent Hunter Directors believe the major risks associated with an investment in Probiomics include:

- Additional requirements for capital;
- The capacity to manage future growth;
- Securing and management of intellectual property rights;
- Dependence on key personnel and the need to attract qualified staff;
- The lack of profit to date and uncertainty as to future profitability; and
- Uncertainty as to the market for and acceptance of existing and future products.

These risks are not intended to be an exhaustive list of the risk factors to which Probiomics is exposed. Risks to which Hunter Securityholders may be exposed to are discussed in more detail in **Section 7** of the Bidder's Statement.

In addition to the risks associated with being a Probiomics Securityholder, Hunter Securityholders should also consider the risks associated with a merger between Hunter and Probiomics, including:

- **The relative valuation attributed to Hunter Securities when compared with Probiomics Securities may be too low. However,** the Hunter Directors have obtained an Independent Expert Report in this regard, which has concluded that the transaction is fair and reasonable. A copy of the Independent Expert's Report is located in **Annexure A** of this Target's Statement.
- **Dilution of ownership interest in Hunter's intellectual property post completion of the Takeover Offer.** Upon completion of the Takeover Offer, Hunter Securityholders' interest in Hunter's intellectual property will reduce from 100% to approximately 89% in Probiomics (excluding the dilutionary effect of the issue of Probiomics Shares on completion of the Public Offer, and the exercise of the Replacement Probiomics Options and the Probiomics Options). The Hunter Directors believe that the value that the Probiomics business (including the anticipated synergies – refer **Section 1** of this Target's Statement), its financial position and ASX listing brings to the Merged Group appropriately addresses the effective reduction of the interest that Hunter Securityholders have in the Hunter intellectual property;
- **Unforeseen events or liabilities impacting Probiomics after completion of the Takeover Offer.** The Hunter Directors have undertaken various examinations to seek to identify possible previously unidentified or unreported matters that may impact on Probiomics' financial position following completion of the Takeover Offer. The Hunter Directors also take some level of comfort from the continuous disclosure obligations placed on Probiomics associated with is quotation on ASX.

5 INFORMATION ABOUT PROBIOMICS

5.1 Overview of Probiomics

Probiomics is an Australian, ASX listed biotechnology company developing proprietary probiotic and biomolecular technology for commercial applications in consumer health, functional foods and pharmaceutical products. Probiomics primary focus is on the commercialisation and further development of its proven probiotic technology, with its lead probiotic, PCC®, a patent protected strain of Lactobacillus fermentum.

The principal activities of Probiomics are:

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

Please refer to **Section 2** and **Section 3** of the Bidder's Statement for detailed information on Probiomics including details in relation to Probiomics Shares.

5.2 Risks associated with becoming a Probiomics Shareholder

There are certain risks associated with holding Probiomics Securities. Those risks are outlined in **Section 4.12** of this Target's Statement and **Section 7** of the Bidder's Statement.

The Independent Hunter Directors encourage Hunter Securityholders to consider **Section 4.12** of this Target's Statement and **Section 7** of the Bidder's Statement before deciding on their course of action in relation to the Takeover Offers.

5.3 Probiomics' Intentions with respect to Hunter

Section 5 of the Bidder's Statement sets out Probiomics' intentions for Hunter in the event that Probiomics acquires either:

- more than 90% (in number) of the Hunter's Securities and is entitled to compulsorily acquire all of the Hunter Securities; or
- less than 90% but more than 50% of all Hunter's Securities.

6 IMPORTANT INFORMATION ABOUT THE TAKEOVER OFFERS

6.1 The Takeover Offers

On 11 October 2011, Probiomics announced its intention to make the Takeover Bid, being an offer to Hunter Securityholders to acquire each and all of the:

(a) Hunter Shares and any Hunter Shares that are issued pursuant to the conversion of a Hunter Convertible Note, the exercise of any Hunter Option or the exercise of any other right attaching to a Hunter Convertible Note, at any time from and including the Takeover Record Date to and including the last day of the Takeover Bid Period;

(b) Tranche 1 Note Interests; and

(c) Hunter Options,

but excluding any Hunter Securities held by Probiomics or its subsidiaries, on the terms and conditions of the Takeover Offers.

The consideration being offered under the Takeover Offers is:

(a) nine (9) Probiomics Shares for each one (1) Hunter Share;

(b) nine (9) Probiomics Shares for each one (1) Tranche 1 Note Interest; and

(c) nine (9) Replacement Probiomics Options for each one (1) Hunter Option,

that a Hunter Securityholder holds on the Takeover Record Date and otherwise upon the terms and conditions of the Takeover Offers set out in **Appendix 1** and **Appendix 2** of the Bidder's Statement.

The Takeover Offers are to acquire all your Hunter Securities, including any rights attaching to them. You may only accept a Takeover Offer for **all** of the Hunter Securities that you hold and that are the subject of that Takeover Offer. You cannot accept a Takeover Offer for only **some** of the Hunter Securities that you hold and that are the subject of that Takeover Offer.

6.2 Bid Conditions of the Takeover Offers (Bid Conditions)

Hunter Securityholders should note that each of the Takeover Offers, and any contract resulting from acceptance of a Takeover Offer, is conditional on the satisfaction of a number of Bid Conditions. The complete terms of each Bid Condition are set out in **Appendix 2** of the Bidder's Statement.

The Bid Conditions include:

1. Minimum acceptance

By the end of the Takeover Bid Period, Probiomics:

(a) has acquired a relevant interest in at least 90% (by number) of each of all Hunter Shares, all Tranche 1 Note Interests and all Hunter Options; and

(b) is entitled to compulsorily acquire all remaining Hunter Securities in accordance with the provisions of Chapter 6A of the Corporations Act.

2. Hunter Tranche 2 Notes

By the end of the Takeover Bid Period, all Tranche 2 Notes are exercised, cancelled or transferred to Probiomics or are subject to agreements of arrangements entered into between Probiomics and the relevant holder of those Tranche 2 Notes or any of them, that will cause all Tranche 2 Notes to

be exercised, cancelled or transferred to Probiomics.

3. Bidder Shareholder Approval

All Essential Resolutions are passed by Probiomics Shareholders in accordance with their terms at the Meeting.

4. Successful Public Offer

Probiomics receives or becomes entitled to receive no less than $2,200,000 (including all costs associated with the Public Offer) in immediately available funds as a result of subscriptions made under the Public Offer.

5. ASX consent to Re-admission

Probiomics receives from ASX written confirmation on or before 5.00 pm (AEDST) on 23 March 2012, that ASX will re-admit Probiomics to the Official List and termination of the suspension from Official Quotation of Probiomics Securities, subject to the performance of such terms and conditions (if any) as are prescribed by the Listing Rules.

6. No Material Adverse Change

At no time during the Takeover Bid Period, a Material Adverse Change occurs in respect of the Hunter Group taken as a whole or of any member of the Hunter Group.

7. No new material commitments

No member of the Hunter Group during the Takeover Bid Period and without the prior written consent of Probiomics:

(a) offers to acquire or agrees to acquire or dispose of one or more companies or assets (or an interest in one or more companies or assets) outside the ordinary course of business of that member, or makes, or is obliged or required to make, an announcement about such an acquisition or disposal;

(b) enters into or announces that it proposes to enter into or terminate any joint venture or partnership involving a current or future commitment to pay or provide more than $100,000 or makes or is or becomes obliged to make an announcement about such a commitment or termination; or

(c) incurs or commits to, or grants to another person a right the exercise of which would involve a member of the Hunter Group incurring or committing to any capital expenditure or liability for one or more related items that is equal to or greater than $100,000 or makes, or is obliged or required to make, an announcement about such a commitment.

8. No market fall

During the Takeover Bid Period, the S&P/ASX 200 Index published by ASX is, for more than 2 consecutive trading days, below the level of 3,650 during the Takeover Bid Period.

9. No litigation

During the Takeover Bid Period, no litigation, arbitration or other proceedings are commenced, instituted or threatened against any member of the Hunter Group which is or are material in the context of the Hunter Group's operations as a whole.

10. Hunter Shareholder approval of Hunter Shares issued to David Radford

Prior to the expiry of the Takeover Bid Period, the Hunter Shareholders have approved the issue of

the Hunter Shares referred to in **Section 4.9.4** and **Section 7.4** of this Target's Statement to David Radford in accordance with the requirements of Part 2E of the Corporations Act.

For a complete description of the Bid Conditions, please see **Appendix 2** of the Bidder's Statement.

6.3 Consequences of Bid Conditions Not Being Satisfied

There is a risk that some of the Bid Conditions may not be satisfied or waived. You should be aware that, even if the Bid Conditions are not satisfied, they may be waived by Probiomics.

If any Bid Condition is unsatisfied and has not been waived, Probiomics can decide whether to proceed with the acquisition of Hunter Securities under the Takeover Offers or to allow all or any of the Takeover Offers to lapse as a result of unsatisfied Bid Conditions.

6.4 Notice of Status of Conditions

Probiomics needs to give a Notice of Status of Conditions by no later than seven days prior to the end of the Takeover Bid Period. Probiomics is required to set out in its Notice of Status of Conditions:

- whether each of the Takeover Offers are free of any or all of the applicable Bid Conditions;
- whether, so far as Probiomics knows, any of the Bid Conditions have been fulfilled; and
- Probiomics' then current voting power in Hunter.

If the Takeover Bid Period is extended before the time by which that notice is to be given, the date that Probiomics must give its Notice of Status of Conditions will be taken to be extended for the same period. In the event of such an extension, Probiomics is required, as soon as reasonably practicable after the extension, to give a notice to the ASX and Hunter that states the new date for giving the Notice of Status of Conditions.

In addition, if a Bid Condition is fulfilled during the Takeover Bid Period but before the date on which the Notice of Status of Conditions is required to be given, Probiomics must, as soon as practicable, give the ASX and Hunter a notice that states that the particular Bid Condition has been fulfilled.

6.5 Extension of the Takeover Bid Period

The Takeover Offers are scheduled to close within the timeframe set out in the Bidder's Statement, unless Probiomics extends the Takeover Bid Period in accordance with the Corporations Act.

Subject to the provisions of the Corporations Act and any comments that Probiomics may have made during the course of the Takeover Bid Period, while the Takeover Offers remain subject to unsatisfied Bid Conditions, Probiomics may only extend the Takeover Bid Period before the giving of the Notice of Status of Conditions. However, if the Takeover Offers are declared to be Unconditional, Probiomics may extend the Takeover Bid Period at any time before the end of the Takeover Bid Period.

In addition, there will be an automatic extension of the Takeover Bid Period if, within the last seven days of the Takeover Bid Period, Probiomics improves the Bid Consideration under the Takeover Offers or Probiomics' voting power in Hunter increases to more than 50%. If either of these two events occurs within the last seven days of the Takeover Bid Period, the Takeover Bid Period is automatically extended so that it ends 14 days after the date upon which that relevant event occurs.

The Takeover Offers will lapse if, at the end of the Takeover Bid Period, the Bid Conditions are not satisfied in accordance with their respective terms or waived. If this occurs, any contracts resulting from the acceptance of a Takeover Offer by Hunter Securityholders will become void. If a Takeover Offer lapses, Hunter Securityholders who have accepted that Takeover Offer will continue to own the Hunter Securities that are the subject of that acceptance and will remain free to deal with them as they choose.

6.6 Effect of Acceptance and Rights of Withdrawal

Accepting the Takeover Offers would (subject to the withdrawal rights discussed below):

- prevent you from accepting any higher takeover bid for your Hunter Securities that may be made by a third party or any alternative transaction proposal that may be recommended by the Independent Hunter Directors or Hunter Directors;
- relinquish control of your Hunter Securities to Probiomics with no guarantee of receipt of the Bid Consideration unless and until the Takeover Offers become, or are declared, Unconditional;
- if the Bid Conditions are not satisfied or waived before the expiry of the Takeover Bid Period, give Probiomics the option to either keep your Hunter Securities that are the subject of an accepted Takeover Offer (by waiving all remaining unsatisfied Bid Conditions) or allow the Takeover Offers to lapse (as discussed in **Section 6.4** of this Target's Statement); and
- prevent you from selling your Hunter Securities.

If you accept a Takeover Offer, you will have a right to withdraw your acceptance in some circumstances. Those withdrawal rights comprise general statutory withdrawal rights under the Corporations Act. In summary, under the Corporations Act, you may withdraw your acceptance of a Takeover Offer if that Takeover Offer remains conditional and Probiomics varies its Takeover Offer in a way that postpones, for more than one month, the time when Probiomics needs to meet its obligations under that Takeover Offer. This will occur if Probiomics extends the Takeover Bid Period by more than one month and the Takeover Offer remains subject to unsatisfied Bid Conditions.

In those circumstances, you will have a period of one month after the date that the Takeover Bid Period is extended to withdraw your acceptance. Your statutory withdrawal rights will terminate upon the expiry of that one month period, although if the Takeover Bid Period is then further extended you will receive further statutory withdrawal rights (that is, a further month long withdrawal right for each and every extension thereafter provided the Takeover Offer remains subject to unsatisfied Bid Conditions).

If Probiomics improves the Bid Consideration for a Hunter Security, all Hunter Securityholders who have validly accepted a Takeover Offer in respect of that Hunter Security (whether or not they have accepted prior to that improvement) will be entitled to the benefit of that improved Bid Consideration.

The effect of acceptance and the rights of withdrawal of a Takeover Offer are set out in more detail in **Section 8** and **Section 15** (respectively) of **Appendix 1** of the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Hunter Securities and the representations and warranties that you are deemed to give to Probiomics by accepting a Takeover Offer.

6.7 Compulsory Acquisition

Probiomics may, in respect of each class of Hunter Security, compulsorily acquire all remaining Hunter Securities in that class, under Part 6A.1 of the Corporations Act if, by the end of the Takeover Bid Period, it has acquired a relevant interest in at least 90% (in number) or more of that class of Hunter Securities and has acquired at least 75% (in number) of that class of Hunter Securities which Probiomics offered to acquire under a Takeover Offer.

Probiomics has stated in **Section 5.2** of the Bidder's Statement that it intends to compulsorily acquire the remaining Hunter Securities if it becomes entitled to do so. Compulsory acquisition is commenced by lodging a compulsory acquisition notice with ASIC and sending the notice to ASX and all remaining Hunter Securityholders who did not accept the applicable Takeover Offer. Hunter Securityholders have

statutory rights to challenge compulsory acquisition. However, if Probiomics establishes to the satisfaction of a court that the consideration being offered for the securities sought to be compulsorily acquired represents fair value, the court must approve the compulsory acquisition on those terms. Hunter Securityholders should be aware that if their Hunter Securities are compulsorily acquired, they are not likely to receive the relevant Bid Consideration until at least one month after the compulsory acquisition notice is issued by Probiomics.

6.8 Implications if Probiomics Acquires Less than 90% of the Hunter Securities

In **Section 5.3** of the Bidder's Statement, Probiomics sets out its intentions if it acquires more than 50% (by number) of Hunter Shares and Hunter Options but less than 90% (by number) of Hunter Shares and Hunter Options.

Probiomics has stated that it reserves the right to declare the Takeover Offers free from the Minimum Acceptance Condition (or any other Bid Condition).

If Probiomics acquires between 50% and 90% (by number) of Hunter Securities, those Hunter Securityholders who do not accept the applicable Takeover Offers for their Hunter Securities will become minority Hunter Securityholders. This has a number of possible implications, including:

- Probiomics will be in a position to cast the majority of votes at a general meeting of Hunter. This will enable it to control the composition of the Hunter Board and senior management, and control the strategic direction of the businesses of Hunter and its subsidiaries, subject to the fiduciary duties of the newly composed Hunter Board;
- under the Pre-Bid Acceptance Agreements (see **Section 7.8** of this Target's Statement), if the Takeover Offers are declared Unconditional, and Probiomics has voting power of at least 50.1% in Hunter and has issued the applicable Bid Consideration, Hunter will have the right to reconstitute the Hunter Board in accordance with Probiomics' instructions until such time as Probiomics is entitled to proceed to compulsory acquisition. Probiomics has expressed the desire to exercise this right; and
- it is possible that, even if Probiomics is not entitled to proceed to compulsory acquisition of minority securityholdings in Hunter after the end of the Takeover Bid Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6D.2 of the Corporations Act. For example, this may occur as a result of acquisitions of Hunter Securities in reliance on the '3% creep' exception in item 9 of Section 611 of the Corporations Act. If this opportunity arises, Probiomics has stated that it intends to exercise those rights to the extent it is able to do so.

6.9 Tax Implications

You should note that scrip-for-scrip Capital Gains Tax roll-over relief may be available to you if you accept an applicable Takeover Offer. However, the tax consequences for you will depend on your individual circumstances.

Section 8 of the Bidder's Statement sets out a general overview of the Australian tax implications of a Hunter Securityholder accepting a Takeover Offer. However, you should not rely on it as advice in respect of your own affairs. It does not deal with the position of all Hunter Securityholders.

You should seek your own independent financial and taxation advice, which takes into account your personal circumstances, before making a decision as to whether or not to accept a Takeover Offer for your Hunter Securities.

7 ADDITIONAL INFORMATION

7.1 Other material information

This Target's Statement is required to include all the information that Hunter Securityholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Takeover Offers, but only:

- to the extent to which it is reasonable for Hunter Securityholders and their professional advisers to expect to find this information in this Target's Statement; and
- if the information is known to any Hunter Director.

The Hunter Directors are of the opinion that the information that Hunter Securityholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Takeover Offers is the information contained in:

- the Bidder's Statement;
- Hunter's statements to Hunter Securityholders prior to the date of this Target's Statement (which are available on its website, www.hunterimmunology.com.au); and
- this Target's Statement.

The Hunter Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). In deciding what information should be included in this Target's Statement, the Hunter Directors have had regard to the:

- nature of the Hunter Securities;
- matters that Hunter Securityholders may reasonably be expected to know; and
- fact that certain matters may reasonably be expected to be known to Hunter Securityholders' professional advisers.

7.2 Substantial Shareholders

As at the date of this Target's Statement, Hunter's substantial shareholders (in excess of 5%) in Hunter were:

Shareholder	No. of Shares	% Shareholding †
Wigram Trading Pty Ltd	31,905,834	19.3%
Prof Robert Llewllyn Clancy + Mrs Christine Mary Clancy < Clancy Superannuation Fund>	21,254,200	12.9%
Newcastle Innovation Limited	10,400,000	6.3%
Total	**63,560,034**	**38.5%**

† *Calculated based upon the issued capital of Hunter at the date of this Target's Statement.*

7.3 Independent Hunter Directors' Recommendation, Intentions and Interests

In assessing the Takeover Offers, your Independent Hunter Directors have had regard to a number of considerations, including the information set out in the Bidder's Statement. Based on this assessment and for the reasons set out in this Target's Statement, your Independent Hunter Directors' unanimous

recommendation to Hunter Securityholders is to accept the Takeover Offers in respect of all their Hunter Securities in the absence of a Superior Proposal.

Each of your Hunter Directors (ie including David Radford) intends to accept or procure the acceptance of the Takeover Offers in respect of any Hunter Securities that they or their Associates own or control or otherwise have a relevant interest in.

As at the date of this Target's Statement, the number, description and amount of Hunter Securities in which each of the Hunter Directors has a relevant interest are as follows:

Director	**Number of Options held**	**Number of Securities held**
Ian Mutton	1,000,000	808,333
David Radford†	–	–
Jeremy Curnock Cook	–	–
Glenn Crisp	1,000,000	–
Doug Wilson	–	–

† *Refer **Section 7.7** of this Target's Statement*

No Hunter Director has a relevant interest in any Probiomics Securities or other securities of Probiomics or any of its related bodies corporate.

There is no agreement made between any Hunter Director or and any other person in connection with or conditional upon the outcome of any Takeover Offer. No Hunter Director has an interest in any contract entered into by Probiomics or its related bodies corporate.

No benefit has, or will be given to a person in connection with the retirement of a person from a board or managerial office in Hunter or a related body corporate of Hunter or who holds, or has held a board or managerial office in Hunter or a related body corporate of Hunter, or a spouse, relative or associate of such a person, in connection with the transfer of the whole or any part of the undertaking or property of Hunter.

7.4 Material Personal Interests of David Radford

As indicated above, it is proposed that David Radford, the current Managing Director of Hunter, will be appointed as the Managing Director of Probiomics after completion of the Hunter Acquisition and Public Offer.

The Independent Hunter Directors and David Radford believe that David Radford has a material personal interest in the completion of the Takeover Bid and Public Offer. Accordingly, in accordance with the applicable provisions of the Corporations Act and ASIC Regulatory Guide 76, David Radford will not make any recommendation about whether or not any Hunter Securityholder should accept a Takeover Offer or participate in the Public Offer.

The details of David Radford's material personal interest referred to above are that:

(i) he will be entering into the Amended Hunter Employment Agreement, the material terms of which are set out in **Section 7.6** of this Target's Statement;

(ii) subject to the Hunter Acquisition and Public Offer being successfully completed, and in consideration for David Radford entering into the Hunter Employment Agreement, and agreeing to enter into the Amended Hunter Employment Agreement in the circumstances referred to in **Section**

7.6 of this Target's Statement, Hunter proposes to issue to David Radford 14,057,821 Hunter Shares, that will, if David Radford accepts the Takeover Bid for those Hunter Shares, entitle him to be issued with (on a post Share Consolidation basis) 6,326,020 Probiomics Shares, which will represent approximately 3.74% of all Consolidated Shares, on an undiluted basis and assuming a Maximum Subscription is received in the Public Offer.

As a result David Radford may benefit – both indirectly and directly – from the successful completion of the Takeover Offers and the Public Offer.

7.5 Pre-Bid Acceptances

Probiomics has entered into Pre-Bid Acceptance Agreements with a number of Hunter Securityholders as listed below:

Name	Hunter Shares	% Holding
Prof Robert Llewllyn Clancy and Mrs Christine Mary Clancy <Clancy Superannuation Fund>	21,254,200	12.9%
Hirst Shabian & Hirst Advisory Services Pty Limited < Shabian A/C>	7,929,816	4.8%
Total	**29,184,016**	**17.7%**

Under the Pre-Bid Acceptance Agreements, each of the aforementioned Hunter Securityholders have agreed that if Probiomics issues its Bidder's Statement for Takeover Offer at no less than 9 Probiomics Shares for a Hunter Share on conditions equivalent to the Bid Conditions, they will accept the applicable Takeover Offer in respect of all their respective Hunter Securities.

In addition, Hunter's Directors have received non-binding letters of intention from each of the following Hunter Shareholders and Hunter Noteholders to accept the Takeover Offers in the absence of a Superior Proposal:

Name	Hunter Securities	% Holding †
Securityholders		
Wigram Trading Pty Ltd	31,905,834	13.8%
Newcastle Innovation Limited	10,400,000	4.5%
Paul Bolt	6,662,500	3.0%
Noteholders		
Phillip Asset Management Limited <IB Australian Bioscience Fund>	28,944,292	12.5%
Cherryoak Investments Pty Ltd <C&N Family Trust>	22,138,231	9.6%
PT Soho Industri Pharmasi	11,363,662	4.9%
Total	**111,414,519**	**48.3%**

† *Calculated after assuming the conversion of the Tranche II Notes and allotment of Hunter Shares in exchange for accrued interest on the Tranche I Notes and Tranche II Notes on 31 January 2012. Should the date of conversion of the Hunter Convertible Notes be later than this date, additional Probiomics Shares will be issued as a consequence of the additional interest accruing on the Hunter Convertible Notes. The rate at which additional Hunter Shares would need to be issued is set out in* ***Section 4.9.2*** *of this Target's Statement in respect of both Tranche I Interests and Tranche II Notes.*

Under the non-binding statements of intention, each of the above Hunter Securityholders have indicated to the Hunter Directors that they intend to, in the absence of a Superior Proposal:

(a) accept the applicable Takeover Offer in respect of all their respective Hunter Securities; and

(b) convert their Tranche 2 Notes into Hunter Shares and receive Hunter Shares for the accrued interest under their Hunter Convertible Notes and accept a Takeover Offer for those Hunter Shares,

prior to or upon the occurrence of the Re-admission Notification Date.

Each of the Hunter Directors have informed Probiomics that they intend to accept the Takeover Offer in respect of all the Hunter Securities they hold no later than two Business Days prior to the end of the Takeover Bid Period. However, no agreement to that effect has been entered into by any of the Hunter Directors.

7.6 Employment Agreement of Hunter's Managing Director

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

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

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

(a) Mr Radford's fixed annual base salary (exclusive of superannuation and other entitlements) will be $400,000, reviewable on an annual basis.

(b) Mr Radford will also be entitled to such performance bonuses as are agreed between Mr Radford and Hunter from time to time. The parties have agreed not to pre-determine Mr Radford's performance hurdles and bonuses on achievement of those hurdles, as was the case under the Hunter Employment Agreement.

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

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

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

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

7.7 Material changes in financial position of Hunter

To the knowledge of each of the Hunter Directors, the financial position of Hunter has not materially changed since 30 June 2011 (the date on which the most recent management financial statements were prepared), as in the Statement of Financial Position as at that date set out in **Section 4.10** of this Target's Statement.

7.8 Potential impact of Takeover Offers on material contracts

None of Hunter's material contracts have a change of control clause which will be triggered if Probiomics is successful in acquiring control of Hunter, thereby giving the counterparty the ability to terminate the contract or which may have a material adverse effect on the assets and liabilities, financial position and performance, profits and losses and prospects of Hunter.

7.9 Material litigation

As at the date of this Target's Statement, no member of the Hunter Group is involved in any legal proceedings and the Hunter Directors are not aware of any legal proceedings pending or threatened against the Hunter Group.

7.10 Regulatory relief

ASIC has granted Probiomics relief with respect to:

(e) Sections 605(2) and 619(2) of the Corporations Act to permit Probiomics to treat the 6 separate classes of Hunter Options as being securities of the same class for the purposes of making one Takeover Offer for all those Hunter Options, notwithstanding that the Hunter Options are exercisable at different exercise prices and/or different expiry dates; and

(f) Section 631(1)(b) of the Corporations Act to permit Probiomics to make the Takeover Offers more than 2 months after publicly announcing Probiomics' proposal to make the Takeover Bid.

In addition, ASX has granted Probiomics the following relief in relation to Listing Rule 1.1, Condition 9 and Listing Rule 9.1 and Appendix 9B:

(g) Hunter Securityholders that were issued Hunter Securities for cash consideration (each, a **Relevant Hunter Securityholder**) will be treated as if they are "seed capitalists" of Probiomics, such that Appendix 9B, Item 1 of the Listing Rules is applicable to Relevant Hunter Securityholders, rather than Appendix 9B, Item 3. The effect of this treatment is that, for the purposes of determining the appropriate restrictions under the Listing Rules to apply to Bid Consideration issued to Relevant Hunter Securityholders in consideration for their acceptance of the applicable Takeover Offers, Relevant Hunter Securityholders will receive the benefit of the "cash formula" (as defined by the Listing Rules and set out in the "Summary of the Takeover Offers" section of this Target's Statement), which they would not otherwise have received in the absence of this relief; and

(h) in determining the appropriate restrictions to apply under the Listing Rules to Bid Consideration issued to Relevant Hunter Securityholders in consideration for their acceptance of the applicable Takeover Offers, the escrow period will commence from the date of issue of the relevant Hunter Securities that are to be transferred by the Relevant Hunter Securityholder to Probiomics in exchange for the Bid Consideration, as opposed to the date of Re-admission. The effect of this relief is that none of the Bid Consideration issued to Unrelated Hunter Securityholders on acceptance of the Takeover Bid will be escrowed.

7.11 Other information relevant to the making of a decision by Hunter Securityholders

There is no other information material to the making of a decision by a Hunter Shareholder whether or not to accept a Takeover Offer, being information that is within the knowledge of any of the Hunter Directors that has not previously been disclosed to Hunter Securityholders, other than as set out in the Bidder's Statement and in this Target's Statement.

7.12 Consents and Disclaimers

HWL Ebsworth has given its consent to being named in this Target's Statement as legal adviser to Hunter in the form and context in which it is named. This consent has not been withdrawn prior to the lodging of this Target's Statement with ASIC.

Martin Place Securities Pty Ltd has given its consent to being named in this Target's Statement as financial adviser to Hunter in the form and context in which it is named. This consent has not been withdrawn prior to the lodging of this Target's Statement with ASIC.

DMR Corporate Pty Ltd has given its consent to being named in this Target's Statement as independent expert to Hunter in the form and context in which it is named. This consent has not been withdrawn prior to the lodging of this Target's Statement with ASIC.

Each person named in this section as having given its consent to the inclusion of a statement or being named in this Target's Statement:

- does not make, or purport to make, any statement in this Target's Statement or any statement which a statement in this Target's Statement is based on other than as specified in this section; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and a statement included in the Target's Statement with the consent of that party as specified in this section; and
- has not caused or authorised the issue of this Target's Statement.

7.13 Publicly available information

ASIC has published various instruments providing for modifications and exemptions that apply generally to all persons, including Hunter. In particular, Hunter relies on ASIC Class Order 01/1543 which permits the Target's Statement to include, or be accompanied by, certain statements which are made, or based on, statement made in documents lodged with ASX in accordance with the Listing Rules or documents lodged with ASIC. If the conditions set out in that class order are satisfied, the consent of the person to whom a relevant statement is attributed is not required for that statement to be included in this Target's Statement.

This Target's Statement contains statements which are made in, or based on statements made in, documents lodged with ASIC by Hunter. As required by the class order, any Hunter Securityholder who would like to receive a copy of those documents may obtain a copy free of charge during the Takeover Bid Period by calling Hunter on (02) 9793 7267.

Copies of announcements by Hunter may also be obtained from its website www.hunterimmunology.com.au.

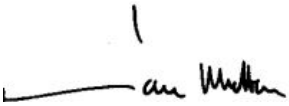
7.14 Date of Target's Statement

This Target's Statement is dated 13 December, 2011, which is the date on which it was lodged with ASIC.

7.15 Approval

This Target's Statement has been approved by a resolution of the Hunter Directors.

Signed for and on behalf of Hunter Immunology Limited:



Mr Ian Mutton

Chairman

8 GLOSSARY

8.1 Definitions

The following defined terms are used throughout this Target's Statement unless the context otherwise requires.

Defined Term	Definition
Acceptance and Transfer Form	the form that a Hunter Securityholder must complete and submit to Probiomics during the Takeover Bid Period and otherwise in accordance with the terms and conditions of a Takeover Offer, in order to accept that Takeover Offer, and a copy of which accompanies the Bidder's Statement
AEDST	Australian Eastern Daylight Savings Time
Amended Hunter Employment Agreement	has the meaning given to that term in **Section 7.6** of this Target's Statement
Announcement Date	11 October, 2011, being the date of announcement by Probiomics of the proposal to make the Takeover Bid
applicable	in relation to Takeover Offer, means the Takeover Offer for a specific class of Hunter Security
ASIC	Australian Securities & Investments Commission
Associate	has the same meaning as given to that term in Section 12(2) of the Corporations Act
ASX	Australian Securities Exchange as operated by ASX Limited ABN 98 008 624 691
ATO	Australian Taxation Office
Bid Conditions	the defeating conditions of the Takeover Bid, as are more particularly set out in **Appendix 2** of the Bidder's Statement and for the sake of clarity, includes the Minimum Acceptance Condition
Bid Consideration	the consideration payable for acceptance of a Takeover Offer as set out in **Section 3** of **Appendix 1** of the Bidder's Statement
Bid Consideration Value	the monetary value of a Takeover Offer for each Hunter Share or each Tranche 1 Note Interest, being A$0.099
Bidder's Statement	the bidder's statement for and in connection with each of the Takeover Offers issued by Probiomics
Business Day	has the same meaning as given to that term in Section 9 of the Corporations Act
Closing Date	the date on which the Takeover Bid Period ends, being currently scheduled to be 5.00 p.m. (AEDST) on 9 March, 2012 unless extended under **Section 5** of **Appendix 1** of the Bidder's Statement

Defined Term	Definition
Completion Date	the first Business Day succeeding the last day of the Takeover Bid Period, where the Takeover Bid has been declared Unconditional
Consolidated Share	a Probiomics Share after the implementation of the Share Consolidation
Control	has the meaning given to that term in Section 50AA of the Corporations Act
2011 Convertible Note Agreement	The agreement between Hunter and the Tranche 2 Convertible Noteholders
Corporations Act	*Corporations Act* 2001 (Commonwealth)
Current Hunter Directors	Ian Mutton, David Radford, Dr Jeremy Curnock Cook, Glenn Crisp, Dr Doug Wilson
Director Options	the Options issued to various of the Current Hunter Directors, more particularly referred to in **Section 7.3** of this Target's Statement
Essential Resolutions	the Resolutions set out in **Section 5** of **Appendix 2** of the Bidder's Statement and the key terms of which are summarised in this Target's Statement under the heading 'Summary of the Offer'
Foreign Hunter Securityholder	any Hunter Securityholder: (a) whose address shown in Hunter's register of members is a jurisdiction outside Australia and its external territories and New Zealand; or (b) who is a citizen or resident of a jurisdiction other than Australia and its external territories and New Zealand
Foreign Law	A law of any jurisdiction other than an Australian jurisdiction
General Option Terms	the terms and conditions of issue of, and that apply equally, to all Probiomics Options, which are set out in **Section 3.8** of the Bidder's Statement
Hunter or **Company**	Hunter Immunology Limited ABN 92 106 556 094
Hunter Acquisition	the proposed acquisition of the Hunter Securities pursuant to the Takeover Offers
Hunter Board	the board of Hunter Directors, as constituted from time to time
Hunter Convertible Note	either a Tranche 1 Note or a Tranche 2 Note
Hunter Director	a director of Hunter, as at the date of the Bidder's Statement or at any time thereafter
Hunter Employment Agreement	has the meaning given to that term in **Section 7.6** of this Target's Statement
Hunter Group	Hunter and each of its related bodies corporate or controlled entities

Defined Term	Definition
Hunter Noteholder	the holder of a Hunter Convertible Note
Hunter Option	an option to acquire a Hunter Share, details of which are set out in **Section 4.4(b)** of the Bidder's Statement
Hunter Optionholder	the holder of a Hunter Option
Hunter Security	either or any of: (a) a Hunter Share; (b) a Hunter Share that is issued pursuant to the conversion of a Hunter Convertible Note, the exercise of any Hunter Option or the exercise of any other right attaching to a Hunter Convertible Note, at any time from and including the Takeover Record Date to and including the last day of the Takeover Bid Period; (c) a Tranche 1 Note Interest; or (d) a Hunter Option
Hunter Securityholder	a holder of a Hunter Security as at and including the last day of the Takeover Bid Period
Hunter Share	a fully paid ordinary share in the capital of Hunter that has been disclosed as, and remains, issued at the end of the Takeover Bid Period
Hunter Shareholder	a holder of a Hunter Share as at the Takeover Record Date
Independent Expert	DMR Corporate Pty Limited of Level 7, 470 Collins Street, Melbourne Victoria
Independent Expert's Report	the report of the Independent Expert that accompanies this Target's Statement (in **Annexure A**)
Independent Hunter Directors	all Hunter Directors other than David Radford
Ineligible Foreign Hunter Securityholder	any Foreign Hunter Securityholder to whom it is unlawful, or in all the relevant circumstances impracticable, under any law or regulation of any of those jurisdictions for Probiomics to make a Takeover Offer or for whom it is unlawful to accept a Takeover Offer
Liquidity Event	the achievement by Hunter of all Milestones (as defined in the 2011 Convertible Note Agreement and the occurrence of each of (i) to (iii) listed below: (a) a takeover offer of Hunter achieves greater than 90% acceptance (and Probiomics has provided notification to Hunter that it is moving to compulsory acquisition of Hunter), and (b) the prescribed majority of the shareholders of Probiomics approving each of those resolutions that Probiomics has indicated to those shareholders relate to essential conditions that must be satisfied for any takeover offer to be made and completed in accordance with its terms; and

Defined Term	Definition
	(c) the satisfaction or waiver by Probiomics of all conditions attaching to Probiomics' takeover offer (other than any condition relating to the conversion, cancellation, transfer or exercise of any right attaching to, any and all convertible notes issued by Hunter that remain on issue at the end of the period of that takeover offer); and Probiomics has satisfied or it is reasonably anticipated on objective grounds that Probiomics will satisfy within a reasonable time, the ASX required conditions for re-quotation of the securities of Probiomics after the close of that takeover offer (including any applicable requirements under the Listing Rules) without the requirement for any action or matter not in the sole control or authority of the board of Probiomics.
Listing Rules	the listing rules and requirements from time to time of ASX
Major Hunter Securityholders	Hunter Securityholders identified in the table in **section 1.1F** of this Target's Statement
Material Adverse Change	means: (a) any matter, event or circumstances which happens, is announced or becomes known to Hunter after the date of this document which (individually or when aggregated with all those matters, events or circumstances) has resulted in or is likely to result in either: (i) the value of consolidated net assets of the Hunter Group being reduced by at least $100,000 against what they would have been but for the matters, events or circumstances; or (ii) the net debt of the Hunter Group (being amounts owing under loans and overdraft facilities less cash and cash equivalents) being increased by at least $100,000 against what it would have been but for the matters, events or circumstances; or (b) Hunter has breached its continuous disclosure obligations under the Corporations Act in a material respect, but does not include: (a) any matter, event or circumstance arising from changes in economic or business conditions which impact on the Hunter Group and its competitors in a similar manner; (b) any change in taxation rates or taxation laws which impact on the Hunter Group and its competitors in a similar manner, or (c) any change in accounting policy required by law.
Maximum Subscription	Probiomics receiving valid applications and application monies for 400 million Public Offer Shares to raise $4,400,000 under the Public Offer
Meeting	the meeting of Probiomics Shareholders to be convened on 7 February, 2012 to consider and, if thought fit, pass the Probiomics Resolutions
Merged Group	Probiomics Group after Hunter becomes a wholly owned subsidiary of Probiomics

Defined Term	Definition
Minimum Acceptance Condition	the Bid Conditions referred to in **Sections 1**, **2** and **3** of **Appendix 2** of the Bidder's Statement
Minimum Subscription	Probiomics receiving valid applications and application monies for 200 million Public Offer Shares to raise $2,200,000 under the Public Offer
Notice of Meeting	the notice of the Meeting dated on or about the date of the Bidder's Statement that seeks to convene the Meeting
Notice of Status of Conditions	the notice to be given by Probiomics to Hunter in accordance with **Section 6.4** of this Target's Statement
Official List	the official list of entities that ASX has admitted and not removed
Official Quotation	official quotation of a security on a market operated by ASX
Option Takeover Offer	that part of the Takeover Offer as is relates to the Hunter Options
pay or **payable**	in relation to any Bid Consideration that is required to be paid or provided under the terms of either a Takeover Offer, means the payment of that consideration or any part thereof
Pre-Bid Agreement	an agreement entered into between Probiomics and each of the persons listed in **Section 1.1F** of this Target's Statement
Probiomics	Probiomics Limited ABN 97 084 464 193
Probiomics Board	the board of Probiomics Directors, as constituted from time to time
Probiomics Director	a director of Probiomics, being at the date of the Bidder's Statement, the Current Directors
Probiomics Group	Probiomics and each of its related bodies corporate or controlled entities, and any Associate of any of the foregoing
Probiomics Option or **Option**	an option to acquire a Probiomics Share, and includes for the sake of clarity, any Public Offer Option, Director Option and Replacement Probiomics Option
Probiomics Resolutions	each of the resolutions referred to and the subject of the Notice of Meeting
Probiomics Security	a Probiomics Share, Probiomics Option or a Replacement Probiomics Option
Probiomics Securityholder	a registered holder of a Probiomics Security
Probiomics Share	a fully paid up ordinary share in the capital of Probiomics
Probiomics Shareholder	a registered holder of a Probiomics Share
Proposal	a proposed transaction or formal offer, which, if accepted or completed, would result in or would, on the balance of probabilities, result in:

Defined Term	Definition
	(a) a person directly or indirectly acquiring an interest in the whole or a substantial or material part of the business or assets of Hunter or any of other Hunter Group member, including by way of a takeover bid, scheme of arrangement, capital reduction, sale of assets, sale of shares, joint venture or any other means; (b) a person acquiring Control of Hunter; (c) the issuance by Hunter of that number of new Hunter Shares that is greater than 15%, in number, of the total number of Hunter Shares on issue immediately prior to the Takeover Offer Date, other than any Shares issued pursuant to the Excluded Offer or the Public Offer; (d) Hunter effecting or implementing any reorganisation, recapitalisation or dissolution; or (e) a person acquiring, or merging or amalgamating (including by reverse takeover bid or dual listed structure) with Hunter
Proposed Directors	the proposed directors of Probiomics, being Ian Mutton, David Radford, Jeremy Curnock Cook, Douglas Wilson, Glenn Crisp and William Harrison
Prospectus	the prospectus proposed to be issued by Probiomics under the Public Offer
Public Offer	the proposed issue of no less than 200,000,000 Public Offer Shares and no more than 400,000,000 Public Offer Shares at A$0.011 per Public Offer Share, together with 1 Public Offer Option for every 3 Public Offer Shares successfully subscribed for and issued under that offer, for no additional cash consideration and exercisable at $0.0165 per Option on or before 31 March, 2013, and for the purposes set out in **Section 2.3** of the Prospectus
Public Offer Options	Options issued under the Prospectus, being 1 Option for every 3 Public Offer Shares, on the terms described in **Section 2.7** of the Prospectus and the General Option Terms
Public Offer Shares	Probiomic Shares issued under the Public Offer
Re-admission	re-admission of Probiomics to the Official List and termination of the suspension from Official Quotation of Probiomics Securities, after Probiomics has satisfied the applicable requirements of Chapters 1 and 2 of the Listing Rules
Re-admission Date	the first date after the Meeting upon which ASX re-admits Probiomics to the Official List and terminates the suspension from Official Quotation of Probiomics Shares
Re-admission Notification Date	the date upon which Probiomics receives from ASX written confirmation that ASX will re-admit Probiomics to the Official List and termination of the suspension from Official Quotation of Probiomics Shares, subject to the performance of such terms and conditions (if any) as are prescribed by Listing Rules
related body corporate	has the same meaning given to that term in Section 50 of the Corporations Act

Defined Term	Definition
relevant interest	has the same meaning given to that term in Sections 608 and 609 of the Corporations Act
Replacement Probiomics Option	an Option that is issued as Bid Consideration to Hunter Optionholders in accordance with the terms of an applicable Takeover Offer of a Hunter Option
Resolution	any one of the resolutions set out in the Notice of Meeting
Sale Nominee	Martin Place Securities Pty Limited ABN 30 094 927 947 (AFSL number 247404)
Series of Transactions	each of: (a) the passing of Probiomics Resolutions at the Meeting; (b) the Takeover Bid; (c) the Public Offer; and (d) the Share Consolidation, as more fully described in **Section 2.6** of the Bidder's Statement
Share Consolidation	the consolidation of the capital of Probiomics in the manner referred to in **Section 6.1** of the Bidder's Statement
Share Takeover Offer	that part of the Takeover Offer as is relates to the Hunter Shares
subsidiary	has the same meaning as given to that term in Section 46 of the Corporations Act
Superior Proposal	a Proposal in relation to Hunter which satisfies each of the following criteria: (a) it is bona fide and was not solicited by Hunter after the date of the Bidder's Statement; (b) it is proposed in writing by or on behalf of a person who is of reputable and solvent commercial standing; (c) in the determination of Hunter Directors, after consultation with their and Hunter's advisors, it is capable of being completed, taking into account all aspects of such Proposal and the person making such Proposal; and (d) in the determination of Hunter Directors, after consultation with its advisors, it would, if consummated in accordance with its terms, or may on the balance of probabilities and with the passage of time, result in a transaction more favourable from a financial point of view to the Hunter Securityholders than the Series of Transactions or any counterproposal (if any), as the case may be, taking into account all the terms and conditions of such Proposal
Takeover Bid	a takeover bid by Probiomics for all Hunter Securities, in accordance with the terms and conditions set out in the Bidder's Statement
Takeover Bid Period	the period referred to in **Section 5, paragraph (a)** of **Appendix 1** of the Bidder's Statement

Defined Term	Definition
takeover contract	has the same meaning given to that term in Section 9 of the Corporations Act
Takeover Offer	Probiomics' offer to acquire a Hunter Security on the terms and conditions set out in **Appendix 1** and **Appendix 2** of the Bidder's Statement as they relate to that Hunter Security and as such offer may be varied in accordance with the Corporations Act
Takeover Offer Date	the date of the Bidder's Statement being 13 December, 2011
Takeover Record Date	the date referred to in **Section 6(a)(i)** of **Appendix 1** of the Bidder's Statement and being the date prescribed under Section 633(2) of the Corporations Act, in the Bidder's Statement as being the date for determination of to whom the Bidder's Statement should be sent
Target's Statement	this Target's Statement that is issued by Hunter in response to the Bidder's Statement and otherwise in accordance with the requirements of the Corporations Act
Tranche 1 Note	a convertible note issued by Hunter that is referred to in **Section 4.4(c)(i)** of the Bidder's Statement, at a face value of $0.20
Tranche 1 Note Interest	is an interest in a Tranche 1 Note, which is determined by dividing the face value of a Tranche 1 Note, being $0.20, by $0.099
Tranche 2 Note	a convertible note referred to in **Section 4.4(c)(ii)** of the Bidder's Statement, at a face value of $1.00
Unconditional	in relation to the Takeover Bid becoming unconditional, the date upon which Probiomics issues a notice in accordance with Section 630(3) of the Corporations Act that declares that a Takeover Offer is freed from any defeating conditions otherwise applicable to that Takeover Offer
voting power	has the meaning given to that term in Section 610 of the Corporations Act
Voting Share	a Probiomics Share to which voting power attaches
VWAP	the volume weighted average price of Probiomics Shares sold on the ASX during a prescribed number of trading days immediately preceding and including the date on which such price is to be determined, but does not include any transactions defined in the ASX Business Rules as 'special' crossings prior to the commencement of normal trading, crossings during the after hours adjust phase nor any overseas trades or trades pursuant to the exercise of options over ordinary shares in the capital of Probiomics

8.2 Interpretation

Unless the context otherwise requires:

- headings used in this Target's Statement are inserted for convenience and do not affect the interpretation of this Target's Statement;
- words or phrases defined in the Corporations Act have the same meaning in this Target's Statement;
- a reference to a section is a reference to a section of this Target's Statement;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- the singular includes the plural and vice versa;
- the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- a reference to Australian dollars, AUD, $ or dollars is to the lawful currency of the Commonwealth of Australia.

9 ANNEXURE A – INDEPENDENT EXPERT'S REPORT

DMR
CORPORATE

DMR Corporate Pty Ltd A.C.N. 063 564 045
470 Collins Street
Melbourne Telephone (03) 9629 4277
Victoria 3000 Facsimile (03) 9629 4598
Australia Web www.dmrcorporate.com.au

12 December 2011

The Directors
Hunter Immunology Limited
Suite 1005, 4 Bridge Street,
Sydney NSW 2000

Dear Sirs

1. Introduction

You have requested DMR Corporate Pty Ltd ("DMR Corporate") to prepare an independent expert's report in respect of an offer by Probiomics Limited ("Probiomics" or "the Bidder") to acquire all of the shares and options in Hunter Immunology Limited ("Hunter" or "the Company") (collectively "the Offers"). In addition Probiomics is offering to acquire Tranche 1 Notes (defined below), however DMR Corporate has not been engaged by Hunter to report in respect of the offer to acquire the Tranche 1 Notes.

Probiomics' shares are listed on the Australian Securities Exchange ("ASX"). We understand that at present Probiomics does not hold any Hunter shares.

The directors of Hunter are to issue a Target's Statement, in response to the Bidder's Statement from Probiomics, which will include their recommendation as to whether the Hunter security holders should accept the Offers.

Our report has been commissioned by the Hunter directors to assist the Hunter shareholders and Hunter option holders in forming an opinion as to whether they should accept or reject the Offers. The report is to be included as an Annexure to the Target's Statement to be issued to security holders by Hunter.

As at 30 June 2011, as per Hunter's audited statement of financial position, Hunter had negative net assets of approximately $3.7 million. Whilst the statement of financial position does not include any value in respect of Hunter's intellectual property, it does include convertible notes with a face value of $5 million issued by Hunter on or about January 2010 ("Tranche 1 Notes") and accrued interest thereon. Since the balance date Hunter has secured additional convertible note funding of $3 million ("Tranche 2 Notes").

The substance of the proposed transaction is a reverse acquisition by Hunter of Probiomics, as the Hunter shareholders and the Hunter convertible note holders will, when taken together, control Probiomics. The proposed transaction will also result in all of the Tranche 1 Notes and all of the Tranche 2 Notes being effectively converted into equity, thus eliminating the negative net asset position.

2. Terms of the Probiomics Takeover Offers

2.1 Terms of the Offers

On 10 October 2011 Probiomics announced that the consideration that will be offered to the holders of Hunter's ordinary shares will be 9 Probiomics shares for every 1 Hunter share ("Share Offer").

We have been advised that since that date Probiomics has decided to also make separate offers in respect of Hunter options ("Option Offer") and Tranche 1 Notes ("Note Offer").

Pursuant to the Option Offer, Hunter option holders are to receive 9 Probiomics options for each Hunter option held. Each replacement Probiomics option is to be issued on the basis that the holder will be entitled to acquire a Probiomics share on the same commercial terms as the holder of a Hunter option would otherwise have been entitled to acquire a Hunter share.

The principal outstanding in respect of the Tranche 1 Notes is $5 million, comprising of 5 million notes with a face value of $1.00 each. Probiomics is offering approximately 91 Probiomics shares for each convertible note, calculated as (($1.00 / $0.099) x 9).

2.2 Condition of the Offers

The Offers are subject to a number of conditions. The key conditions from the perspective of the Hunter security holders are:

- Probiomics must receive acceptances in respect of at least 90% in number of each of the Hunter shares, options and Tranche 1 Notes on issue;
- conversion of the Tranche 2 Notes into Hunter shares and the subsequent acceptance of the Share Offer by the holders of the Tranche 2 Notes; and
- Probiomics shares must be re-admitted to the official list of the ASX.

Simultaneously with the Offers, Probiomics is conducting a public offer to raise a minimum of $2.2 million and a maximum of $4.4 million ("Capital Raising"). Whilst it is a stated condition of the Offers that Probiomics must achieve the minimum subscription level of $2.2 million, we note that Probiomics can alter or waive any of the bid conditions. As we have been advised that the minimum subscription level must be achieved in order to satisfy the ASX listing rules for re-admission of Probiomics shares, in the balance of this report we have assumed that the minimum subscription level will be achieved for the Offer to be completed.

2.3 Impact of the Offers

In January 2010 Hunter raised $5 million by way of an issue of the Tranche 1 Notes. Under the terms of their issue, the Tranche 1 Notes are automatically convertible into Hunter shares upon Hunter achieving certain milestones. These milestones have now been re-negotiated and the new milestones include the following provisions, which will trigger an automatic conversion of the Tranche 1 Notes:

(i) a takeover offer of the Company that achieves greater than 90% acceptance (and the Bidder has provided notification to the Company that it is moving to compulsory acquisition of the Company);

(ii) the prescribed majority of the shareholders of the Bidder approving each of those resolutions that the Bidder has indicated to those shareholders relate to essential conditions that must be satisfied for any takeover offer to be made and completed in accordance with its terms;

(iii) the satisfaction or waiver by the Bidder of all conditions attaching to the Offers (other than any condition relating to the conversion, cancellation, transfer or exercise of any right attaching to, any and all convertible notes issued by the Company that remain on issue at the end of the period of the Note Offer); and

(iv) the Bidder has satisfied or it is reasonably anticipated on objective grounds that the Bidder will satisfy within a reasonable time, the ASX required conditions for re-quotation of the securities of the Bidder after the close of the Offers (including any applicable requirements under the ASX Listing Rules) without the requirement for any action or matter not in the sole control or authority of the board of the Bidder.

The amendments also provide that, subject to the above conditions being satisfied by 31 March 2012, the Tranche 1 Notes and accrued interest thereon will convert into Hunter shares at $0.099 per Hunter share.

On 14 November 2011 Hunter raised a further $3 million by way of the issue of the Tranche 2 Notes. The terms of the Tranche 2 Notes provide for automatic conversion of the Tranche 2 Notes, together with interest accrued in respect of the Tranche 2 Notes into Hunter shares at a conversion price of $0.05 per Hunter share.

The above means that at the date of this report Hunter has convertible notes on issue with a face value of $8 million.

The Note Offer, if successful, will result in the Tranche 1 Notes being acquired by Probiomics at an equivalent price of $0.099 per Hunter share.

Similarly the Tranche 2 Notes, together with the accrued interest in respect of the Tranche 2 Notes, will become convertible into Hunter shares, however the Tranche 2 Notes and interest are convertible into Hunter shares at $0.05 per share, and the resultant Hunter shares will become subject to the Share Offer.

If the conditions of the offers (refer Section 2.2 above) are not satisfied or waived by 31 March 2012, both the Tranche 1 and Tranche 2 Notes will remain in place and, together with interest thereon, will be convertible into Hunter shares, at the discretion of the convertible note holders, at $0.02 per share. **This would result in a significant dilution of the interests of the Hunter shareholders.**

Mr David Radford, the Managing Director of Hunter entered into a service agreement with Hunter on 2 May 2011. Note 17(d) to Hunter's 30 June 2011 audited accounts summarises the key terms of the service agreement including incentives payable in Hunter shares. The incentives are subject to three performance hurdles. Note 17(d) goes on to state:

"If there is a change in control event, the Company has agreed that hurdles 1 – 3 are deemed to have been met, and the shares (in total 5% of the equity of the Company at the date of effective change in control) are to be issued to the Managing Director."

Whilst we note that the Target's Statement contemplates that if the Offers are successful the incentive shares will be issued to Mr Radford and that he has not made a recommendation in respect of the Offers on the grounds that he has a material personal interest in the outcome of the Offers, we are unable to determine whether the Offers, which amount to a reverse takeover of Probiomics, meet the definition of effective change of control of Hunter.

Set out in the table below is the approximate capital structure of Probiomics, assuming that the Offers are successful and Probiomics acquires all of the Hunter securities on issue:

Table 1	**Notes**	**Number of Shares**	**Voting Interest**
Shares to be issued to ordinary Hunter shareholders	1	1,486,423,179	46.7%
Shares to be issued to holders of Tranche 1 Notes	2	454,545,455	14.3%
Shares to be issued to holders of Tranche 2 Notes	2	540,000,000	17.0%
Shares to be issued on account of accrued interest on Tranche 1 Notes	2, 3	38,956,951	1.2%
Shares to be issued on account of accrued interest on Tranche 2 Notes	2, 3	10,482,231	0.3%
Shares to be issued to Mr. David Radford	4	126,520,391	4.0%
		2,656,928,206	83.4%
Probiomics shares on issue -19 September 2011		294,235,077	9.2%
Probiomics underwritten share issue		33,333,333	1.0%
Probiomics capital raising	5	200,000,000	6.3%
Ordinary shares on issue after acquisition of Hunter		3,184,496,617	100.0%

Notes:

1. Hunter currently has 165,158,131 shares on issue. As Probiomics is offering 9 of its shares for each Hunter share, this will result in the Hunter shareholders receiving a total of 1,486,423,179 Probiomics shares. It should be noted that Probiomics proposes to consolidate its shares following completion of the bid on a 1 for 20 basis, however as the share consolidation does not impact on the relative position of the Hunter shareholders, we have ignored the share consolidation proposal in the balance of this report.

2. Phillip Asset Management Limited as trustee for the IB Australian Bioscience Fund ("IB") holds both Tranche 1 and Tranche 2 Notes. Including shares to be received on account of accrued interest, IB may hold 624,134,994 shares representing 19.6% of Probiomics' shares on issue following the acquisition of Hunter and associated transactions.

3. Both Tranche 1 and Tranche 2 Notes carry interest of 8% per annum, calculated daily and compounding monthly. The number of shares issued on account of accrued interest as per the above table is based on the assumption that interest will cease as at 31 January 2012. By way of example, should interest be payable up to 29 February 2012, an additional 6,635,738 shares would need to be issued on account of accrued interest.

4. Mr David Radford is entitled to 5% of the equity of the Company at the date of effective change in control of the Company. The number of shares to be issued to him is based on the number of Hunter shares currently on issue, plus the total number of shares to be issued in respect of both Tranche 1 and 2 Notes and the accrued interest on those notes.

5. The number of shares to be issued pursuant to the Probiomics capital raising is based on the minimum subscription level of $2.2 million. Should the maximum subscription level of $4.4 million be reached, a further 200 million shares would be issued.

As can be seen from the above table, if the Probiomics Offers are successful, the current Hunter shareholders will emerge with approximately 46.7% of the voting power in Probiomics. The current Probiomics shareholders will retain a residual interest of approximately 9% with the balance of Probiomics' voting power being held by the current convertible note holders of Hunter, new Probiomics shareholders as a result of the capital raising, and Mr David Radford who will hold approximately 4% of the voting power in Probiomics pursuant to the provisions of his service agreement.

3. Summary Opinions

3.1 Share Offer

In our opinion, **the Offer made to the Hunter shareholders is fair and reasonable**, in the absence of a superior offer.

Our principal reasons for reaching the above opinion are:

We have assessed the minority value of a parcel of 9 Probiomics shares after the proposed takeover to be in a range of $0.06 to $0.10, a mid point of $0.08 per parcel of 9 Probiomics shares. The mid point value lies at the bottom range of our assessment of the value of a minority Hunter share ($0.08 to $0.12), however this analysis does not ascribe any value to Probiomics' tax losses. The inclusion of a value on account of Probiomics' tax losses would increase the mid point of the value of a parcel of 9 Probiomics shares after the proposed takeover to a value that lies within the valuation range of the Hunter shares and on that basis we concluded that the Share Offer is **fair.**

In Section 11.2 we evaluated a number of advantages and disadvantages of accepting or rejecting the Share Offer. In particular we note that if Hunter shareholders do not accept the Share Offer, there will be an opportunity for the holders of the Tranche 1 Notes and Tranche 2 Notes to convert the notes and accrued interest into Hunter shares at $0.02 per share. This would severely dilute the Hunter shareholders without providing them with a market for their shares. We have therefore concluded that, in the absence of a superior offer, **the Share Offer made to the Hunter shareholders is fair and reasonable**.

3.2 Option Offer

In our opinion, **the Offer made to the Hunter option holders is fair and reasonable**.

Our principal reasons for reaching the above opinion are:

We have estimated the likely values of the replacement Probiomics options and compared these with the value of the existing Hunter options. In our opinion the mid point of the estimated values of the replacement Probiomics options (Table 22, Section 12.2)($166,066) is within the range of estimated values of the current Hunter options (Table 21, Section 12.1)($102,491 to $276,779). For this reason we have concluded that **the Option Offer is fair**.

In Section 12.3 we evaluated a number of advantages and disadvantages of accepting or rejecting the Option Offer. As the Option Offer is fair and results in the Hunter option holders receiving replacement Probiomics options that are marketable and/or are exercisable in return for listed shares, in our opinion **the Offer made to the Hunter option holders is fair and reasonable**.

4. Structure of this Report

The remainder of this report is divided into the following sections:

5. Purpose of the Report

Section 640 of the Corporations Act 2001 ("the Act") states that a Target's Statement made in response to a takeover offer must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; or
- a director of the bidder is also a director of the target company.

In this proposed takeover Probiomics does not hold any Hunter shares and there are no common directors. Consequently there is no legal requirement for an independent expert's report to be included in the Target's Statement. Nevertheless the Directors of Hunter have determined that an independent expert's report should be prepared and included in the Target's Statement to assist the Hunter shareholders and option holders in understanding and assessing the implications of the Offers.

The DMR Corporate report provides general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Hunter shareholders or option holders. Because of that, before acting in relation to their investment, Hunter shareholders and option holders should consider the appropriateness of the advice in relation to their own objectives, financial situation or needs. Security holders should read the Bidder's Statement issued by Probiomics and the Target's Statement issued by Hunter in relation to the Probiomics Offers.

Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111 ("RG111") defines the words "fair" and "reasonable" as:

Fair	-	"an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison."
Reasonable	-	"an offer is 'reasonable' if it is fair. It may also be 'reasonable' if, despite not being 'fair' but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer."

The RG111 definitions of "fair" and "reasonable" as set out above are designed to ensure that the shareholders of a target receive a fair premium for gaining control of their company from the bidder. However in the present circumstances, whilst Probiomics is bidding for Hunter, the shareholders and convertible note holders of Hunter will end up controlling approximately 83% of the voting power in Probiomics (prior to the completion of the Capital Raising). As such the substance of the transaction is a takeover of Probiomics by Hunter and going forward we would expect this transaction to be in fact accounted for as a reverse acquisition pursuant to accounting standard AASB 3 Business Combinations.

Given that the substance of the transaction is a takeover of Probiomics by Hunter, it would be usual for Hunter to offer a control premium to the Probiomics shareholders and not the other way round.

In framing the methodology that we have used to form an opinion as to whether each of the Offers is fair and reasonable to the Hunter shareholders and the Hunter option holders, we have followed the economic substance of the transaction and considered Hunter to be the bidder and Probiomics to be the target. As a result:

Share Offer

(i) In determining whether the Share Offer is fair, we have:

- valued Hunter;
- valued Probiomics;

- assessed the value of Probiomics after the acquisition of Hunter and completion of the associated transactions; and

- compared the value of the Hunter shareholders' interests in Hunter before the takeover with the value of the Hunter shareholders' proportional interests in Probiomics after completion of the takeover.

(ii) In determining whether the Share Offer is reasonable, we have analysed the advantages and disadvantages of accepting the Offer and not accepting the Offer.

Option Offer

(i) In determining whether the Option Offer is fair, we have:

- valued the Hunter shares on a minority interest basis before the takeover by Probiomics;

- assessed the value of Probiomics' shares on a minority interest basis after the acquisition of Hunter and completion of the associated transactions; and

- determined the value of the Hunter options before the takeover and compared that value with the value of the replacement Probiomics options after completion of the takeover.

(ii) In determining whether the Option Offer is reasonable, we have analysed the advantages and disadvantages of accepting the Option Offer and not accepting the Option Offer.

6. Hunter - Key Information

6.1 Background

Hunter is an unlisted public biotechnology company incorporated in 2003 to commercialise intellectual property that has been developed over the preceding 20 years. The Company has one product in advanced clinical trials for the treatment of a common respiratory disorder and potential applications to other diseases, and a second platform that is at an earlier stage of development.

Hunter's platform technologies are unique in terms of disease prevention and modification and the mechanisms by which they interact with the human immune system. The primary asset is the intellectual property that underpins its vaccine for Chronic Obstructive Pulmonary Disease ("COPD"), with future application to asthma and other diseases that disrupt airways' surfaces. The markets being addressed are substantial and growing rapidly. The growth is driven by increasing levels of air pollution, smoking and an ageing population. COPD is the world's fourth leading cause of death, and represents a multi-billion dollar market for products that generally only alleviate symptoms and are often associated with adverse side effects.

Hunter's lead product, designate HI-164OV, has already undergone Phase II studies to demonstrate efficacy and is currently in a Phase IIb study in Australia for the treatment of exacerbations in COPD.

Primary Technology Platform

Hunter has a primary technology platform that is a unique, safe biological approach to equip the immune system to prevent or modify chronic diseases. The technology relies on orally administered immunotherapeutics that activate an immune response on mucosal surfaces of the body including the lower airways and sinuses.

Although under investigation to decrease the number and severity of exacerbations in COPD, Hunter believes that the HI-164OV product may have applications in the treatment of intrinsic asthma and Otitis media (ear infections). Further research into future products may have application in the treatment of sinusitis, Golden Staph (S.aureus) and Candida (Thrush) infections.

Hunter has now recruited 21 clinical sites around Australia, which includes nearly all of the major respiratory disease centres and repatriation hospitals with the objective of enrolling 340 patients into its Phase IIb COPD study. The trial will run over 2011 with the final study report due in March 2012.

Further background information is set out in Attachment I.

Second Technology Platform

The second platform carrier technology ("Etxb") is based on protein chemistry and leverages Hunter's core pre-clinical and clinical delivery skills. Etxb is positioned to specifically target, treat and immunise against viral infections, a range of cancers and invasive microbial infections.

Etxb is a genetically engineered carrier that has inherent properties to enter the body's cells. Etxb offers an attractive and unique way of delivering a 'protective antigen' into cells to induce a clinically targeted and effective immune response.

The market for the therapeutic area is substantial, as is the medical need. Etxb has potential applications in:

- therapies for existing solid tissue tumours
- viral infections and;
- microbial infections.

The Etxb technology (or HI-557) has been extensively patented internationally. We understand that very little development has been undertaken in recent years and considerably more pre-clinical development is required before human studies can commence.

6.2 Share Capital

As at the date of this report Hunter had 165,158,131 fully paid ordinary shares on issue and the 20 largest shareholders of Hunter as at 4 November 2011 are presented in the following table:

Table 2 Shareholder Name	Number of Shares Held	Percentage Interest
WIGRAM TRADING PTY LTD <THE WT TRUST>	31,905,834	19.3%
PROF ROBERT LLEWELLYN CLANCY + MRS CHRISTINE MARY CLANCY <CLANCY SUPERANNUATION FUND>	21,254,200	12.9%
THE UNIVERSITY OF NEWCASTLE RESEARCH ASSOC LTD	10,400,000	6.3%
HIRST SHABIAN & HIRST ADVISORY SERVICES PTY LTD <SHABIAN A/C>	7,929,816	4.8%
PAUL BOLT	6,662,500	4.0%
IMMUNE INVESTMENTS PTY LTD <MRS TJ'S TRUST A/C>	4,152,205	2.5%
GERALD PANG	3,900,000	2.4%
ALCARDO INVESTMENTS LIMITED <STYLED 102501 A/C>	3,140,625	1.9%
PROF ALAN JONATHAN BERRICK	3,100,000	1.9%
MARTIN PLACE SECURITIES NOMINEES PTY LTD <CROWN CREDIT CORP A/C>	2,898,420	1.8%
CHERRYOAK INVESTMENTS PTY LTD ATF C&N FAMILY TRUST	1,750,000	1.1%
EXTO PARTNERS AUSTRALIA PTY LTD <EXTO UNIT TRUST>	1,625,000	1.0%
MRS DIANE SUE CAMPBELL	1,440,000	0.9%
MARTIN PLACE SECURITIES STAFF SUPERANNUATION FUND PTY LTD <MPSSF INVESTMENT A/C>	1,434,493	0.9%
PETER JAMES HOOKE & BRICE JAMES HOOKE <PJ & BJ HOOKE SUPER FUND A/C>	1,428,572	0.9%
ASIA UNION INVESTMENT PTY LTD	1,400,000	0.8%
SUPER 1136 PTY LTD <IPI RETIREMENT FUND A/C>	1,400,000	0.8%
MARTIN PLACE SECURITIES STAFF SUPERANNUATION FUND PTY LTD <MPSSF NO 2 A/C>	1,325,000	0.8%
ALLAN WILLIAM CRIPPS	1,300,000	0.8%
DR ELIZABETH ANN HARRIS	1,300,000	0.8%
Total shares held by 20 largest holders	109,746,665	66.4%

Hunter also has the following options on issue:

Table 3 Type of Option	Number of Options	Exercise Price	Expiry Date
Investor	525,600	$0.35	30 September 2012
Investor	1,917,631	$0.35	31 March 2013
Employee	900,000	$0.39	21 December 2012
Employee	6,000,000	$0.35	14 May 2014
Employee	2,360,000	$0.12	1 September 2013
Total	11,703,231		

6.3 Operating Performance

Hunter's audited Statements of Comprehensive Income for the financial years ended 30 June 2009, 2010 and 2011 are set out in Appendix A-1.

6.4 Statement of Financial Position

Hunter's audited Statements of Financial Position as at 30 June 2009, 2010 and 2011 are set out in Appendix A-2.

6.5 Cash Flow Statement

Hunter's audited Statements of Cash Flows for the financial years ended 30 June 2009, 2010 and 2011 are set out in Appendix A-3.

7. Valuation of Hunter Shares

7.1 Value Definition

DMR Corporate's valuation of Hunter has been made on the basis of fair market value, defined as the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length.

7.2 Valuation Methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- asset based methods;
- alternate acquirer;
- comparable market transactions;
- capitalisation of future maintainable earnings; and
- net present value of future cash flows.

7.3 Share Price History

The share price history valuation methodology values a company based on the past trading in its shares. We normally analyze the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the proposed transaction.

As Hunter is an unlisted public company its shares are not readily tradable.

Hunter has conducted a number of capital raisings in the recent past and these may provide relevant evidence as to the value of Hunter's shares.

During the year ended 30 June 2010 Hunter raised $261,050 by the issue of 1,305,250 shares at $0.20 per share. Similarly during the year ended 30 June 2011 Hunter raised $210,240 by the issue of 1,051,889 shares at $0.20 per share (together with one attaching option for every two (2) shares subscribed, with an exercise price of $0.35 and exercisable up to 30 September 2012). In August 2011 Hunter raised a further $767,052 by the issue of 3,835,262 shares at $0.20 per share (together with one attaching option for every two (2) shares subscribed, with an exercise price of $0.35 and exercisable up to 31 March 2013).

We have estimated the value of those options at approximately $0.05 per option and this reduces the effective price paid for each parcel of two new Hunter shares to $0.35 (2 x $0.20 = $0.40 - $0.05 = $0.35), or $0.175 per share.

Based on the limited evidence provided by the recent capital raisings we consider that the Hunter shares have a value of approximately $0.175 per share on a minority interest basis (i.e. excluding a premium for control).

As Hunter has 165,158,131 shares on issue, this places a value of $28,902,673 on Hunter, say $29,000,000.

A recent study has indicated that control premiums are generally in a range of 20% to 30%[1]. If this level of control premiums were added to the minority values of $29,000,000, the value of Hunter, on a control basis would be:

Table 4 Minority Value	20% Control Premium	30% Control Premium
$29,000,000	$34,800,000	$37,700,000

After applying a typical level of control premium, the share price history values are in a range of $34,800,000 to $37,700,000.

In considering the above results, it is important to recognise that the capital raisings on which the valuation is based preceded the issue of the Tranche 2 Notes which may convert into Hunter shares at $0.050 per share as well as the proposed issue of shares to Mr David Radford. Both of these developments are highly dilutive and may have impacted on the underlying share price at which Hunter is able to raise additional capital.

7.4 Asset Based Methods

This methodology is based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net Assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses that periodically revalue their assets to market. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realization costs.

(b) Orderly Realisation of Assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders on realisation of the assets of the relevant company, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

(c) Liquidation of Assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

Net Assets

As at 30 June 2011, per the audited financial statements, Hunter had negative net assets of $3,692,249 – Appendix A-2.

Whilst Hunter has raised additional capital of $767,052 since 30 June 2011, its liabilities still exceed the book value of its assets.

[1] Control premiums are normally in a range of 20% to 30% above the value of a minority share – RSM Bird Cameron Control Premium Study – September 2010.

Hunter is engaged in pharmaceutical research and to date does not have a product that generates sales revenue. Over the past few years Hunter has expended substantial amounts on research and development. Note 2 to Hunter's 30 June 2011 financial statements states:

> "*Research and development expenditure*
> The Company has expensed all internal research and development expenditure incurred during the year as costs relate to the initial expenditure for research and development of biopharmaceutical products and the generation of future economic benefits are not considered certain. It was considered appropriate to expense the research and development costs as they did not meet the criteria to be capitalised under AASB 138 Intangible Assets."

In view of the above we do not believe that the net asset valuation methodology can be utilised to assess the value of Hunter shares as this methodology would not place any value on Hunter's intellectual property.

Orderly Realisation of Assets

Given the deficiency in net assets referred to above, we believe that the orderly realisation of assets is a relevant methodology to consider.

As Hunter's major asset is its intellectual property, the value of which is not reflected in Hunter's balance sheet, we commissioned Acuity Technology Management Pty Ltd ("Acuity") to independently assess the value of Hunter's intellectual property.

Acuity is a consultancy firm that advises on research and development and its commercialisation with a particular emphasis on healthcare and biotechnology. Acuity undertakes technology and market assessments of projects and provides advice to the developers of high technology products and processes on intellectual property protection and its commercialisation. The principal of Acuity, Dr David Randerson, has over 30 years experience as a practicing biomedical engineer and research adviser.

A copy of Acuity's report is set out in Attachment I. We reviewed Acuity's report and discussed its contents in detail with the author. Our review included an assessment of the underlying assumptions and calculations prepared by Acuity.

We reviewed Hunter's 30 June 2011 balance sheet and assessed the realisable asset values and the future liabilities that may be incurred during an orderly realisation of the Company's assets. The assessment includes the realisable value of the intellectual property as determined by Acuity. Our assessment of the realisable values is based on the 30 June 2011 balance sheet and the assumptions made in this assessment are set out in Appendix B-1-2.

As can be seen from the top section of Appendix B-1-1, we assessed the realisable values of Hunter's net assets as at 30 June 2011 to be in a range of $16,328,677 to $28,508,000, or $0.10 to $0.18 per Hunter share based on the number of shares on issue at that time.

We then adjusted the realisable values for transactions that have taken place since 30 June 2011 and this is shown in the middle section of Appendix B-1-1. The subsequent events, which do not include Hunter's operating costs since 30 June 2011, have not had a significant impact on the realisable values.

The bottom part of Appendix B-1-1 is headed "Position assuming liquidity event". This section assumes the conversion of both the Tranche 1 and Tranche 2 Notes at the rates at which these are to convert should a liquidity event occur by 31 March 2012. As can be seen from Appendix B-1-1, a liquidity event substantially increases the realisable value of Hunter's net assets (by eliminating the convertible note liabilities) to a range of $25,546,140 to $37,725,463, say $25,500,000 to $37,700,000, however at the same time the value per share is substantially reduced to a range of $0.09 to $0.13 per Hunter share. The reduction in the value per ordinary share is caused by the conversion factor in respect of the convertible notes, as the Tranche 1 Notes are to convert at $0.099 per Hunter share and the Tranche 2 Notes are to convert at $0.050 per share.

We have included the liquidity event in the orderly realisation scenario as that will allow us to assess the impact of the proposed takeover on the value of Hunter's ordinary shares.

We recognise that if the takeover does not proceed the liquidity event will not take place, however in this scenario both the Tranche 1 and Tranche 2 Notes will remain in place and, together with interest thereon, will be convertible into Hunter shares, at the discretion of the convertible note holders, at $0.02 per Hunter share. This would result in a significant dilution of the interests of the Hunter shareholders. We have modelled this scenario in Appendix B-2.

As can be seen from Appendix B-2, should there not be a liquidity event and both the Tranche 1 and Tranche 2 Note holders exercised their conversion rights, the value of Hunter's net assets would not be altered, however there would be a total of 586,798,087 shares on issue and the value per share would reduce to a range of $0.04 to $0.06 per Hunter share.[2]

Based on this valuation methodology, we consider that Hunter is valued in a range of $25,500,000 to $37,700,000. This value assumes that the liquidity event will take place by 31 March 2012.

Liquidation of Assets

In view of the fact that Hunter has recently obtained additional funding of $3 million by way of the issue of the Tranche 2 Notes, we do not regard the liquidation of assets valuation methodology as relevant.

7.5 Alternate Acquirer

The value that an alternative bidder may be prepared to pay to acquire Hunter is a relevant valuation methodology to be considered.

As at the date of this report, we are not aware of any alternative bids for the Hunter securities.

[2] It should be noted that the conversion at $0.02 per share will only occur if there is no liquidity event prior to 31 March 2012. However if the liquidity event does not occur there will be no incentive for the holders of the Tranche 1 and Tranche 2 Notes to exercise their right of conversion as the Notes will continue to accrue interest at 8% per annum, thus resulting in even more Hunter shares being issued on their eventual conversion and a greater dilution to the value per share.

7.6 Capitalisation of Future Maintainable Earnings

This method involves capitalising the future maintainable earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits.

There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

Other variations to EBIT include 'Earnings Before Interest, Tax, Depreciation and Amortization' – EBITDA and 'Earnings Before Interest, Tax, and Amortization' – EBITA.

As Hunter has no operating businesses that generate earnings, we consider that this valuation methodology is not an applicable methodology to value the Hunter shares.

7.7 Net Present Value of Future Cash Flows

An analysis of the net present value of the future cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.

Hunter does not have any long-term cash flow forecasts however a variant of this methodology was adopted by Acuity in assessing the value of Hunter's intellectual property (refer Attachment I).

7.8 Conclusion

The valuation methodologies that we have adopted as being applicable are:

Table 5 **Valuation Methodology**	**Section**	**Low** **$**	**High** **$**
Share price history	7.3	34,800,000	37,700,000
Orderly realisation of assets	7.4	25,500,000	37,700,000

Having regard to recent volatility in equity prices and the limited evidence provided by the Hunter capital raisings, we believe that the results of the orderly realisation of assets methodology should be preferred. We have therefore valued Hunter on a control basis in a range of $25,500,000 to $37,700,000.

Whilst the Hunter shareholders together currently control Hunter, the largest shareholder holds only 19.3% of the shares on issue. Hunter has recently secured additional funding pursuant to the Tranche 2 Notes. These are convertible into Hunter shares at $0.05 per Hunter share provided that the Probiomics takeover is completed by 31 March 2012, thereafter the Tranche 2 Notes could be converted at $0.02 per Hunter share. This is likely to significantly dilute the Hunter shareholders. Furthermore, if the proposed takeover is successful, the Hunter shareholders together will control approximately 46.6% of the voting power of Probiomics.

As the transaction is effectively a reverse takeover of Probiomics and the Hunter shareholders individually are being asked to exchange a minority share in Hunter for a minority share in Probiomics, we have also set out below our assessment of the minority value of each Hunter share. For the purpose of this assessment we have adopted the value per share range of $0.09 to $0.13 (Appendix B-1-1) as per the orderly realisation methodology set out in Section 7.4 above and reduced these values by a typical minority discount (reciprocal of a control premium).

Table 6	Minority Discount	
Control Value	High	Low
$	$	$
0.09	0.07	0.08
0.13	0.10	0.11

As can be seen from the above table, we have concluded that on a minority (or portfolio) basis the value of a Hunter share is in a range of $0.07 to $0.11 per share. We recognise that this value is significantly less than the effective value of approximately $0.175 per share at which Hunter has recently been able to place it shares, however this dilution in value is due to the conversion rate agreed in respect of the Tranche 1 Notes ($0.099) and more particularly the Tranche 2 Notes ($0.050).

8. Probiomics - Key Information

8.1 Background

Probiomics was incorporated in 1998 as Vasse Research Institute Pty Ltd. It changed its name to VRI BioMedical Pty Ltd in December 1999 and to VRI BioMedical Limited when it converted to a public company in March 2000. The company listed on the ASX in December 2000 under the name VRI BioMedical Limited. In April 2005 the company adopted its current name, Probiomics Limited.

The initial focus of the company was research and development in microbiology and immunology and Probiomics registered a number of patents internationally.

One of the early areas of focus for the company was the field of probiotics. In fact by 2004 the company decided to spin out all of its technologies other than probiotics.

Probiotics are live natural microorganisms that provide a beneficial health effect by aiding digestion and/or by triggering the immune system. Lactic acid bacteria (LAB) and bifidobacteria are the most common types of microbes used as probiotics. Probiotics are commonly consumed as part of fermented foods with specially added active live cultures; such as in yogurt and soy yogurt, or as dietary supplements.

Probiomics has been marketing its proprietary probiotic strain Lactobacillus fermentum PCC® for a number of years. Annual sales reached approximately $2 million in the 2006 financial year, before declining substantially during the 2007 financial year when Probiomics' US customer changed from buying finished product to purchasing raw materials. Sales have averaged approximately $860,000 over the past 5 years with no observable trend to improvement. Management has progressively responded by reducing administrative and corporate expenditure, including ceasing R&D and marketing to move the company to profitability.

In October 2007 Probiomics entered into a global licence agreement with Nestle SA ("Nestle") in relation to the use of PCC® in the development and production of infant nutrition products. The agreement provided for milestone payments by Nestle whilst infant nutrition products were being developed. Nestle was to fund research and development, including human clinical trials. The agreement envisaged that product sales would commence within 3 to 4 years of the commencement of the agreement. Probiomics announced on 2 November 2011 that this licence agreement was terminated by mutual agreement.

In November 2009 Probiomics appointed Chr Hansen to conduct the global sales and distribution of Probiomics' products. Chr Hansen operates globally in the development of natural ingredient solutions for food, pharmaceutical, nutritional and agricultural industries. To date this arrangement has produced minimal sales.

8.2 Share Capital

As at 19 September 2011 Probiomics had 294,235,077 fully paid ordinary shares on issue and the 20 largest shareholders of Probiomics as at that date are presented in the following table:

Table 7

Shareholder Name	Number of Shares Held	Percentage Interest
Nutsville Pty Ltd	24,880,952	8.5%
McKell Place Nominees Pty Ltd	13,295,000	4.5%
Symington Pty Ltd	13,250,000	4.5%
Jamel Investments Pty Ltd	10,698,323	3.6%
Kok Keen Chong & Mrs Hue Nghi Chong	10,133,783	3.4%
I.E. Properties Pty Ltd	8,347,332	2.8%
Mambat Pty Ltd	8,062,008	2.7%
Mr Alan Grant-Smith & Mrs Susan Grant-Smith <S Grant-Smith SF A/C 12>	7,255,920	2.5%
Octafil Pty Ltd	7,176,827	2.4%
Greenslade Holdings Pty Ltd	5,366,666	1.8%
Bell Potter Nominees Ltd <BB Nominees>	5,243,250	1.8%
Sambo Holdings WA Pty Ltd	4,000,000	1.4%
Woodhurst Pty Ltd	4,000,000	1.4%
Mr Edwin Paul Cayzer & Mrs Lorraine Cayzer <Mineral and Traders Super Fund>	3,745,565	1.3%
Frere & Associates Pty Ltd <Derick Frere Super Fund A/C>	3,559,491	1.2%
P Ford Superannuation Pty Ltd <Patrick Ford Super Fund A/C>	3,519,333	1.2%
Kangsav Pty Ltd	3,434,427	1.2%
Wootoona Investments Pty Ltd	3,393,339	1.2%
Calama Holdings Pty Ltd	3,214,285	1.1%
Corporate Property Services Pty Ltd <KW Share A/C>	3,100,000	1.1%
Total shares held by 20 largest holders	145,676,501	49.5%

Probiomics also has the following unlisted options on issue:

Table 8

Type of Option	Number of Options	Exercise Price	Expiry Date
Director	15,000,000	$0.02	25 November 2013
Consultant	2,000,000	$0.01	3 December 2013
Broker	2,500,000	$0.02	24 May 2014
Total	19,500,000		

8.3 Operating Performance

Probiomics' audited Statements of Comprehensive Income for the financial years ended 30 June 2009, 2010 and 2011 are set out in Appendix C-1.

8.4 Statement of Financial Position

Probiomics' audited Statements of Financial Position as at 30 June 2009, 2010 and 2011 are set out in Appendix C-2.

8.5 Cash Flow Statement

Probiomics' audited Statements of Cash Flows for the financial years ended 30 June 2009, 2010 and 2011 are set out in Appendix C-3.

9. Valuation of Probiomics

The definition of value and the valuation methodologies considered are the same as stated in Sections 7.1 and 7.2.

9.1 Share Price History

The share price history valuation methodology values a company based on the past trading in its shares. We normally analyze the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the proposed transaction.

Probiomics shares were suspended from trading on the ASX on 7 October 2011, ahead of the announcement of the proposed takeover of Hunter. For this reason we have analysed the trading in Probiomics' shares up to that date.

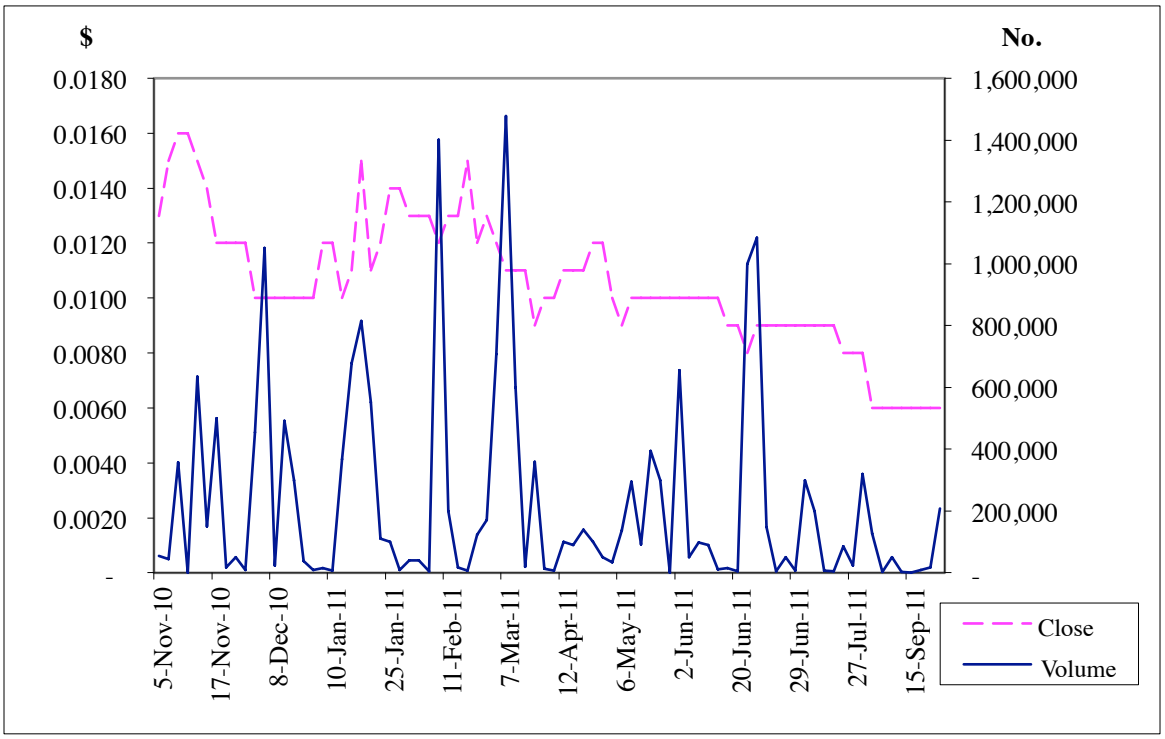
Announcements to the ASX made since 1 January 2011 that may have had an impact on the market price and trading volumes of the Probiomics shares include:

28 January 2011	Quarterly cash flow and activities report.
28 February 2011	Half-year report and accounts released.
21 April 2011	Quarterly cash flow and activities report.
29 July 2011	Quarterly cash flow and activities report.
30 August 2011	Preliminary final report released.

A table of the volume and value of the Probiomics shares traded in the period from 1 January 2011 to 7 October 2011 (inclusive) is as follows:

Table 9	Share Price				
Month	High	Low	Average	Volume	Value
	$	$	$		$
2011					
January	0.015	0.010	0.012	2,653,254	32,539
February	0.015	0.012	0.012	1,833,921	22,333
March	0.013	0.009	0.011	3,348,608	37,148
April	0.012	0.010	0.011	520,482	5,834
May	0.010	0.009	0.010	1,218,525	12,048
June	0.010	0.008	0.009	3,521,310	31,598
July	0.009	0.008	0.008	643,066	5,357
August	0.006	0.006	0.006	129,666	778
September	0.006	0.006	0.006	287,920	1,728
October 1-7	0.000	0.000	0.000	-	-
				14,156,752	149,361

The following graph sets out the daily trading volumes and closing prices:



As can be seen from the above table, only 14,156,752 shares were traded in what is effectively a nine-month period. The shares traded represent only 4.8% of the shares on issue. The average monthly trade volumes between 1 January 2011 and 30 June 2011 were approximately 2.2 million, however the trading volumes declined to a monthly average of 350,000 shares between 1 July 2011 and 30 September 2011. No share trades occurred between 1 October 2011 and the date trading was suspended on 7 October 2011 ahead of the announcement of the proposed acquisition of Hunter. On the basis of this analysis we consider the market for Probiomics shares to be illiquid.

During the period depicted in the above table the shares traded in a range of $0.006 to $0.015 per share.

In the period from 1 January 2011 to the 30 June 2011, the Probiomics shares traded in a range of $0.008 to $0.015 with a VWAP[3] of $0.011 per share based on a volume of 13,096,100 shares being traded. The VWAP for the period from 1 July 2011 to 30 September 2011 was $0.007 and the VWAP for September 2011 was $0.006.

Based on the above analysis we consider that the Probiomics shares are valued in a range of $0.006 to $0.007 per share, on a minority interest basis (i.e. excluding a premium for control).

A recent study has indicated that control premiums are generally in a range of 20% to 30%[4] above the value of a minority share. If this level of control premiums were added to the maximum and minimum minority values of $0.006 to $0.007 per Probiomics share, the share price values, on a control basis would be:

Table 10 **Minority Value**	**20% Control Premium**	**30% Control Premium**
$0.006	$0.007	$0.008
$0.007	$0.008	$0.009

After applying a typical level of control premium, the share price history values are in a range of $0.007 to $0.009 per Probiomics share.

As Probiomics has 294,235,077 shares on issue, the value of Probiomics using the share price history methodology can be determined as follows:

Table 11	**Low**	**High**
Number of shares on issue	294,235,077	294,235,077
Value per share	$0.007	$0.009
Value of Probiomics equity	$2,059,646	$2,648,116

Based on the share price history methodology we consider that Probiomics is valued in a range of $2,059,646 to $2,648,116, **say** $2,060,000 to $2,650,000.

9.2 Asset Based Methods

Net Assets

As at 30 June 2011, per the audited financial statements, Probiomics had net tangible assets of $124,343 – Appendix C-2.

[3] VWAP – volume weighted average price of shares based on daily volumes and daily closing prices.

[4] Control premiums are normally in a range of 20% to 30% above the value of a minority share – RSM Bird Cameron Control Premium Study – September 2010.

Probiomics has patent rights over its probiomic strain Lactobacillus fermentum PCC®. As this intellectual property is carried at nil value in Probiomics' financial statements, we do not believe that the net asset valuation methodology can be utilised to assess the value of Probiomics.

Orderly Realisation of Assets

As can be seen from Appendix C-1, Probiomics reported profits of $80,144 and $1,054 for the past two financial years respectively. This is essentially a break-even position. However, as can also be seen from Appendix C-1, the sale of product generated a gross profit margin of $469,873 and $426,402 for the past two financial years respectively. Probiomics uses a third party manufacturer and the product is shipped directly to a US customer. This means that the gross profit is generated with minimal overheads and the bulk of Probiomics' overheads are of an administrative nature to support the public company structure. As such the gross profit effectively represents incremental EBITDA of approximately $450,000.

We believe that Probiomics could sell its proprietary probiomic strain and the associated business to an entity that could bolt on this business to its existing operations. This would leave the Probiomics shareholders with cash and a listed corporate shell, which could be used to acquire a new business. In our experience listed shells in the current market have a value between $300,000 to $400,000 and we have added this value to the realisable values of Probiomics' net assets.

Whilst Probiomics holds international patent rights over its proprietary probiomic strain, these rights have been in place for a number of years and Probiomics has not been successful in growing a viable business around this technology. In fact its sales have declined from a level of around $2 million some five years ago to a current level of less than $1 million. Sales are currently generated from one customer, which poses a significant risk to the future sales.

After considering the limited success that Probiomics has enjoyed from exploiting this technology, we have concluded that the technology is unlikely to generate from its disposal value in addition to the cash flows represented by the current level of EBITDA of approximately $450,000 per annum.

We considered the earnings multiple that may be applicable to the EBITDA generated by Probiomics. Usually we would examine the multiples at which other comparable listed companies are trading, however the scale of Probiomics' business activity is far too small to compare with other listed companies. For that reason we have reviewed a range of past transactions and other valuations involving private companies. These cover a range of industries and businesses of different scope and risk profile.

Based on the available evidence and our general valuation experience we have concluded that the business conducted by Probiomics should be valued at an EBITDA multiple in a range of 2.5 to 3.5.

Based on the above, we have assessed the enterprise value of Probiomics as follows:

Table 12	Low	High
Estimated future maintainable EBITDA	$450,000	$450,000
Multiple	2.5	3.5
Enterprise value	$1,125,000	$1,575,000

In our assessment the realisation costs would not be significant, say $50,000 to $75,000.

We have assessed the value of Probiomics on an orderly realisation basis as follows:

Table 13	Audited 30-Jun 2011 $	Estimated Realisable Values $	Estimated Realisable Values $
CURRENT ASSETS			
Cash and cash equivalents	111,628	111,628	111,628
Trade and other receivables	106,480	85,184	106,480
TOTAL CURRENT ASSETS	218,108	196,812	218,108
NON CURRENT ASSETS			
Intellectual property	-	1,125,000	1,575,000
Plant and equipment	2,625	1,313	2,100
TOTAL NON CURRENT ASSETS	2,625	1,126,313	1,577,100
TOTAL ASSETS	220,733	1,323,125	1,795,208
CURRENT LIABILITIES			
Trade and other payables	96,390	96,390	96,390
TOTAL CURRENT LIABILITIES	96,390	96,390	96,390
TOTAL LIABILITIES	96,390	96,390	96,390
NET ASSETS	124,343	1,226,735	1,698,818
Add: Value of listed shell		300,000	400,000
Less: Cost of realisation		(75,000)	(50,000)
Realisable Value		1,451,735	2,048,818

Note 3 to Probiomics' 30 June 2011 financial statements disclosed that Probiomics had not brought to account a deferred tax asset of $7,634,257 as realisation of the benefit is not probable. All but an immaterial proportion of this amount relates to past tax losses. Given the current financial position of Probiomics and its recent results, we have not ascribed any value to the losses as they can only be recovered through the generation of taxable income by Probiomics.

Based on this valuation methodology, we consider that Probiomics is valued in a range of $1,451,735 to $2,048,818, **say** $1,450,000 to $2,050,000.

9.3 Capitalisation of Future Maintainable Earnings

Given the very low level of earnings after corporate overheads that are being generated by Probiomics, we do not consider that this valuation methodology is applicable to a valuation of Probiomics.

9.4 Net Present Value of Future Cash Flows

An analysis of the net present value of the future cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.

Probiomics has not prepared long term cash flow forecasts and given the low levels of cash flows, we consider that the capitalisation of future cash flows is not an appropriate methodology to use to value Probiomics.

9.5 Comparable Market Transactions

Theoretically this is a sound valuation methodology as it is based on tangible evidence of other similar transactions (this is the methodology generally adopted in valuing real estate). We consider that this methodology is not an appropriate methodology to value Probiomics as we have not identified any transactions that can be directly compared with Probiomics, however we utilised this methodology in arriving at the value of the listed shell in completing the valuation using the orderly realisation of assets methodology.

9.6 Conclusion

The valuation methodologies that we have adopted as being applicable are:

Table 14

Valuation Methodology	Section	Low $	High $
Share price history	9.1	2,060,000	2,650,000
Orderly realisation of assets	9.2	1,450,000	2,050,000

The share price history valuation reflects the trading in Probiomics shares up to 7 October 2011. We note that the termination of the Nestle licence agreement was announced by Probiomics on 2 November 2011 and the impact of the termination of this agreement is therefore not reflected in the share price valuation. On the other hand the orderly realisation of assets valuation does not assign any value to the Nestle licence agreement and in that regard it more correctly reflects the current position of Probiomics.

In our opinion the orderly realisation of assets valuation methodology should be preferred and we have therefore valued Probiomics, on a control basis, in a range of $1,450,000 to $2,050,000. It should be noted that this value does not include the underwritten placement of $200,000 announced by Probiomics on 3 November 2011.

10. Control Premium

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. Control premiums are normally in a range of 20% to 30% above the value of a minority share. The actual control premium paid is transaction specific and depends on a range of factors, such the level of synergies available to the purchaser, the level of competition for the assets and the strategic importance of the assets.

This transaction, whilst it is nominally a takeover of Hunter by Probiomics, is in effect a reverse takeover of Probiomics by Hunter as the current Hunter shareholders and the holders of Hunter convertible notes will together hold approximately 79.5% of the Probiomics voting power, and the existing Probiomics shareholders will end up with approximately 9.2% of the Probiomics voting power.

For this reason we do not believe that in this particular transaction the Hunter shareholders can expect to receive a control premium for their shares, in fact it would be usual for the Hunter shareholders to pay a premium to the Probiomics shareholders for their loss of control of Probiomics.

11. Assessment as to Fairness and Reasonableness – Share Offer

11.1 Assessment as to Fairness

As the proposed takeover will trigger the conversion of both Tranche 1 and Tranche 2 Notes and the Capital Raising by Probiomics, the assessment of fairness can only be made by assessing the value of the interests of the Hunter shareholders in Probiomics and comparing this value with the current value of their interests in Hunter.

The first step in the analysis is an assessment of the value of Probiomics following the completion of the takeover and associated transactions. This assessment is set out below:

Table 15	Reference	Low $	High $
Assessed value of Hunter Equity	7.8	25,500,000	37,700,000
Assessed value of Probiomics Equity	9.6	1,450,000	2,050,000
Proceeds of Probiomics underwritten share issue		200,000	200,000
Proceeds of Probiomics capital raising (minimum subscription)		2,200,000	2,200,000
Value of Probiomics post transaction		29,350,000	42,150,000

As can be seen from the above table, we have assessed the value of Probiomics following the proposed takeover in a range of $29,350,000 to $42,150,000. The current shareholders and Note holders of Hunter together with Hunter's managing director Mr. David Radford will hold 2,656,928,206 shares in Probiomics out of an estimated total number of shares on issue of 3,184,496,617. This means that the combined interests of the Hunter shareholders will have the following value:

Table 16	Formula	Low	High
Value of Probiomics post transaction - Table 15	A	$ 29,350,000	$ 42,150,000
Number of Probiomics shares on issue post transaction - Table 1	B	3,184,496,617	3,184,496,617
Number of Probiomics shares that will be held by the Hunter security holders - Table 1	C	2,656,928,206	2,656,928,206
Value of Probiomics post transaction controlled by Hunter security holders	A/BxC	$ 24,487,651	$ 35,167,104

As can be seen from the above table, the Hunter security holders will control Probiomics shares with a combined value in a range of $24,487,651 to $35,167,104.

Set out in the table below is a comparison of the interests of the Hunter security holders before and after the takeover:

Table 17	Formula	Low $	High $
Value of Probiomics post transaction controlled by Hunter security holders - Table 16	A	24,487,651	35,167,104
Value of Hunter equity - Section 7.8	B	25,500,000	37,700,000
Gain / (Loss) of value to Hunter shareholders resulting from the Share Offer	A-B	(1,012,349)	(2,532,896)

Table 17 suggests that the Share Offer results in a diminution in value for the Hunter security holders.

Set out below is an alternate approach to the analysis of the Share Offer.

In Section 9.6 we assessed the current value of Probiomics to be in a range of $1,450,000 to $2,050,000. As this valuation range incorporates the value of the Probiomics ASX listed shell, the valuation range incorporates an expected premium for control. The value of Probiomics after the takeover that will be referable to the current Probiomics shareholders can be estimated as follows:

Table 18	Formula	Low	High
Value of Probiomics post transaction - Table 15	A	$ 29,350,000	$ 42,150,000
Number of Probiomics shares on issue post transaction - Table 1	B	3,184,496,617	3,184,496,617
Number of Probiomics shares currently on issue Section 8.2	C	294,235,077	294,235,077
Value of Probiomics post transaction controlled by Probiomics shareholders	A/BxC	$ 2,711,826	$ 3,894,496

A comparison of the value of the Probiomics' shareholders interest before and after the takeover reveals any discount or premium that accrues from the transaction to the Probiomics shareholders. This is set out below:

Table 19	Formula	Low $	High $
Value of Probiomics post transaction controlled by Probiomics shareholders - Table 18	A	2,711,826	3,894,496
Assessed value of Probiomics Equity - Section 9.6	B	1,450,000	2,050,000
Additional premium received by Probiomics shareholders	A-B	1,261,826	1,844,496

As can be seen from Table 19, the Probiomics shareholders will receive a premium over and above the value established by our valuations. The mid point of the premium calculated above is $1,553,161, say $1,550,000.

In Section 9.2 we noted that Probiomics has a deferred tax asset with a nominal value of $7,634,257. We have seen preliminary advice prepared for Hunter, which suggests that there is a reasonable basis to expect that the Probiomics losses may be offset against future income generated by exploitation of the Hunter technology. The Probiomics tax losses will only be available if Probiomics can satisfy the same business test.

It is difficult to place a value on past tax losses as their value is subject to regulatory risk (the losses may be disallowed by the ATO) and their exploitation is subject to commercial risk (timing and quantum of taxable income). The premium of $1,550,000 represents approximately 20% of the nominal value of the Probiomics deferred tax asset.

Finally it should be noted that all of the values referred to in Tables 15 to 19 are control values, that is they do not reflect a minority or portfolio value. As Hunter has approximately 280 shareholders none of whom holds a controlling interest, we have assessed the Share Offer based on minority share values.

In Section 7.8 we concluded a minority Hunter share has a value in a range of $0.07 to $0.11 per share.

We concluded above (Table 15) that the value of Probiomics following the proposed takeover will be in a range of $29,350,000 to $42,150,000 and Probiomics will have approximately 3,184,496,617 shares on issue (Table 1). As such each Probiomics share after the takeover will have a value in a range of $0.009 to $0.013, or $0.08 to $0.12 for each parcel of 9 Probiomics shares, however this represents a control value. Using the same methodology as in Section 7.8, we have estimated the minority share values as follows:

Table 20	**Minority Discount**	
Control Value	**High**	**Low**
$	**$**	**$**
0.08	0.06	0.07
0.12	0.09	0.10

As can be seen from Table 20, the minority value of a parcel of 9 Probiomics shares after the proposed takeover will be in a range of $0.06 to $0.10, a mid point of $0.08 per share. The mid point value lies at the bottom range of the value of a minority Hunter share ($0.08 to $0.12), however this analysis does not ascribe any value to the Probiomics tax losses.

The inclusion of a value on account of the Probiomics tax losses would increase the mid point of the value of a parcel of 9 Probiomics shares after the proposed takeover to a value that lies within the valuation range of the Hunter shares and on that basis the takeover offer is **fair.**

11.2 Assessment as to Reasonableness

11.2.1 Acceptance of the Share Offer

Advantages

- Hunter is an unlisted company and there is no market in its shares. The Offer provides an opportunity for shareholders to exchange their illiquid shares in return for shares in Probiomics. Whilst Probiomics shares are currently thinly traded, following the proposed Capital Raising by Probiomics, we would expect the trading volumes in Probiomics to improve.

- As Hunter will effectively become a listed entity, its future ability to raise funds should be significantly improved.

- In Section 11.1 above we concluded that the Share Offer is **fair**.

Disadvantages

- We have been advised that the takeover will trigger an issue of shares to Mr David Radford equivalent to 5% of the equity of Hunter, as per his service agreement. This will have the effect of diluting the interests of the Hunter shareholders.

11.2.2 Rejection of the Offer (i.e. the Offer is not accepted by Hunter shareholders)

Advantages

- A new and higher offer may be made to shareholders.

Disadvantages

- As can be seen from Appendix B-2, if shareholders do not accept the Offer, there will be an opportunity for the holders of the Tranche 1 and Tranche 2 Notes to convert the notes and accrued interest into Hunter shares at $0.02 per share. **This would severely dilute the Hunter shareholders without providing them with a market for their shares.**

11.2.3 Conclusion as to Reasonableness

In our opinion the **Share Offer is reasonable** as the advantages of accepting the Share Offer and the disadvantages of rejecting the Offer both outweigh the disadvantages of accepting the Share Offer.

11.3 Conclusion as to Fairness and Reasonableness

We have concluded that the **Share Offer made to the Hunter shareholders is fair and reasonable**.

12. Assessment of the Option Offer

12.1 Value of Hunter Options

Details of the Hunter options are set out in Table 3. The Hunter option holders are offered 9 Probiomics options for each Hunter option currently held, to be issued on similar terms to the current Hunter options.

As Hunter is an unlisted company there is no market in its options and the value of the existing options cannot be observed.

The options can be valued using an option-pricing model such as the Black-Scholes model. This model values an option as a function of the following variables:

1) the current share price of the underlying shares

2) exercise price of the option

3) volatility of the share price

5) time to maturity

6) risk free rate of interest

Set out below is a discussion of each of the inputs into the option valuation model:

Current Share Price of the Underlying Shares

Generally the most recent share price is used or, where the shares are thinly traded, an average of the most recent trades. In the case of Hunter, its shares are not listed. Furthermore the value of its shares has been impacted by the recent issue of the Tranche 2 Notes.

In Section 7.8 we valued the Hunter shares on a minority basis in the range of $0.07 to $0.11 per share and we have used this value range in assessing the value of the options and we believe that the value of the options should be assessed based on those share prices.

Exercise Price of the Options

The exercise prices of the options are set out in Table 3.

Volatility of the Share Price

This is a critical input into the option valuation. The volatility factor used should reflect the expected future volatility in the underlying share price. This is usually estimated by reference to historical volatility. Where the underlying shares are thinly traded or have a limited trading history, such as in the case of recently listed companies, we generally estimate the expected future volatility by reference to the volatility of comparable listed companies.

As there have been no trades in Hunter shares, there is no historical volatility. We therefore cannot estimate the future volatility by reference to past trading in Hunter shares. In fact if there continues to be no trading in Hunter shares between the present point in time and the expiry date of the options, there would also be no volatility and, as all of the options are out of the money, we would be led to the conclusion that the options have a nil value.

As Hunter is seeking to list, we have estimated the expected future volatility by reference to a number of comparable ASX listed companies. The average share price volatility of these companies was 78% and we have adopted this volatility in our calculations.

Time to Maturity

The maturity dates of the options are set out in Table 3.

Risk Free Rate of Interest

We have used a rate of 4.7%. This is based on Treasury Bond yields with maturities approximating the maturity date of the options.

Based on the above inputs and using the Black-Scholes option-pricing model we have valued the various classes of options as follows:

Table 21

Type of Option	Number of Options	Exercise Price $	Expiry Date	Value per Tranche Low $	Value per Tranche High $
Investor	525,600	0.35	30-Sep-12	309	1,902
Investor	1,917,631	0.35	31-Mar-13	4,572	17,496
Employee	900,000	0.39	21-Dec-12	843	4,218
Employee	6,000,000	0.35	14-May-14	52,503	135,437
Employee	2,360,000	0.12	1-Sep-13	44,263	117,725
Total				102,491	276,779

12.2 Value of Replacement Options

In order to assess the replacement Probiomics options, we have re-considered each of the inputs into the option valuation model discussed above.

As the terms of the replacement options are to be similar to the Hunter options, the only inputs requiring consideration are the share price of the underlying shares, the exercise price and the option volatility.

Current Share Price of the Underlying Shares

In Table 20 we estimated the minority value of a parcel of 9 Probiomics shares after the proposed takeover to be in a range of $0.06 to $0.10.

Exercise Price of the Options

Whilst option holders will receive 9 Probiomics options for each Hunter option held, the exercise price is to be $1/10^{th}$ of the exercise price of the Hunter options.

Volatility of the Share Price

Whilst Probiomics shares are listed and therefore a volatility specific to Probiomics shares can be observed, we have concluded that the historical volatility of the Probiomics shares (114%) should be disregarded. Our reasons for this view are:

a) the Probiomics shares are thinly traded; and

b) the asset value being contributed to the proposed takeover by Hunter far exceeds the asset value being contributed by Probiomics and hence the future volatility of the Probiomics shares will be more influenced by the Hunter assets than by the existing Probiomics assets.

For the above reasons we have continued to adopt a volatility of 78%.

Based on the above inputs and using the Black-Scholes option-pricing model we have valued the various classes of the replacement options as follows:

Table 22

Type of Option	Number of Options	Exercise Price $	Expiry Date	Value per Tranche Low $	Value per Tranche High $	Value per Tranche Mid Point $
Investor	4,730,400	0.035	30-Sep-12	294	1,729	1,012
Investor	17,258,679	0.035	31-Mar-13	4,284	15,866	10,075
Employee	8,100,000	0.039	21-Dec-12	797	3,830	2,314
Employee	54,000,000	0.035	14-May-14	48,593	122,557	85,575
Employee	21,240,000	0.012	1-Sep-13	40,859	93,322	67,090
Total				94,828	237,303	166,066

12.3 Assessment as to Fairness

As can be seen from Table 22, the mid point of the estimated values of the replacement Probiomics options ($166,066) is within the range of estimated values of the current Hunter options (Table 21)($102,491 to $276,779). For this reason we have concluded that **the Option Offer is fair**.

12.4 Assessment as to Reasonableness

12.4.1 Acceptance of the Offer

Advantages

- Hunter is an unlisted company and there is no market in its shares or options. Whilst the replacement employee options will remain unlisted, Probiomics has indicated that it will seek ASX permission to list the remaining replacement options. If successful, this will result in the holders of the replacement options receiving options that will be marketable.
- In Section 12.3 above we concluded that the Option Offer is **fair**.

Disadvantages

- We can see no disadvantages for the Hunter option holders in accepting the Option Offer.

12.4.2 Rejection of the Option Offer

Advantages

- A new and higher offer may be made to the Hunter option holders.

Disadvantages

- We see no disadvantage in rejecting the Option Offer, however we note that the number of options on issue relative to the number of shares is low and if the Share Offer is accepted, we envisage that Probiomics will be able to compulsorily acquire the Hunter options.

12.4.3 Conclusion as to Reasonableness

In our opinion, as the Option Offer is fair, it is also reasonable.

12.5 Conclusion as to Fairness and Reasonableness

We have concluded that the **Offer made to the Hunter option holders is fair and reasonable**.

13. Financial Services Guide

13.1 Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

13.2 DMR Corporate

DMR Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide general financial product advice in respect of securities to retail and wholesale investors.

13.3 Financial Services Offered by DMR Corporate

DMR Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by DMR Corporate are provided by the Entity to its members.

All reports prepared by DMR Corporate include a description of the circumstances of the engagement and of DMR Corporate's independence of the Entity commissioning the report and other parties to the transactions.

DMR Corporate does not accept instructions from retail investors. DMR Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. DMR Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

13.4 General Financial Product Advice

In the reports, DMR Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

13.5 Independence

At the date of this report, none of DMR Corporate, Derek M Ryan nor Mr Paul Lom has any interest in the outcome of the Proposed Transaction, nor any relationship with Hunter, Probiomics or any of their directors or associates.

Drafts of this report were provided to and discussed with a Director of Hunter. There were no alterations to the methodologies that were adopted by DMR Corporate.

DMR Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

DMR Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 October 2007.

13.6 Remuneration

DMR Corporate is entitled to receive a fee of $39,000 plus GST for the preparation of this report, plus out of pocket expenses. With the exception of the above, DMR Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

Except for the fees referred to above, neither DMR Corporate, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of any report.

13.7 Compensation Arrangements and Complaints Process

As the holder of an Australian Financial Services Licence, DMR Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement DMR Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

DMR Corporate is also required to have a system for handling complaints from persons to whom DMR Corporate provides financial services. All complaints must be in writing and sent to DMR Corporate at the above address.

DMR Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

DMR Corporate Pty Ltd

Paul Lom
Director

Derek Ryan
Director

Appendix A-1

Hunter Immunology Limited

Statements of Comprehensive Income

	Audited Year Ended 30 June 2009 $	Audited Year Ended 30 June 2010 $	Audited Year Ended 30 June 2011 $
Revenues			
Government grants	-	-	191,337
Interest income	50,316	50,422	111,296
Total revenues	50,316	50,422	302,633
Expenses			
Research and development	(938,094)	(978,640)	(2,143,882)
Business development	(357,566)	(178,826)	(597,239)
Marketing	(108,484)	(35,051)	(58,277)
General and administration	(2,739,792)	(1,270,498)	(1,820,053)
Finance costs	(14,130)	(333,857)	(653,354)
Total expenses	(4,158,066)	(2,796,872)	(5,272,805)
Profit/(loss) before income tax	(4,107,750)	(2,746,450)	(4,970,172)
Income tax (expense)/benefit	352,000	406,442	1,040,516
Profit/(Loss) for the year	(3,755,750)	(2,340,008)	(3,929,656)

Source: Hunter Annual Reports – 30 June 2010 and 30 June 2011

Appendix A-2

Hunter Immunology Limited

Statements of Financial Position

	Audited 30 June 2009 $	Audited 30 June 2010 $	Audited 30 June 2011 $
CURRENT ASSETS			
Cash and cash equivalents	878,128	3,860,133	705,692
Current tax receivables	352,000	350,000	909,534
Other current assets	53,866	105,488	131,077
TOTAL CURRENT ASSETS	1,283,994	4,315,621	1,746,303
NON CURRENT ASSETS			
Deposit	-	200,000	200,000
TOTAL NON CURRENT ASSETS	-	200,000	200,000
TOTAL ASSETS	1,283,994	4,515,621	1,946,303
CURRENT LIABILITIES			
Trade and other payables	450,981	426,333	796,357
Provisions for future rent costs	101,541	-	-
TOTAL CURRENT LIABILITIES	552,522	426,333	796,357
NON-CURRENT LIABILITIES			
Convertible note	-	3,781,338	4,131,033
Interest on convertible note	-	150,411	450,411
Deferred tax liability	-	365,599	260,751
TOTAL NON-CURRENT LIABILITIES	-	4,297,348	4,842,195
TOTAL LIABILITIES	552,522	4,723,681	5,638,552
NET ASSETS	731,472	(208,060)	(3,692,249)
EQUITY / (DEFICIT)			
Contributed equity	15,368,796	16,589,039	16,767,001
Reserves	293,307	473,540	654,146
Retained losses	(14,930,631)	(17,270,639)	(21,113,396)
TOTAL EQUITY/ (DEFICIT)	731,472	(208,060)	(3,692,249)

Source: Hunter Annual Reports – 30 June 2010 and 30 June 2011

Appendix A-3

Hunter Immunology Limited

Statements of Cash Flows

	Audited Year Ended 30 June 2009 $	Audited Year Ended 30 June 2010 $	Audited Year Ended 30 June 2011 $
Cash Flows from Operating Activities			
Payments to suppliers and employees	(4,051,036)	(2,573,551)	(4,004,046)
Research and development tax rebate	331,832	311,734	567,471
Interest received	50,316	50,422	111,296
Interest paid	(9,216)	-	(3,658)
Net Cash From/(Used in) Operating Activities	(3,678,104)	(2,211,395)	(3,328,937)
Cash Flows from Investing Activities			
Office bonds	-	(8,950)	(3,465)
Net Cash From/(Used in) Investing Activities	-	(8,950)	(3,465)
Cash Flows from Financing Activities			
Proceeds from issue of shares net of transaction costs	1,936,887	202,350	177,961
Proceeds from convertible note	-	5,000,000	-
Net Cash From/(Used in) Financing Activities	1,936,887	5,202,350	177,961
Net Increase/(Decrease) in Cash Held	(1,741,217)	2,982,005	(3,154,441)
Cash and cash equivalents at the beginning of the financial year	2,619,345	878,128	3,860,133
Cash at the end of the financial year	878,128	3,860,133	705,692

Source: Hunter Annual Reports – 30 June 2010 and 2011

Appendix B-1-1

Hunter Immunology Limited

Orderly Realisation

	Notes	Audited 30-Jun 2011 $	Pro-Forma 30-Jun 2011 $	Estimated Realisable Values Low $	Estimated Realisable Values High $
CURRENT ASSETS					
Cash and cash equivalents		705,692	705,692	705,692	705,692
Current tax receivables		909,534	909,534	909,534	909,534
Other current assets	1	131,077	131,077	91,754	131,077
TOTAL CURRENT ASSETS		1,746,303	1,746,303	1,706,980	1,746,303
NON CURRENT ASSETS					
Intellectual property	2	-	-	25,300,000	42,500,000
Deposit		200,000	200,000	200,000	200,000
TOTAL NON CURRENT ASSETS		200,000	200,000	25,500,000	42,700,000
TOTAL ASSETS		1,946,303	1,946,303	27,206,980	44,446,303
CURRENT LIABILITIES					
Trade and other payables		796,357	796,357	796,357	796,357
TOTAL CURRENT LIABILITIES		796,357	796,357	796,357	796,357
NON-CURRENT LIABILITIES					
Convertible note	3	4,131,033	5,000,000	5,000,000	5,000,000
Interest on convertible note		450,411	450,411	450,411	450,411
Deferred tax liability	4	260,751	-	4,231,535	9,391,535
TOTAL NON-CURRENT LIABILITIES		4,842,195	5,450,411	9,681,946	14,841,946
TOTAL LIABILITIES		5,638,552	6,246,768	10,478,303	15,638,303
NET ASSETS		(3,692,249)	(4,300,465)	16,728,677	28,808,000
Less: Cost of realisation	5			(400,000)	(300,000)
Realisable value				16,328,677	28,508,000
Events subsequent to 30 June 2011:					
Shares issued on 22 September 2011				767,052	767,052
Proceeds of Tranche 2 Notes				3,000,000	3,000,000
Tranche 2 Note Liability				(3,000,000)	(3,000,000)
Adjusted net assets				17,095,729	29,275,052
Position assuming liquidity event:		**Shares on Issue**			
Shares currently on issue		165,158,131			
Conversion of Tranche 1 Notes	6	50,505,051		5,000,000	5,000,000
Conversion of interest on Tranche 1 Notes	7	4,328,550		450,411	450,411
Conversion of Tranche 2 Notes	8	60,000,000		3,000,000	3,000,000
Conversion of interest on Tranche 2 Notes	9	-		-	-
Net assets after liquidity event				25,546,140	37,725,463
Shares on issue after liquidity event		279,991,732		0.09	0.13

Appendix B-1-2

Assumptions applied in the above assessments:

Note 1 Values applied to 'Other current assets' are judgemental assessments by DMR Corporate.

Note 2 The 'Intellectual property' values are as determined by Acuity.

Note 3 The Tranche 1 Notes have been classified by Hunter as a hybrid instrument. This means that the face value of $5 million has been recorded in Hunter's balance sheet in part as a liability and in part as equity. In the pro-forma column we have shown the full face value of the convertible notes as a liability of Hunter as this assessment is based on the concept of net realisable values.

Note 4 In the pro-forma column we reversed the deferred tax liability in Hunter's 30 June 2011 balance sheet as this liability relates to the adjustment described in Note 3 above.

The deferred tax liability shown in the columns headed estimated realisable values is the liability that would be incurred by Hunter on disposal of the intellectual property at the values determined by Acuity. The calculation of the liability includes an allowance for Hunter's carry forward tax losses as at 30 June 2011.

Note 5 The cost of realisation is a judgemental assessment by DMR Corporate.

Note 6 Tranche 1 Notes are convertible into Hunter shares at $0.099 per share.

Note 7 Interest accrued in respect of the Tranche 1 Notes is convertible into Hunter shares at $0.099 per share.

Note 8 Tranche 2 Notes are convertible into Hunter shares at $0.050 per share.

Note 9 No interest has been accrued in respect of the Tranche 2 Notes as the proceeds were only received by Hunter at the time of preparing this report.

Appendix B-2

Hunter Immunology Limited

Orderly Realisation – No Liquidity Event

	Audited 30-Jun 2011 $	Pro-Forma 30-Jun 2011 $	Estimated Realisable Values Low $	Estimated Realisable Values High $
CURRENT ASSETS				
Cash and cash equivalents	705,692	705,692	705,692	705,692
Current tax receivables	909,534	909,534	909,534	909,534
Other current assets	131,077	131,077	91,754	131,077
TOTAL CURRENT ASSETS	1,746,303	1,746,303	1,706,980	1,746,303
NON CURRENT ASSETS				
Intellectual property	-	-	25,300,000	42,500,000
Deposit	200,000	200,000	200,000	200,000
TOTAL NON CURRENT ASSETS	200,000	200,000	25,500,000	42,700,000
TOTAL ASSETS	1,946,303	1,946,303	27,206,980	44,446,303
CURRENT LIABILITIES				
Trade and other payables	796,357	796,357	796,357	796,357
TOTAL CURRENT LIABILITIES	796,357	796,357	796,357	796,357
NON-CURRENT LIABILITIES				
Convertible note	4,131,033	5,000,000	5,000,000	5,000,000
Interest on convertible note	450,411	450,411	450,411	450,411
Deferred tax liability	260,751	-	4,231,535	9,391,535
TOTAL NON-CURRENT LIABILITIES	4,842,195	5,450,411	9,681,946	14,841,946
TOTAL LIABILITIES	5,638,552	6,246,768	10,478,303	15,638,303
NET ASSETS	(3,692,249)	(4,300,465)	16,728,677	28,808,000
Less: Cost of realisation			(400,000)	(300,000)
Realisable value			16,328,677	28,508,000
Events subsequent to 30 June 2011:				
Shares issued on 22 September 2011			767,052	767,052
Proceeds of Tranche 2 Notes			3,000,000	3,000,000
Tranche 2 Note Liability			(3,000,000)	(3,000,000)
Adjusted net assets			17,095,729	29,275,052
Position assuming no liquidity event:	**Shares on Issue**			
Shares currently on issue	165,158,131			
Conversion of Tranche 1 Notes	250,000,000		5,000,000	5,000,000
Conversion of interest on Tranche 1 Notes	21,426,323		450,411	450,411
Conversion of Tranche 2 Notes	150,000,000		3,000,000	3,000,000
Conversion of interest on Tranche 2 Notes	-		-	-
Net assets without liquidity event			25,546,140	37,725,463
Shares on issue after conversion	586,584,454		0.04	0.06

Appendix C-1

Probiomics Limited

Statements of Comprehensive Income

	Audited Year Ended 30 June 2009 $	Audited Year Ended 30 June 2010 $	Audited Year Ended 30 June 2011 $
Revenues			
Sales revenue	1,103,288	751,897	939,644
Interest income	3,226	432	231
Total revenues	1,106,514	752,329	939,875
Cost of sales	(583,446)	(282,456)	(513,473)
Gross profit	523,068	469,873	426,402
Other incomes	44,407	114,414	45,338
Research and development	(76,232)	(19,860)	(1,612)
Intellectual property expenses	(96,175)	(81,393)	(18,603)
Administrative and corporate expenses	(567,525)	(387,292)	(445,120)
Finance costs	(38,449)	(15,598)	(5,351)
Profit/(loss) before income tax	(210,906)	80,144	1,054
Income tax (expense)/benefit	-	-	-
Profit/(Loss) for the year	(210,906)	80,144	1,054

Source: Probiomics Annual Reports – 30 June 2010 and 30 June 2011

Appendix C-2

Probiomics Limited

Statements of Financial Position

	Audited 30 June 2009 $	Audited 30 June 2010 $	Audited 30 June 2011 $
CURRENT ASSETS			
Cash and cash equivalents	85,925	237,997	111,628
Trade and other receivables	393,020	56,399	106,480
TOTAL CURRENT ASSETS	478,945	294,396	218,108
NON CURRENT ASSETS			
Plant and equipment	6,684	4,187	2,625
TOTAL NON CURRENT ASSETS	6,684	4,187	2,625
TOTAL ASSETS	485,629	298,583	220,733
CURRENT LIABILITIES			
Trade and other payables	371,755	125,294	96,390
Government grants	20,729	-	-
Finance liabilities	50,000	50,000	-
TOTAL CURRENT LIABILITIES	442,484	175,294	96,390
TOTAL LIABILITIES	442,484	175,294	96,390
NET ASSETS	43,145	123,289	124,343
EQUITY			
Issued capital	27,761,399	27,761,399	27,761,399
Reserves	289,212	289,212	289,212
Accumulated losses	(28,007,466)	(27,927,322)	(27,926,268)
TOTAL EQUITY	43,145	123,289	124,343

Source: Probiomics Annual Reports – 30 June 2010 and 30 June 2011

Appendix C-3

Probiomics Limited

Statements of Cash Flows

	Audited Year Ended 30 June 2009 $	Audited Year Ended 30 June 2010 $	Audited Year Ended 30 June 2011 $
Cash Flows from Operating Activities			
Receipts from customers	947,563	1,158,663	883,510
Payments to suppliers and employees	(1,429,767)	(1,003,687)	(993,785)
Receipt of export marketing grant	-	32,913	39,026
Interest received	3,226	430	231
Finance costs	(12,500)	(36,247)	(5,351)
Net Cash From/(Used in) Operating Activities	(491,478)	152,072	(76,369)
Cash Flows from Investing Activities			
Proceeds from sale of plant and equipment	2,695	-	-
Net Cash From/(Used in) Investing Activities	2,695	-	-
Cash Flows from Financing Activities			
Proceeds from issue of shares	402,000	-	-
Payment of share issue costs	(24,119)	-	-
Repayment of convertible notes	-	-	(50,000)
Net Cash From/(Used in) Financing Activities	377,881	-	(50,000)
Net Increase/(Decrease) in Cash Held	(110,902)	152,072	(126,369)
Cash and cash equivalents at the beginning of the financial year	196,827	85,925	237,997
Cash at the end of the financial year	85,925	237,997	111,628

Source: Probiomics Annual Reports – 30 June 2010 and 2011

Appendix D

Sources of Information

The following sources of information have been utilised and relied upon in the course of preparing this report.

- Hunter's audited financial statements for the years ended 30 June 2010 and 2011;
- Hunter's share and option register at 2 November 2011, including details of all share issues;
- convertible note deeds in respect of the Tranche 1 Notes and Tranche 2 Notes;
- deed of amendment in respect of the Tranche 1 Notes;
- share trading information in respect of Probiomics from Commonwealth Securities;
- Probiomics audited financial statements for the years ended 30 June 2010 and 2011;
- ASX announcements made by Probiomics since 1 January 2011;
- information on the Hunter and Probiomics web site;
- historical share price volatility information for Australian listed biotechnology companies supplied by SIRCA Limited;
- valuation of Hunter's intellectual property prepared by Acuity and dated 22 November 2011;
- Hunter's draft Target's Statement; and
- Probiomics' draft Bidder's Statement.

Appendix E

Declarations, Qualifications and Consents

1. Declarations

This report has been prepared at the request of the Directors of Hunter pursuant to Section 640 of the Act to accompany Hunter's Target's Statement. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not each of the Offers are fair and reasonable.

The recipients of this report should be aware that this report has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on any of the Offers.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

2. Qualifications

Mr Derek M Ryan and Mr Paul Lom, directors of DMR Corporate prepared this report. They have been responsible for the preparation of many expert reports and are involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Ryan has had over 40 years experience in the accounting profession and he is a Fellow of the Institute of Chartered Accountants in Australia. He has been responsible for the preparation of many expert reports and is involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Chartered Accountant and a Registered Company Auditor with more than 35 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

3. Consent

DMR Corporate consents to the inclusion of this report in the form and context in which it is included in Hunter's Target's Statement.

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22 November 2011

Mr Paul Lom
DMR Corporate Pty Ltd
Level 7, 470 Collins Street
Melbourne

Dear Paul

RE: Valuation of Hunter Immunology Limited Intellectual Property

At your request we have prepared a current valuation of the intellectual property ("IP") owned by Hunter Immunology Limited ("HIL" or the "Company"). HIL is involved in the development, evaluation and commercialisation of a number of innovative immunotherapeutic technologies deriving from research by the Newcastle Mucosal Immunology Group ("NMIG") lead by Professor Robert Clancy. Prof. Clancy is a founder and current director of HIL. The IP consists of patents and research results related to the development of human pharmaceutical products the most advanced of which is a vaccine for use in chronic obstructive pulmonary disease ("COPD"), referred to as HI-164OV.

For several decades the NMIG has been at the forefront of mucosal immunology, pioneering an understanding of how mucosal surfaces defend against pathogenic organisms and signal responses throughout the body to counter infectious disease. The mucosa are those tissues involved in secretion and absorption with an interface to the external environment, such as the mouth, nose, lungs, reproductive tracts and anus. One of NMIG's more important advancements has been in the field of *Haemophilus influenzae* vaccines for the treatment and amelioration of symptoms of respiratory diseases. This work lead to the development of HI-164OV – an oral, enteric coated tablet as a preventative for acute coughing spasms, known as exacerbations, in COPD.

DMR Corporate Pty Ltd ("DMR Corporate") requested from Acuity Technology Management Pty Ltd ("Acuity") a valuation of HIL's IP with a focus on HI-164OV, with due consideration of its commercial potential and its protection, the manufacturing program, a review of markets, market need and competition. We understand that DMR Corporate will rely on this valuation in preparing an Independent Expert Report ("IER") to be addressed to the Directors of HIL. We have been advised that the IER will be dated on or about 23 November 2011 and will be included in a Target's Statement to be provided to HIL shareholders in relation to the proposed acquisition of the Company by Probiomics Limited. We acknowledge that our report may be appended to the DMR Corporate IER.

An earlier manifestation of an *H. Influenzae* vaccine deriving from NMIG was marketed as an over-the-counter ("OTC") product in Australia during the 1990s. HIL acquired rights to an improved, or "second generation", technology that offers greater potential than its predecessor as a prescription vaccine targeting the treatment of exacerbations of COPD. The Company has taken development through pre-clinical evaluation and a number of clinical trials which have served to prove safety of the product and better define that group of COPD sufferers who will most benefit from the treatment. This year HIL commenced an expanded study to show that HI-164OV is effective in reducing the annual incidence of debilitating exacerbations.

It should be appreciated that there are no activities within HIL generating income at this stage and that HI-164OV and its IP are in-process R&D ("IPR&D").

Acuity Technology Management Pty Ltd ("Acuity") specialises in the appraisal and valuation of IP and knowledge-based intangible assets, including IPR&D. The company has experience in valuing medical devices, diagnostic systems, pharmaceuticals, genetic and recombinant DNA technologies, stem cell therapies and complementary & alternative medicines. A summary of our qualifications and experience is presented at the end of this report. Further details can be found at *www.acuitytechnology.com.au*.

This report was prepared solely by the undersigned, Dr David Randerson, Managing Director of Acuity, drawing on his expertise in the development and commercialisation of biological pharmaceuticals and in the evaluation of research projects. A summary of qualifications and experience may be found at *linkedin.com/in/drdavidranderson*.

In preparing this report, we were given access to electronic Company records where we concentrated on IP/patents, R&D, manufacturing, and clinical and regulatory documentation; as well as critiques provided by other parties. As a preliminary comment, we offer the opinion that record keeping is extremely thorough – a highly important aspect of pharmaceutical development and manufacturing.

In determining a valuation of the IP, Acuity conducted an assessment of the underlying technology, patent applications, previous development programs and current R&D as well as an examination of the markets and competition for the proposed product.

1. Summary of Valuation

The IP that we have valued is comprised of patent applications, experimental and clinical trial results, and the knowhow and expertise that will enable the IP's further commercial development.

Although a number of techniques suitable for valuing intangible assets were considered, the principle approach used is a probability adjusted net present value ("PANPV") method using revenue projections and expenses developed by Acuity. The financial models are based on cash flow projections that may result from further research with probability and discount rate adjustments based on published literature and our perception of the risks associated with successful product development and commercialisation.

Based on our PANPV analysis, we offer the opinion that a fair and reasonable after tax valuation for HIL's HI-164OV is in the range $25.3 million to $42.5 million with a preferred valuation of $31.7 million[1]

[1] Currency amounts are Australian dollars unless otherwise stated.

An analysis of Australian Securities Exchange ("ASX") listed biotechnology companies with products at a similar stage of development as HI-164OV suggests a reasonable valuation may be around $33 million within the range $4 million to $140 million.

The cash flow models used in the valuation make the assumption that HIL has, or will have, sufficient funds to support further development of the technology, clinical trials and commercialisation, and to invest in IP protection. A lack of capital could undermine the value.

2. Background

2.1 HI-064OV

H. influenzae is a bacterial pathogen (not to be confused with the influenza virus responsible for seasonal epidemics of respiratory disease). It is "opportunistic" in that it usually infects a person without causing disease, but problems can occur when other factors (such as a viral infection or reduced immune function) create an opportunity. *H. influenzae* is not readily destroyed by inflammatory and immune responses at the mucosal level and may remain in the respiratory tracts for long periods.

In children, *H. influenzae* causes pneumonia and acute bacterial meningitis, and may cause other illnesses. It has long been known that the strain responsible for meningitis has a polysaccharide capsule and that one capsular type, serotype b, is responsible for nearly all episodes. This knowledge lead to the development of a vaccine to *H. influenzae* type b ("Hib") and as a consequence of its routine use in developed countries since around 1990 the incidence of invasive Hib disease has decreased to an average of 1.3 episodes for every 100,000 in children. However, Hib remains a major cause of lower respiratory tract infections in infants and children in developing countries where the vaccine is not widely used.

Non-typeable, or unencapsulated, *H. influenzae* causes ear infections (otitis media), eye infections (conjunctivitis), and sinusitis in children, and is associated with pneumonia.

COPD covers a spectrum of respiratory diseases including: emphysema, where the primary defect is loss of structural integrity of the lung; and chronic bronchitis where there is a progression of airways obstruction. It is a chronic, incurable disease with progressive debilitation. Patients with COPD experience occasional "flare-ups" or acute exacerbations, these becoming more common as the disease progresses, with more debilitating and dangerous episodes of bronchitis which require medical, usually drug, interventions. Each exacerbation leads progressively to further deterioration of lung function.

Hospitalisation is often required where there are episodes of respiratory failure. Acute exacerbations are an important contributor to the healthcare costs, quality of life, morbidity and mortality of patients with COPD.

The most common causes of exacerbations are viruses, bacteria and air pollution, and data suggests that about 50% to 70% are the result of bacterial infection. Non-typeable *H. Influenzae* ("NTHi") is the bacterial species most commonly isolated during exacerbations. It was, therefore, hypothesised by NMIG researchers that vaccination against this organism may be beneficial in acute bronchitis and, more recently, the broader group of COPD patients experiencing exacerbations. As NTHi is unencapsulated, the current Hib vaccine is ineffective.

Physicians treat these diseases acutely (at the time of infection) with drugs, including antibiotics and steroids. Treatment regiments generally become less effective as the disease progresses. According to HIL, the deterioration of lung function accompanying COPD can be modified by reducing risks associated with repeated infection and associated inflammation resulting in the avoidance of exacerbations.

Acute exacerbations of COPD are intense bouts of inflammation that occur in bronchial tissue. The response is inappropriate in that it is excessive, ineffectual and counterproductive. A "normal" balance between microorganisms and the immune system in already compromised lung mucosa can be disrupted by a local inflammatory reaction resulting from aggravating material such as airborne particles. The response may be compounded by the presence of other stimulants such as influenza infection. The localised response occurring in the lungs may reduce protection against microorganisms such as *H. influenza*e and *Pseudomonas aeruginosa* enabling the organisms to migrate deeper into the airways and causing further exacerbation.

In the absence of acute inflammation, the swallowing of sputum containing bacteria from the lungs drives a correct immune response within the intestine with migration of immune cells to the lungs to control the level of infection. HIL has shown that oral delivery of inactivated *H. Influenzae* directly to the mucosal surface of the small intestine will stimulate a protective response against infection in the airways. The deployment of such a vaccine induces the correct immune mechanism during exacerbations serving to contain colonisation.

In the mid- to late-1980's a predecessor product to HI-164OV known as Bronchostat™, was evaluated by ASX-listed company, Auspharm International Limited. A number of clinical trials in bronchitis were undertaken with positive results. The company was seeking to have the vaccine registered in global markets as a prescription product for which it required incontrovertible evidence of safety and efficacy. Although there is no doubt the product was safe, findings with regards effectiveness were inconclusive from a statistical point-of-view – possibly as much the result of poor study design and execution as performance of the product itself. One of the major benefits observed, however, was a greater than 60% reduction in antibiotic usage by bronchitis sufferers.

Following the collapse of Auspharm International in 1989, rights to the Bronchostat formulation were acquired by Rhône-Poulenc Rorer who marketed it in Australia as an OTC, or non-prescription, product with limited claims as to effectiveness. In other words, the company could not advertise that the product cured or effectively treated the targeted disease condition. In this form Bronchostat was used by less severe patients and as a consequence the real benefits may not have been observable. Due to limited promotion it was withdrawn from market in 1997.

HI-164OV is similar to Bronchostat in dose and dosage form, but uses a different isolate of *H. Influenzae*, the newer product being a non-typeable strain. There are reasons to believe that the chosen strain is likely to show a superior clinical response, including:

- Better characterisation of the strain means that its storage, production and detection are well understood assuring batch-to-batch production consistency and high vaccine quality;
- Stronger immunogenicity over most other strains which will provide the maximum possible protection against infection;
- The particular strain confers cross protection against other bacterial strains providing for broad protection.

In addition to the "technical" improvements, the HI-164OV strain is the subject of a new patent application that specifically relates to the particular strain of *H. influenzae*.

The current, and future, evaluations of the vaccine will utilise a well defined cohort of COPD patients - individuals with moderate to severe COPD, aiming to demonstrate a reduction in exacerbations as the specific primary end point. The protocol, along with increased subject numbers relative to studies conducted to date, aims to ensure positive and statistically significant findings, where they occur.

HIL conducted mandatory preclinical studies to show safety and efficacy in animal models of COPD (although there is no exact replication of human disease in animals) and a series of human clinical trials. These are briefly discussed below.

In 2007, the Company submitted an Investigation New Drug ("IND") application to the Food & Drug Administration ("FDA") seeking approval to conduct a Phase III study in the USA – normally the last study required before a marketing approval is granted. The IND was placed "on hold" by the FDA until more data are available. The regulator suggested the Company review the following matters:

- The preclinical, rat study of safety did not accord with FDA guidelines for such products;
- While it is clear Bronchostat caused no adverse events, this could not be taken as assurance that HI-164OV will be safe;
- The animal model of disease developed by HIL needed to be more "human-like";
- The combined Phase I and Phase II studies conducted by HIL are inadequate to justify entry into Phase III; and
- The Company had failed to demonstrate that manufacturing could be conducted at commercial level in compliance with mandatory Good Manufacturing Guidelines ("GMP"), a prerequisite for a Phase III study.

While FDA guidance is relevant; and it is important to understand what steps the Company has taken, or will be taking, to address matters raised; it should be appreciated that Australia's Therapeutic Goods Administration ("TGA") and the European Medicines Agency ("EMA") have a different perspective on the treatment of COPD and the usefulness of vaccines, and are likely to be more favourably inclined to accept studies done to date. The European market may ultimately prove more important than the USA.

2.2 Status of Development

2.2.1 Pre-clinical Development

Animal studies have confirmed the fundamental activity of the HI-164 vaccine against a variety of biotypes of NTHi and its effect in the airways.

Unfortunately, the manner in which some of these studies were conducted did not meet mandatory Good Laboratory Practices ("GLP") guidelines and, as such, may be of limited value for inclusion in a dossier to regulators requesting an exemption to evaluate the product in humans.

HIL has advised that animal tests acceptable to the FDA will be undertaken and that these will be conducted concurrently with the Phase IIb human study in Australia. Acuity considers this to be a reasonable approach and the most expeditious route to gaining a right to do human studies internationally.

2.2.2 Clinical Studies

Six trials were conducted with the Bronchostat vaccine and presented a finding of a significant reduction in the incidence of bronchitic episodes three months after vaccination, with the benefit all but disappearing by nine months. The severity of exacerbations in the treatment group as measured by the requirement to prescribe antibiotics was reduced by 65% at six months. No adverse events were reported. Although not acceptable in support of a marketing approval for HI-164OV, due to the fact that a different strain of the bacterium was involved and because HIL will be seeking marketing approval in moderate to severe COPD, the findings support a general view that a killed *H. influenzae* vaccine is safe and beneficial to patients with bronchitis.

HIL has conducted three clinical trials which met Good Clinical Research Practice ("GCRP") protocols.

A Phase I study (designated H003) was completed in 2006. It aimed to assess safety and elucidate a mechanism of action. In 64 otherwise healthy smokers the vaccine was found to be safe. Additional tests on saliva and blood showed that the immune function was modified by the vaccine and this was consistent with a protective effect. Importantly, this study showed that oral HI-164OV completely prevented access of inhaled live NTHi into terminal airways.

Two Phase IIa studies (designated H002 and H004) were completed in 2007. To some extent these were exploratory studies and, we have been advised, were undertaken with the primary objective of defining the most suitable protocol for a definitive Phase IIb study.

Study H002 evaluated the vaccine in severe COPD patients with recurrent exacerbations. Study H003 had broader entry criteria allowing a mix of all types of recurrent acute bronchitis including many with normal lungs, others with bronchiectasis (who get different patterns of exacerbations) and those with mild COPD. In both studies, fewer than required patients were enrolled and this contributed to a lack of statistical significance in some measures of effectiveness.

The studies did, however, demonstrate reductions in hospitalisation by 50% in mild to moderate COPD (Study H004) and 90% in moderate to severe COPD (Study H002) with reduced use of corticosteroids and antibiotics to treat exacerbations in both. H004 did not show the same effects in reducing steroid treated acute attacks as H002. There were no adverse safety events that could be linked to treatment with the vaccine in either study.

The data from the two studies suggest that HI-164OV's impact is greatest on patients with severe disease and this finding forms the basis for the design of the Phase IIb study currently being conducted.

2.2.3 Current & Future Studies

The Company intends over the next two years to:

- Conduct a longer term animal toxicity study prior to initiating Phase III human studies in an international setting. This can go on concurrently with the current Australian human studies and is not likely to delay later stage trials;
- Complete the on-going Phase IIb clinical trial in a sufficiently large number of individuals to achieve statistical significance in reducing the number of exacerbations per patient;
- Finalise the manufacturing process and ensure transferability from small, trial-scale production at a local manufacturer to a larger, process-scale operation for Phase III and subsequent commercial production;
- Respond to the "Hold" placed on the IND by the US FDA and, upon acceptance of the application, consider whether a further Phase IIb study in the USA may be required;
- Conduct a Phase III study with a protocol and production process accepted by international regulators.

The Phase IIb trial commenced in January 2011 (designated H005). This is a large double-blinded, placebo-controlled study in moderate to severe COPD. Up to 23 leading respiratory physicians around Australia have recruited and dosed 320 of the planned 340 patients. Clinical management is being conducted by Datapharm Australia Pty Ltd. The primary goal is demonstration of a reduction in number of exacerbations requiring corticosteroid treatment per patient or hospitalisation events, in subjects with demonstrated prior exacerbations. It is significant that a larger number of patients are expected to be enrolled than were available to earlier studies and that entry criteria have been narrowed to include only those in whom the product may show greatest benefit.

It is important to appreciate that HI-164OV is not being developed as a drug to treat COPD *per se*, but to (i) reduce the use of drugs needed to treat exacerbations, which has already been proven, and (ii) decrease costly hospitalisation of patients. A significant consequence of reduction in exacerbations will be improved quality of life and a slowing of disease progression.

2.3 Intellectual Property

Patents are an important aspect of drug development. As a consequence of the high costs associated with bringing a novel pharmaceutical to market, stretching into the hundreds of millions of dollars, manufacturers are understandably keen to ensure they preclude direct competition for as long as possible. Patents provide such protection for up to 20 years from the date of filing. The development and testing process can whittle into this term and various jurisdictions around the world, most importantly the USA, Europe and Australia, have legislated for extensions in time where a regulatory process before marketing is required.

Patents can claim a novel molecule or organism, use to treat a particular disease and manufacturing process; and drug companies use multiple patents to layer a protective fence around their discoveries and, possibly, to buy further extensions on their monopoly position.

Bronchostat was the subject of a US patent, now expired, claiming the use of specifically formulated, mono-bacterial vaccine with killed bacteria for immunisation against bacterial infection of mucosal sites. *H. influenzae* as an infecting organism and chronic bronchitis as a target indication were claimed in the patent. This patent in itself does not preclude HIL from marketing a product based on the same principles, however, it does establish a "prior art" by which similar subject matter is not patentable.

To seek to protect its revamped product, HIL filed a number of new patent applications, with some relating to identification of suitable strains and determination of clinically effective dosages. These, in our opinion, merely make life difficult for others who may seek to emulate the HI-164OV product.

The important patent identifies the particular strain that is currently being evaluated clinically. Application WO2010/032141, *Non-typeable Haemophilus influenzae vaccines and their use*; with inventors, M Dunkley & R Clancy; and assignee, Hunter Immunology Limited; was filed on 17 September 2009. It claims non-typeable *H. influenzae* vaccines and their use in the treatment of COPD and asthma. Bacterial strains, including HI-164, are claimed.

Another important patent application claims treatment of asthma by a mono-bacterial, mucosal vaccine, which may be a future target for the Company.

Several years ago, the Company commissioned a report by respected US-based patent attorneys, Dechert LLC. Dechert highlighted a number of weaknesses in past efforts by the Company to secure patents, including an overreliance on methods claims (which often do not protect the product to be marketed and are sometimes difficult to enforce). Dechert proposed changes and a strategy for moving forward. Dechert's recommendation was for a refocusing of the patent portfolio to align with the corporate business model. As a consequence HIL has abandoned a number of the costly, non-relevant patent applications and two US provisional patent applications were filed to fill in the gaps in patent protection focussing on the treatment of asthma and the actual HI-164 isolate. These have since progressed to full international patent filings and in accordance with patent rules the isolate has been deposited in a recognised repository.

The attorneys, in recommending patenting of HI-164, found that: "The proposed claims for the new application are not anticipated over the Broncostat literature because they specify, *inter alia*, that the *Haemophilus influenzae* lack a B capsule gene. We understand that the Broncostat strain did not confer cross protection against other microorganisms to the same extent as isolate 164. Accordingly, we believe that strain 164 is non-obvious over the Broncostat strain."

Precluding others from using one particular strain of organism does not guarantee a market monopoly as interested parties could screen the thousands of strains until they found one equally or more effective. However, the claims in the patent more broadly specify the attributes which are necessary for an effective vaccine, including formulation, dosage and preferred indications. It refers to HI-164 as meeting the desired specifications.

The inventors argue that because there are thousands of *H. influenzae* strains, of which only a limited number are likely to possess similar efficacy to isolate 164 in various assays such as cross-protection against different strains of NTHi, it would be unlikely that others could come up with a similarly safe and efficacious treatment in the short term.

It is impossible to say whether the specifications define all suitable and equally effective strains or how difficult a task it would be to identify or create organisms which circumvent the patents. In our opinion the patent, if granted, will slow the entry of competition and provide a long-term, first-to-market advantage.

2.4 Manufacturing

Product for the H005 study will be manufactured under GMP conditions by Pharmasynth Pty Ltd in Brisbane with formulation into an enteric coated capsule by IDT Limited in Melbourne. The author is familiar with both of these companies' capabilities and can foresee no complications (the Pharmasynth facility was used to manufacture Bronchostat for clinical trials in the late 1980s).

For larger scale production, including Phase III studies and subsequent commercial production, HIL may contract Swiss-headquartered Lonza Biotech SA to produce in its Czech Republic facility although there remains an option to outsource manufacturing to other contract organisations. Lonza is well respected in the industry and currently manufactures biological products for a number of Australian biotechnology companies, including Mesoblast Limited.

Studies have been undertaken by Lonza to replicate the Pharmasynth process and we are satisfied that there will be little difficulty in transferring the process to Lonza or an equivalently experienced company and in achieving scaled-up production.

It is the author's experience with the production of Brochostat that the production of formalin-killed *H. influenzae* is not a difficult or costly process and that scaling to larger batch runs is readily achievable. Transference of the process from one facility to another requires meticulous adherence to protocols but is readily achievable.

2.5 Commercialisation Model

As a small sized biotechnology company the most likely route for HIL for commercialising its IP is through out-license to larger biotech or pharmaceutical companies. The cost of bringing novel pharmaceuticals to market is extremely high and often beyond the means of smaller biotech companies. Out-licensing not only resolves funding issues but also provides the smaller company with access to skills and resources.

In the first instance, at least for the development of HI-64OV, HIL has indicated that it will seek collaborators for the commercialisation of the product.

The current valuation is based on a licensing model (assumed to occur prior to Phase III studies).

3. COPD – Incidence, Treatment and Markets

3.1 Incidence & Costs

COPD is often misdiagnosed, with symptoms confused with those of asthma, and commonly under-diagnosed. Patients who report to their general practitioner with COPD symptoms are often in the later stages of disease progression. It is not uncommon for COPD to be diagnosed in moderate to late-stage disease following an acute exacerbation when a large percentage of lung function may have been lost irreversibly.

One Spanish study, for example, found that 9% of the population had COPD with over 78% of those cases having not previously been diagnosed and, amongst those who had been diagnosed, only 19.3% were receiving treatment.[2]

Worldwide, COPD is the fourth highest cause of death. The prevalence of COPD is moderately high across the seven major pharmaceutical markets (USA, France, Germany, Italy, Spain, UK & Japan) and is at its highest in Italy and Japan, with prevalence rates of 11.3% and 11.1% respectively in 2010.[3] The difference is generally attributed to higher levels of smoking. Estimated prevalence of COPD in the seven major markets is detailed in the following table (from Business Insights). COPD prevalence may be compared to asthma which in the same seven countries in 2009 was 7.0% (60 million).[4]

Table 1: Forecast Prevalence (thou) of COPD in the Seven Major Markets, 2010–16

Country	2010	2011	2012	2013	2014	2015	2016
France	5,059	5,083	5,106	5,129	5,215	5,237	5,258
Germany	5,716	5,800	5,801	5,801	5,884	5,883	5,881
Italy	6,667	6,674	6,738	6,741	6,801	6,801	6,800
Spain	4,066	4,125	4,138	4,149	4,205	4,214	4,221
UK	3,451	3,466	3,481	3,560	3,576	3,655	3,672
5EU Total	**24,958**	**25,147**	**25,263**	**25,379**	**25,680**	**25,789**	**25,832**
Prevalence %	8.0	8.1	8.1	8.1	8.2	8.2	8.2
USA	**21,332**	**21,516**	**21,701**	**22,204**	**22,393**	**22,904**	**23,096**
Prevalence (%)	6.9	6.9	6.9	7.0	7.0	7.1	7.1
Japan	**14,117**	**14,087**	**14,053**	**14,140**	**14,097**	**14,174**	**14,121**
Prevalence (%)	11.1	11.1	11.1	11.2	11.2	11.3	11.3
7MM Total	**60,407**	**60,750**	**61,017**	**61,724**	**62,169**	**62,867**	**63,048**
Prevalence (%)	**8.1**	**8.1**	**8.1**	**8.2**	**8.2**	**8.2**	**8.2**

Datamonitor estimates that there will be a significant increase in the number of total prevalent cases of COPD in the seven major markets between 2010 and 2020 in those over the age of 40.[5] The number of cases will increase from approximately 69 million in 2010 to 80 million in 2020, at an average annual growth rate ("AAGR") of 1.4%. The greatest increase is expected in the US with a rise in the number of cases from 28.1 million in 2010 to 33.4 in 2020, an AAGR of 1.9%. In Germany the AAGR will be 0.8%.

[2] VS Peña, *et al.* Chest 118(4):981, 2000.
[3] The Asthma, COPD & Allergic Rhinitis Market Outlook to 2016. Competitive landscape, global market analysis and pipeline analysis. Business Insights Report BI00042-008, 27 May 2011.
[4] The Asthma, COPD & Allergic Rhinitis Market Outlook to 2015. Business Insights Report BI00022-085. 29 November 2010.
[5] Epidemiology: COPD. Aging population and stable smoking rates to raise case numbers. Datamonitor Report HC00079-003, 17 August 2011.

Table 2: Total Prevalent Cases of COPD in those Aged 40+ in the Seven Major Markets (000s), 2010–20

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	AAGR (%)
US	28,109	28,624	29,144	29,668	30,197	30,730	31,265	31,804	32,345	32,887	33,430	1.9
Japan	8,759	8,909	9,049	9,181	9,306	9,426	9,543	9,654	9,759	9,855	9,942	1.4
France	8,237	8,321	8,401	8,481	8,569	8,667	8,779	8,901	9,030	9,160	9,285	1.3
Germany	12,343	12,513	12,669	12,809	12,993	13,039	13,126	13,197	13,256	13,314	13,377	0.8
Italy	3,877	3,926	3,973	4,017	4,061	4,106	4,153	4,200	4,247	4,294	4,339	1.2
Spain	2,467	2,502	2,539	2,577	2,617	2,658	2,700	2,744	2,789	2,835	2,881	1.7
UK	5,676	5,743	5,813	5,883	5,951	6,015	6,074	6,128	6,180	6,231	6,283	1.1
5EU	**32,600**	**33,005**	**33,394**	**33,767**	**34,130**	**34,485**	**34,832**	**35,170**	**35,503**	**35,834**	**36,165**	**1.1**
7MM	**69,468**	**70,538**	**71,587**	**72,616**	**73,633**	**74,641**	**75,640**	**76,628**	**77,607**	**78,576**	**79,537**	**1.4**

Datamonitor presents the following information for COPD epidemiology based on severity in the seven major markets in 2010. Moderate to severe are relevant to HIL.

Table 3: Prevalent Cases of COPD (000s) by Severity, 2010

Country	Mild	Moderate	Severe – Very Severe
US	15,319	10,457	2,333
Japan	4,905	3,328	526
France	4,621	3,114	502
Germany	6,924	4,666	753
Italy	2,187	1,485	198
Spain	1,392	945	126
UK	2,390	2,475	812
5EU	**17,513**	**12,684**	**2,391**
7MM	**37,738**	**26,469**	**5,249**

The Spanish study referred to above estimated a prevalence of 9% among the population from 40 to 69 years of age and of 23% amongst those over 60. It is estimated that COPD makes up 2% of the Spanish healthcare budget representing approximately 0.25% of the gross national product.

A recent study quantified the mean annual cost per patient diagnosed with this disease as US$1,760.[6] In Canada it was found that the overall mean costs for outpatient and emergency department services for moderate exacerbations were US$126 and US$515, respectively.[7] The average overall cost of a moderate exacerbation was US$641. For severe exacerbations, the average hospital stay was ten days. The overall mean costs of outpatient, emergency department and hospitalisation services were US$114, US$774 and US$8,669, respectively, for an average overall cost of a severe episode of US$9,557.

Figures similar to those for Canada have been reported around the world, including Australia.

COPD is the third leading cause of death in America, claiming the lives of 124,477 Americans in 2007.[8] An estimated 672,000 hospital discharges were reported in 2006 - a discharge rate of 22.5 per 100,000 population. In 2010, the cost to the nation for COPD was projected to be approximately US$49.9 billion, including US$29.5 billion in direct health care expenditures, US$8.0 billion in indirect morbidity costs and US$12.4 billion in indirect mortality costs.

In the UK the economic burden is estimated at £1.2 billion per annum - this includes not only direct healthcare costs, but factors such as lost income tax, payment of state benefits and productivity loss due to COPD.[9]

The consensus definition of an exacerbation of COPD is an event in the natural development of the disease characterised by a change in baseline dyspnoea (shortness of breath), cough and/or expectoration of the patients beyond the daily variations in the symptoms and which is sufficient to justify a change in treatment.

The incidence of exacerbations in moderate-severe COPD has been estimated to be 2.5 to three episodes per patient per year.[10] Nonetheless, it should be taken into account that a proportion of exacerbations do not receive medical care, with there being a certain degree of underdiagnosis even in hospitalised patients with respiratory symptoms compatible with COPD. Again, the reality is that incidence is more common than statistics suggest.

3.2 Treatments & Markets

COPD is a large and growing market with all current medications having a symptom controlling but not disease-modifying effect. Although the treatment of asthma and COPD are similar in terms of the classes of drugs used, such as bronchodilators and inhaled corticosteroids, the long-term management of the disease is very different. Despite the fact that COPD is irreversible, there are a number of pharmacological treatments that can improve the symptoms and quality of life of patients. These include bronchodilators (beta-agonists, anticholinergics, and theophylline), anti-inflammatory drugs (corticosteroids), combination products (dual-action bronchodilators and bronchodilators with anti-inflammatory drugs), oxygen therapy and pulmonary rehabilitation. These therapies provide symptom relief in COPD and may reduce the number and severity of exacerbations.

[6] M Miravitiles, et al. Chest 123(3):784, 2003.
[7] A Lindberg, *et al*. Respir Med 101(12):2569, 2007.
[8] American Lung Association. February 2011. (http://www.lungusa.org/lung-disease/copd/resources/facts-figures/COPD-Fact-Sheet.html)
[9] NursingTimes.net. 15 July, 2010 (http://www.nursingtimes.net/specialist-news/older-peoples-nursing-news/copd-could-cost-uk-economy-12bn/5017231.article)
[10] JA Wedzicha & GC Donaldson. Respir Care 48:1204, 2003.

Inhaled steroids are often combined with bronchodilators and oral steroids during exacerbations. Exacerbations which require hospital admission are associated with significant in-patient mortality. Guidelines for treating those patients presenting with worsening dyspnea, increased sputum volume and purulence include antibiotics with coverage recommended for *H. influenzae*, *Streptococcus pneumoniae* and *Moraxella catarrhalis.*

There is also evidence that influenza and pneumococcal vaccinations are effective in reducing morbidity and mortality in patients with COPD.

The global respiratory market was valued at US$58.4 billion in 2009, with annual growth of 5.4%. Growth in the respiratory market was driven primarily by anti-asthma and COPD drugs, which comprised around US$33.6 billion of the total respiratory market.

The six categories of treatments, representing the majority of first and second-line therapies for asthma and COPD are:

- Short-acting beta-2 agonists (SABA);
- Long-acting beta-2 agonists (LABA);
- Inhaled corticosteroids (ICS);
- Combination long-acting beta-2 agonists and inhaled corticosteroids;
- Leukotriene antagonists (LTA);
- Anticholinergics.

The following table provides a breakdown of 2010 sales across the six categories of treatments, representing the majority of first and second-line therapies for asthma and COPD.

Table 4: 2010 Asthma/COPD Drug Sales by Class (Source: Business Insights)

Drug Class	Sales 2010 (US$m)	Growth 2009–10 (%)	Market Share (%)	Compound Growth 2006–10 (%)
LABA/ICS combination products	13,027	7.8	38.8	12
Leukotriene antagonists	5,968	4.3	17.8	11
ICS	3,723	2.2	11.1	6.5
Anticholinergics	4,650	7.8	13.8	23
SABA	2,264	0.4	6.7	16
Anticholinergics / beta agonists	1,516	-0.2	4.5	0.5
LABA	1,207	0.9	3.6	-1.4
Total leading drug classes	**32,354**	**5.1**	**96.3**	**11.4**
Other drug classes	1,246	-1.9	3.7	7.8
Total asthma/COPD market	**33,600**	**3.2**	**100.0**	**10.4**

Singulair™ (montelukast by Merck) is the highest-selling leukotrienes generating around US$5 billion in 2009 with a market share of 84% of the class. Boehringer-Ingelheim's Spiriva™ (tiotropium) dominated the anticholinergic market with 2009 sales of US$3.5 billion, a market share of 88.7%.

Respiratory drugs represent an attractive area for research by major pharmaceutical companies where asthma predominates with an estimated 300 compounds in various stages of development. The COPD and allergic rhinitis pipelines are of lesser strength, comprising around 140 products. To put this in perspective, the pipelines are not large by pharmaceutical standards when compared to developments for indications such as cancer and many of these drugs will fail at some stage in their development (see following section).

Until recently there were no drugs approved specifically for COPD exacerbations. Earlier this year, Forest Laboratories, Inc. announced FDA approval of Daliresp™ (roflumilast) as a treatment to reduce the risk of exacerbations in patients with severe COPD associated with chronic bronchitis and a history of exacerbations.[11] The specificity of Daliresp's approved indication (COPD associated with chronic bronchitis) is expected to limit the treatable patient population.

Daliresp, marketed in Europe as Daxas™ by the drug's originator, Nycomed, is a selective phosphodiesterase-4 (PDE-4) inhibitor and is approved as an oral tablet taken once daily. While the specific mechanism by which Daxas exerts its therapeutic action in COPD patients is not well defined, it is thought to impact the inflammatory side of COPD and the hope is that Daxas will prevent progression of disease. This has yet to be demonstrated.

The efficacy and safety of Daliresp/Daxas was evaluated in eight clinical studies including 9,394 adult patients. Despite agreeing that the drug is efficacious and safe, FDA advisors have raised concerns that it provided only modest and not clinically meaningful benefit to patients. The exploratory analysis by FDA's statistical team showed that the reduction of exacerbation rate by Daxas compared with placebo may disappear after eight months, which could be problematic for a long-term maintenance indication. The safety profile of the drug indicating carcinogenicity in animals, increased weight loss and psychiatric adverse events have been taken into consideration by the FDA.

Nycomed has entered into a co-promotion agreement with Merck & Co. for the drug which applies to France, Germany, Italy, Spain, Portugal and Canada. The deal also provides Merck & Co. exclusive commercialization rights in the UK. It is expected that Nycomed's partnership with Merck & Co. will help improve speed of uptake of the drug.

3.3 Competition in Development

Since launching as the first once-daily long-acting muscarinic antagonist ("LAMA"), Boehringer Ingelheim's Spiriva™ (tiotropium) has become the clear gold-standard monotherapy for COPD, and remains the only LAMA available. While a number of novel LAMAs are being developed the bronchodilator combinations appear to be the most threatening to the brand. Numerous LABA/LAMA combinations are moving through the pipeline, both in once-daily and twice-daily formulations, many of which are being directly compared to Spiriva in clinical trials. If approved, these products could address unmet needs in COPD, offering improved efficacy with simplified treatment. However, Boehringer Ingelheim itself is developing a once-daily LABA/LAMA combination, utilizing Spiriva, with the aim to increase the lifespan of its market dominance. In September 2011 the company confirmed that it had begun enrolling patients in the Phase III program for olodaterol/tiotropium, which is being developed in the Respimat™ soft mist inhaler. The company has the advantage of the Spiriva component, giving it a strong competitive edge. However, development delays mean that it is not expected to reach the market first, dampening its potential and threatening Boehringer Ingelheim's market dominance.

[11] Forest Laboratories announces FDA approval for COPD drug. NewsWire. 2 March 2011.

GlaxoSmithKline's Relovair™ and Novartis's QMF149 (both once-daily ICS/LABA combinations in Phase III and Phase II respectively) are the other key asthma/COPD drugs in late-stage development. Relovair contains the ICS fluticasone and a novel LABA, vilanterol trifenatate (GSK642444, or Theravance's GW642444).

Novartis has already strengthened its position in COPD with the global launch of Arcapta™ (indacaterol), and in September 2011 the company filed its novel LAMA, glycopyrronium bromide, in the EU under the brand name Seebri Breezhaler™.

GSK revised its COPD pipeline by replacing darotropium with GSK573719 in January 2010. Both molecules belong to the same drug class, LAMA, and have the same mechanism of action, however the efficacy results showed that GSK573719 had a better once-a-day profile compared with darotropium. GSK573719 in combination with GW642444 (LABA) is in Phase II study.

Vectura and Novartis' LABA/LAMA combination QVA149 (indacaterol plus glycopyrrolate) is a potential competitor to GSK573719 plus GW642444, and the decision to replace darotropium puts GSK around a year behind Vectura and Novartis.

Other promising Phase III compounds in development include: Almirall's Eklira™ (aclidinium bromide) and Novartis's NVA237. Novartis's QMF149 (mometasone/indacaterol) and Boehringer-Ingelheim's BI1744/tiotropium are two combination products in Phase II stage of development.

Eklira is a novel, long-acting inhaled anticholinergic bronchodilator. Phase III efficacy studies showed that Eklira is of benefit to COPD patients when taken twice daily. Almirall has planned the regulatory submissions for the drug as monotherapy in mid-2011 in Europe and the US.

Almirall and Forest Laboratories are also studying Eklira in combination with the LABA formoterol.

Table 5: Key Pipeline and Recently Approved Respiratory Products Forecast
(Source: Business Insights)

	Sales (US$m)						
Products/molecules	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Daxas	6	41	65	76	93	104	115
Dulera	44	166	250	335	356	339	329
Bilastine		13	88	125	188	313	338
Relovair				618	1,961	2,378	3,121
Eklira				39	79	98	100
NVA237			39	261	286	315	331
GSK642444			18	101	133	191	213
Azelastine/fluticasone			6	61	108	133	159
QMF149						630	1,046
BI1744/Spiriva					138	304	335

4. HIL's COPD Opportunity

Exacerbations have a negative impact on the prognosis of COPD and the frequency and severity of these episodes are associated with a higher patient mortality. Exacerbations are the first cause of decompensation, hospital admission and death in COPD. Lack of, or under-, treatment of exacerbations may represent an accelerated decline in pulmonary function such that the long term benefit of an effective treatment will be significant from both a patient's quality of life point-of-view, and from a societal and individual economic impact.

A number of published studies suggest that the majority of those diagnosed with COPD are in the moderate to severe categories and it is likely that patients will be prescribed a course of an effective drug each year. This could amount to a target market of 70 million treatments a year and, at $100 per course (Acuity's estimate based on prices for other mucosal vaccines such as Broncho-Vaxom™, and the anticipated cost of Daxas in the UK of £40 per month, or £480 per annum, per patient[12], and costs of current COPD drugs[13] - anticholinergics at US$77 – $140 per month, $beta_2$ agonists at US$36 - $131 per month, corticosteroids at US$90 – $177 per month and combinations at US$100 to $210) a $7 billion opportunity. At this stage we do not know what the likely cost will be, nor do we know how many patients will take the product but, if successful in reducing the number and/or severity of exacerbations, the market potential is large.

The incidence of exacerbations has mainly been estimated in populations of patients with moderate to severe COPD requiring hospital care. However, little is known regarding the epidemiology of exacerbations in patients with less severe COPD. It is therefore possible that a high number of these less severe forms of exacerbations are underdiagnosed and may, in the long-term, have certain prognostic importance for the COPD evolution and may suggest a market much greater than current estimates.

Clinical trials must be conducted under strict guidelines that unambiguously demonstrate the clinical efficacy and safety of proposed drugs, while respecting trial participants' rights. The study's execution and results must be independently audited and statistically analysed. Consequently they are costly, with no guarantees of success. Many pharmaceuticals fail at Phase II or Phase III. For example, one publication presents data showing that 60% of drugs being developed for infectious diseases will fail to transition from Phase II to Phase III, 35% will fail in Phase III and of those completing studies, about 5% will be rejected by the regulator.[14] Another study found that respiratory drugs have failure rates of 57% and 17% at Phases II and III/registration respectively, with anti-asthma drugs showing 49% and 22% through the same stages respectively.[15]

Having said that attrition rates are high, there are a number of reasons to expect that HI-164OV may fair better than the averages presented in the previous paragraph. The Company has completed Phase IIa study, aiming to show efficacy, with promising results. The Phase IIb study aims to expand the patient population to statistically validate efficacy. We would expect a high probability of successful completion of Phase II.

[12] N Frankland. Roflumilast (Daxas®) in the management of severe chronic obstructive pulmonary disease. NHS Regional Drug & Therapeutics Centre (Newcastle). June 2010.
[13] GC Grimes, et al. Medications for COPD: A Review of Effectivenness. Am Fam Physician76(8):1141, 2007.
[14] I Kola & J Landis. Nature Reviews Drug Discovery 3:711, 2004.
[15] RM Abrantes-Metz, et al. US Bureau of Economics, Federal Trade Commission. Working Paper No. 274, October 2004.

Secondly, the product is not a new chemical entity but a vaccine. Limited data on vaccine success rates show that around 21% fail in Phase II, 29% in Phase III and 4% at registration (although the data are old they are reasonably representative of the type of vaccine under development by HIL and not biased by more modern approaches to vaccine development which include novel synthetic chemicals and biological constructs that aim to induce protective immune responses through more complex mechanisms).[16] Thus, an overall success rate of 54% if there were no preliminary data on Phase II has been calculated for live, killed and attenuated organism-based vaccines.

5. Other Opportunities

We understand that HIL has a program for developing bacterial vaccines for additional indications. These include the treatment of asthmatic conditions that fail to respond to steroids (ie. intrinsic asthma), sinusitis and otitis media as well as vaccines based on other bacteria. Additional indications for HI-164 may require a reformulation of the current product and will, at a minimum, require clinical trials to demonstrate efficacy of each individually.

Asthma, the subject of a patent filing, and otitis media will extend the applications for HI-164. The potential for an NTHi in asthma arises from findings in earlier studies by NMIG researchers that the breathlessness or wheeze associated with bronchitis is resolved following administration of the vaccine and more recent studies demonstrating that both asthma and COPD patients show an inappropriate response to colonising NTHi in support of a common mechanism hypothesis. Thus, there is an opportunity for the product in severe or treatment-resistant asthma. A study has been proposed by a leading UK asthma clinic and funding is being sought through a research grant.

The treatment strategy is unique. Success in asthma will significantly expand the commercial opportunity for HI-164.

P. aeruginosa is an opportunistic bacterium, often acquired in the hospital setting and more-and-more becoming antibiotic resistant. It is a serious problem for cystic fibrosis, cancer and COPD patients who acquire the infection following extended use of antibiotics and it can be deadly in up to 50% of those infected.

HIL, following observations by NMIG researchers of a positive response to oral immunisation with formalin killed *P. aeruginosa* in an animal model and a human study showing safety and elucidating a mechanism of action, has collected isolates to commence a screening program to identify the most suitable strain for further evaluation. Although an early stage program, a suitable product will follow a similar development program to HI-164OV, commencing with pre-clinical safety and toxicology of the chosen strain, and draw on the Company's extensive experience in trialling and manufacturing.

This report has not attempted to provide a valuation for these early stage projects which clearly add to the overall worth of the company but, in our opinion, only slightly due to a lack of convincing data.

[16] M-M Struck. Nature Biotechnology 14:591, 1996.

6. Strengths and Risks

A number of the technical and therapeutic advantages of HI-164OV have been presented in the previous sections. The proposed product is unique in that there are no vaccines currently available or in development for the treatment of exacerbation in COPD. All current COPD drugs are accompanied by serious adverse effects.

The condition being targeted by HIL has no suitable treatment and poor prognosis. It is, however, high in prevalence and patients will not be cured of COPD, hence the patient pool requiring chronic treatment will remain high, but receive relief from exacerbations.

The current vaccine seeks market protection through a patent application and other applications have been lodged to cover the methods for identifying suitable organisms. The former has yet to be granted in any major country. There is no guarantee that these patents will be granted or that, once granted, they will definitively preclude others from development suitable vaccines based on similar concepts.

The following risks are the ones which we consider of most importance to the valuation and are not necessarily all risks faced by HIL in developing and commercially exploiting the IP.

HIL competes with numerous companies in the vaccine and respiratory drugs fields many of which are better resourced and financed with greater capabilities in manufacturing, regulatory affairs, and marketing and distribution. They are capable of rapid market entry. Where a small company creates a new market, the established competitors can grab market share through price cutting and aggressive promotional campaigns, and they can fund expensive patent disputes.

HIL may conduct clinical trials under the guidance of a globally-operating contract research organisation which, in itself, mitigates risk. It will then hand development across to a more skilled partner to complete development and registration, and provide the manufacturing and marketing infrastructure. Such a strategy will de-risk development for the Company.

If the third parties on whom the Company relies to conduct clinical trials and those licensees and/or collaborators that will manage late stage development and regulatory approvals do not perform as contractually required or expected, market opportunities may be lost and cash flows severely compromised.

Delays in the roll-out of the product, due to factors such as patient recruitment and slow regulatory approvals can adversely affect the valuation.

The greatest commercial risk comes from the introduction of exacerbation-specific drugs which are currently under development. It is hard to assess how effective relative to HI-164OV these future products may be although it is reasonable to assume that HIL's product may be cheaper to manufacture compared to chemically synthesized products and may have fewer side effects.

These risks have been considered in conducting the valuation and brought to bear in the manner in which the cash flow projects have been utilized.

7. Valuation

7.1 Valuation Methods

Techniques used for valuing intangible assets, of which IP is one form, generally fall into three main categories[17]:

1. Cost Based;
2. Market Based; and
3. Revenue Based.

7.1.1 Cost Based Methods

There are several cost approach valuation methods, the most common being the reproduction cost method and the replacement cost method. Regardless of the type of cost being estimated (eg. reproduction, replacement or other) five components of cost are generally included in the analysis being: Materials; Labour; Overhead; Developer's Profit; and Entrepreneurial Incentive. The last factor is often difficult to estimate.

In considering historical costs as a basis for replacement or reproduction it must be assumed that all expenditure on a product's development, has been targeted and cost effective (not always a valid assumption in R&D), and that another party wishing to recreate the IP does not have the benefit of the current owner's acquired knowledge nor is he precluded by patents in exploiting his "reproduction". These constraints often negate the use of historical costs, although it is fair to assume that a licensor may be seeking a return on his investment and will often base his negotiating position on past expenditure. Others argue strongly that historical expenditures are irrelevant for IP simply because the value to an acquirer cannot be correlated with the developer's costs.[18] Evidence suggests that the value of promising IPR&D far exceeds past expenditure and that the premium is likely to correlate more with market potential than a simple rule-of thumb multiplier would suggest.

HIL has not provided details on past expenditure on the programs and patents. In any event, it is clear that the program derives benefit from decades of research, including some by other companies, and it is impossible to identify all such expenditure.

The patents provide market exclusivity suggesting a value in excess of what may be considered a replacement value. For another party to develop analogous technology that could circumvent the patent applications would require greater expense than has been applied by HIL, and even then may not achieve an outcome of equivalent utility. Cost based methods were therefore not applicable.

[17] RF Reilly & RP Schweihs. Valuing Intangible Assets, McGraw Hill (NY) 1998.
[18] R Razgaitis. Early-Stage Technologies. Valuation & Pricing. Wiley (NY) 1999.

7.1.2 Market Based Methods

Techniques based on analysis of transactions between companies, equity valuations or capitalisations of comparable companies have considerable merit in the biotechnology sector. There are thousands of transactions taking place in the industry every year where one company licenses IP from another or enters into a collaborative venture. There are also many fund raisings, both private placements and IPOs, which may be used as analogies.

Comparison is possible only where a transaction relates to an identifiable unit of IP or platform technology that is reasonably analogous or, in the case of the value placed on a company, where that company is virtually single purpose and technically equivalent to the subject company or IP. Such criteria are often difficult to meet and comparable analyses are usually used only to support the values derived with other methodologies or to provide a "ball park" estimate.

We consider such methods as valid and have conducted appropriate analyses.

7.1.3 Revenue Based Methods

The technique most commonly employed is based on a DCF analysis. To assume any level of credibility, the DCF must be based on sound cash flow predictions, with justifiable assumptions regarding sales estimates, expenses and revenue timings. These are then net present valued using a discount rate, often following probability adjustment, that recognises the time value of money and risks involved in achieving the forecast cash flows.

The "Beta Factor" of a particular investment is a reflection of its risk expressed as a percentage of the volatility to that of a market portfolio, ie. a portfolio of stocks sufficiently diversified so as to reflect average market movements. The rate of return on the market portfolio will, by definition, fluctuate identically with the market and therefore its Beta Factor is one. Investments with Beta Factors lower than unity are less volatile than the market and thus would be expected to have a risk premium lower than the overall market premium.

The "Risk Premium" represents the premium over the Risk Free Rate that an investor requires to invest in the market portfolio. Typically, the risk premium associated with the equity market, as determined by the Centre for Research in Finance at the Australian Graduate School of Management, over the longer term is around 6-7%.

Using the 30 year US bond yield of 4.6%, and applying a Beta range of 1.2 to 1.5 as determined by Loh and Brooks[19] for DNA and biochemistry companies a discount rate of approximately 13% to 15% nominal is derived.

[19] J Loh & P Brooks. Valuing Biotechnology Companies: Does Classification by Technology Type Help? J Comm Biotechnology 14(2):118, 2008.

Discount rate adjustments have been used in the past to account for risk associated with realising projected cash flows. For example, a high risk project may be discounted at 45% which could be three or four times the weighted average cost of capital for the venture. Such practices seldom apply to the valuation of IP and IPR&D as they fail to recognise the fact that once the research has been completed the risk has been resolved with major implications for projects with long development times. However, where there may be compounding risk such as an anticipated increase in competition or a changing economic environment, modest discount rate premiums may have relevance.

Our preferred methodology for IPR&D is generally not to apply discount rate premiums over and above the CAPM but to use a risk analysis and probability adjust cash flows.[20, 21] The procedure explicitly recognises the time profile of the risk by probability adjusting the cash flow using literature- or experience-based probabilities and applying these at the time points at which the risk is apparent.

The American Institute of Certified Public Accountants ("AICPA") has issued a Practice Aid stipulating the approach to be adopted when valuing IPR&D in pharmaceutical and other high technology sectors.[22] The Practice Aid states that, whilst valuations of IPR&D may still be carried out using traditional discounted cash flow techniques; the preferred approach is to use expected cash flows arrived at using decision analysis techniques and probability analysis. The resulting cash flows may then be discounted at a rate close to the cost of capital as the risks are deemed to have been dealt with in the probability analysis. In the AICPA's opinion, the explicit assessment of the probabilities associated with the possible cash flow outcomes provides computational transparency compared with selecting a discount rate purportedly commensurate with the risks.

7.2 Sources of Information

We have prepared our valuation on the basis of technical and other information provided by HIL, and information from other publicly available sources regarding markets and competition.

We held discussions with the following HIL senior management:

- **David Radford**, CEO, HIL;
- **Professor Robert Clancy,** Director, HIL; company founder and Director NMIG,
- **Kevin Healey,** ex-CEO HIL.

Acuity was given access to electronic Company records related to the clinical trials, manufacturing and quality control. The following documents provided background and an update on the clinical trial:

- Clinical Research Protocol HI-H005. Phase 2b. Sponsor: Hunter Immunology Ltd. Final. 6 September 2010;
- Investigator's Brochure. HI-164OV Oral Vaccine Product. 17 September 2010;

[20] FP Boer. The Valuation of Technology: Business & Financial Issues in R&D. Wiley (New York), 1999.
[21] B Bogdan & R Villager. Valuation in Life Sciences: A Practical Guide. Springer Verlag (Berlin), 2007.
[22] "Assets Acquired in a Business Combination to be used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries." AICPA, New Jersey. 2002.

- HI-H005 Study Manual. Version: 3.0, Final. Datapharm Australia Pty Ltd. 24 December 2010;

- Clinical Research Protocol HI-005. Report of the DSMB – 23 August 2011.

The Company also provided a number of scientific publications by the inventors.

To independently assess the markets and competition we conducted literature and patent searches through Dialog™, Business Insights, Datamonitor and the Internet.

Findings and the valuation opinion are based on our knowledge and experience in technology development and its assessment, as well as the financial analysis of research projects and intellectual property valuation.

8. Valuation Opinion

8.1 Comparables Analysis

As at 31 March 2011, there were 64 biotechnology companies listed on the ASX with a combined market capitalisation of $25.8 billion.[23] Excluding CSL Limited with a market capitalisation of $19.7 billion and stem cell developer Mesoblast Limited, market capitalisation $2.1 billion, the combined market capitalisation of the other 62 was $4.0 billion with an average of $64.5 million.

An analysis of biotechnology company initial public offerings ("IPO") for listing in Australia with an emphasis on human pharmaceuticals is presented in Table 6.

[23] Biotech Business Indicators. March 2011. Australian Government. Department of Innovation, Industry, Science and Research. http://www.innovation.gov.au/INDUSTRY/BIOTECHNOLOGY/BIOTECHBUSINESSINDICATORS/Pages/default.aspx.

Table 6: Analysis of Australian Pharmaceutical IPOs

Company	Year	IPO Valuation (pre-cash)[1]	Tangible Assets[2]	IP Value[3]	IP Value Indexed to 2011	Status at Time of Listing
CBio	2009	$66.5m	$0.5m	$66.0m	$68.0m	One product in Phase II for rheumatoid arthritis.
Patrys	2007	$35.3m	$6.4m	$28.9m	$32.3m	Two preclinical candidates with an out-licensed antibody in Phase IIa.
QRxPharma	2007	$100m	-$19.7m	$119.7m	$134m	Various products about to enter Phases I, II and III.
EvoGenix	2005	$22.2m	$1.8m	$20.4m	$24.3m	Three antibody developments & novel platform.
Medical Therapies	2005	$3.6m	$0.4m	$3.2m	$3.8m	Pre-clinical candidates for two indications.
Dia-B Tech	2004	$12.2m	-$0.3m	$12.5m	$15.2m	Pre-clinical candidate.
Mesoblast	2004	$25.8m	$1.7m	$24.1m	$29.4m	Pre-clinical development of stem cell therapies.
Pharmaxis	2004	$29.0m	$8.7m	$20.3m	$24.7m	Product in Phase III.
Alchemia	2003	$49.2m	$10.5m	$38.7m	$48.4m	Pre-clinical drug & novel platform.
Biotron	2002	$20.0m	$0.1m	$19.9m	$25.6m	Pre-clinical therapeutic candidate & diagnostic projects.
Autogen	2000	$18.9m	7.0m	$11.9m	$16.8m	A number of discovery programs. No specific drug candidates.
Epitan	2000	$26.1m	$14.0m	$12.1m	$17.0m	Pre-clinical candidate.
Peplin Biotech	2000	$14.4m	$4.6m	$9.8m	$13.8m	Pre-clinical candidate.
Prana Biotechnology	2000	$17.3m	-$0.1m	$17.4m	$24.5m	Pre-clinical candidate.
Starpharma Holdings	2000	$53.1m	$8.1m	$45.0m	$63.3m	Pre-clinical device & novel platform.
Bionomics	1999	$2.6m	$0.5	$2.1m	$3.0m	Discovery.
Metabolic Pharmaceuticals	1998	$39.0m	$0.3m	$38.7m	$55.7m	About to enter Phase I with candidate.

[1] From Company Prospectuses.
[2] Net Tangible Assets less Recognised Intangibles, as presented in Company Prospectuses.
[3] Difference between Prospectus Valuation and Tangible Assets.

From Table 6 it is clear that, at least to the promoters of the floats, pre-clinical developments in the pharmaceutical field, including a number of platform technologies, have valuations at between $3.2 million (Medical Therapies) and $38.7 million (Metabolic). One company that listed with products already in clinical trials, QrxPharma, valued its intangible assets, *viz*. IP, at $119.7 million, while another, Pharmaxis, valued its at $20.3 million. Both of these companies had a number of candidates in clinical trials including one each in Phase III. CBio (IP valuation $66 million) and Patrys ($28.9 million) had products in Phase II development and are reasonable comparators for HIL.

Table 7 lists Australian pharmaceutical development companies that have products currently in Phase II clinical trials. It should be noted that all of the above companies are currently loss making.

Table 7: Capitalisations of Australian Drug Development Companies

Company	Enterprise Value[1]	Status
BioDiem (BDM)	$6.0m	Influenza vaccine in Phase II development.
Biotron (BIT)	$16.5m	Phase 1 study complete for HIV and hepatitis C.
Benitec (BLT)	$14.8m	Platform technology with one compound in Phase 1 for HIV.
Phosphagenics (POH)	$159.2m	Phase 1 studies complete for topical insulin pain products delivery. Other products in development and some licensed.
Antisense Therapeutics (ANP)	$7.2m	Phase II study in multiple myeloma, other products preclinical.
Bionomics (BNO)	$124.7m	Phase II studies of a compound in kidney cancer and mesothelioma. Other products in development.
CBio (CBZ)	$51.5m	Rheumatoid arthritis drug in Phase II.
Living Cell Technologies (LCT)	$19.2m	Diabetes product in Phase IIb and another preclinical.
Neuren Pharmaceuticals (NEU)	$28.3m	Product for traumatic brain injury in Phase II.
Patrys (PAB)	$12.3m	One product in Phase 1/2a, others preclinical.
Prima Biomed (PRR)	$116.4m	Complete Phase 2a for ovarian cancer. Second product in Phase 1.
Progen Pharmaceuticals (PGL)	$6.6m	Phase II complete for liver cancer and underway for melanoma. A second drug in Phase 1 for solid tumours.
Prana Biotechnology (PBT)	$33.8m	Phase 2 studies in Alzheimer's Disease.
Starpharma Holdings (SPL)	$242.8m	A novel product formulation for STDs in Phase I/IIa clinical trial. Platform technology, licence deals.
Virax Holdings (VHL)	$3.4m	Phase I/IIa complete HIV, preclinical prostate cancer.
Viralytics (VLA)	$22.2m	Drug delivery mechanism in Phase I for melanoma.
Average	**$54.0m**	

[1] Market capitalisation 7/11/11 plus debt less cash & equivalents (Source: DMR Corporate / CapitalIQ).
[2] Generally carried IP (Source: DMR Corporate / CapitalIQ).

The table suggests that investors are valuing companies with candidates in Phase II trials in the range of $3 million to $206 million (average of $54.0 million). Disregarding those companies with multiple drugs in development with or without a broad technology platform (such as Phosphagenics, Starpharma, Progen and Bionomics) a more reasonably comparable average of $27.6 million is obtained. A buyer may be expected to pay a control premium over the current market price and this may be in the range 20–30% suggesting a valuation for these companies of approximately $33 million..

The following table (Table 8) presents the terms of mergers and/or acquisitions that took place in Australia in recent years

Table 8: Mergers and Acquisitions of Australian Drug Developers

Company	Acquired By	Date of Acquisition	Acquisition Price	Tangible Assets[1]	Intangible Assets & Goodwill[2]	Program Status at time of Acquisition
ChemGenex Pharmaceuticals	Cephalon, Inc USA)	Mar 2011	$225m	$10.8m	$214m	One product completed Phase III
Cytopia Limited	YM Biosciences Inc (Toronto, Canada)	Oct 2009	~ $13.9m	$3.0m	$10.9m	One product in Phase II trial for brain tumours and another recruiting Phase 1.
Peplin Biotech	Leo Pharmaceuticals (Denmark)	Nov 2009	$288m	$1.9m	$286m	Phase II study in actinic keratinosis (skin cancer) complete.
Arana Therapeutics	Cephalon International Holdings, Inc. (USA)	May 2009	$318m	$175m	$143m	Many products in preclinical for cancer and one in Phase 1 trial for rheumatoid arthritis.
EvoGenix Limited	Peptech Limited	Aug 2007	$156m	$8.4m	$148m	Contracts to develop humanised antibodies & discovery level human therapeutics.
Zenyth Therapeutics	CSL Limited	Oct 2006	$104m	$39.6m	$64.4m	Two antibodies in pre-clinical development, others in Discovery mode.

[1] Net Tangible Assets less Recognised Intangibles, from prior year's Annual Report of target company (company websites) or subsequent year's Annual Report of Acquirer.
[2] Difference between Acquisition Price and Tangible Assets.

Based on the above findings, we would expect that a fair price for HIL's IP assets would not equal that of Peplin's, because of the relatively higher treatment cost for cancer therapeutics compared to respiratory drugs, and the lack of competition in the area; nor as high as the Arana Therapeutics' consideration for the same reasons. Somewhere in the range $11 million as paid for Cytopia's IP with a higher risk product in Phase II, and $64 million as paid for Zenyth Therapeutics' IP, not in trials at the time, would seem reasonable. EvoGenix had a cash flow underpinned by contracts and a broad technology platform.

It should be noted that we have restricted our analysis to Australian listed entities as foreign, and in particular US companies, tend to have higher valuations. Moreover, companies in the Northern Hemisphere seldom undertake IPOs with products in early stage clinical trials and there are consequently fewer comparator companies. The following transactions, however, provide some insights.

In August 2010, Nycomed International GmbH entered an exclusive development, manufacturing, and commercialization agreement with Forest Laboratories (NYSE:FRX) for Daxas, at the time in Phase III development, in the US.[24] Under the terms of the agreement, Forest Laboratories made an upfront payment of US$100 million with additional milestone payments due to Nycomed based on defined regulatory and commercialization achievements. Nycomed will also receive royalties on the US net sales typical for a product which is in registration. Forest Laboratories will be responsible for the US regulatory approval and commercialization of Daxas in the US and the companies will collaborate on future development programs. Nycomed will retain marketing rights to Daxas in Europe and the rest of the world.

In January 2010, Galapagos NV (Euronext:GLPG) announced that it had entered into a global multi-year strategic alliance with Roche (SIX:RO, OTCQX:RHHBY) to develop potential new therapies in COPD. In the alliance, Galapagos will apply its target discovery platform to discover novel COPD targets. Galapagos is then responsible for the discovery and development of new small molecule candidate drugs against these targets. Roche will have an exclusive option to licence each small molecule program after either clinical candidate selection or completion of Phase I clinical trials. In addition, Roche has an exclusive option to license the COPD targets for the discovery and development of antibodies against these targets. Upon exercise of each option, Roche will be responsible for the further (pre)clinical development and commercialization.

Under the terms of the agreement, Galapagos has received a research access payment of €6 million from Roche.[25] Galapagos is also eligible to receive discovery, development, regulatory and sales milestone payments that could potentially exceed €400 million, plus royalties upon commercialization of any products covered in the agreement.

In June 2010, Centocor Ortho Biotech, a division of Johnson & Johnson (NYSE:JNJ), announced that it has acquired acquired UK-based RespiVert Ltd, a private company developing small-molecule, inhaled therapies for the treatment of pulmonary diseases. RespiVert's two lead compounds at the time were RV-568 and RV-1088, potential treatments for asthma, COPD and cystic fibrosis with both about to enter clinical trials. Financial terms of the deal were not disclosed, but Imperial Innovations Group, one of RespiVert's VC backers, reportedly made almost US$14 million on the sale of its 13.4% stake in the developer suggesting a valuation around US$100 million.[26]

[24] all Business http://www.allbusiness.com/company-activities-management/company-structures-ownership/15631127-1.html#ixzz1czci00Cw.
[25] Galapagos NV Press Release 11 Jan 2010. http://www.glpg.com/press/2010/1.htm.
[26] J&J's Centocor buys RespiVert. FierceBiotech. http://www.fiercebiotech.com/story/j-js-centocor-buys-respivert/2010-06-01#ixzz1czdrbICe.

In its December 2011 Annual Report (10-K, filed 25 February 2011) Johnson and Johnson identified that the IPR&D related to the acquisition of RespiVert Ltd., was recognised at US$100 million being technology associated with narrow spectrum kinase inhibitors with a unique profile of anti-inflammatory activities as treatments for moderate to severe asthma, COPD and cystic fibrosis. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 10-12% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 17%.

In a series of complex transactions, Theravance Inc (NASDAQ:THRX) cross-licensed COPD related developments with GSK.[27] Product development collaborations include a LAMA/LABA combination (GSK573719/Vilanterol or '719/VI) and bifunctional muscarinic antagonist-Beta-2 agonist ("MABA") which contains GSK961081 ('081).

Vilanterol was discovered by GSK. In the event that VI is successfully developed and commercialized, Theravance will make milestone payments to GSK which could total as much as US$220.0 million if both a single-agent and a combination product or two different combination products are launched in multiple regions of the world. Theravance is entitled to annual royalties from GSK of 15% on the first US$3.0 billion of annual global net sales and 5% for all annual global net sales above US$3.0 billion. Sales of single-agent LABA medicines and combination medicines would be combined for the purposes of this royalty calculation. For other products combined with a LABA from the LABA collaboration, such as '719/VI, royalties are upward tiering and range from the mid-single digits to 10%.

As part of the LABA collaboration, in 2002, GSK purchased through an affiliate shares in Theravance for an aggregate purchase price of US$40.0 million.

If a single-agent MABA medicine containing '081 is successfully developed and commercialized, Theravance is entitled to receive royalties from GSK of between 10% and 20% of annual global net sales up to US$3.5 billion, and 7.5% for all annual global net sales above US$3.5 billion. If '081 is commercialized only as a combination product, such as a MABA/ICS, the royalty rate is 70% of the rate applicable to sales of the single-agent MABA. If a MABA medicine containing '081 is successfully developed and commercialized in multiple regions of the world, the company could earn total milestone payments up to US$125.0 million for a single-agent medicine and up to US$250.0 million for both a single-agent and a combination medicine.

Associated with the MABA deal, GSK purchased 6,387,096 shares of Theravance common stock for an aggregate purchase price of $108.9 million.

Two European companies are developing COPD drugs being Verona Pharma Plc (LON:VRP) and Synairgen Plc (LON:SNG) with market capitalisations at the time of writing of £28.6 million and £32.8 million respectively. Synairgen has products in Phase II evaluation for COPD, asthma and influenza.

Verona Pharma has a compound exhibiting both PDE-3 inhibitor activity, the drug is expected to result in bronchodilator actions, and PDE-4 inhibitor which is expected to be anti-inflammatory. The product, which has been through a number of Phase II studies, is expected to be effective in the treatment of COPD.

[27] Theravance Inc. Quarterly Report, 10-Q. Filed 2 November 2011 (accessed through http://access.edgar-online.com).

8.2 Valuation by Discounted Cash Flow

8.2.1 Analysis Approach & Assumptions

A financial model has been prepared for HIL-164OV for application in the treatment of exacerbations in moderate to severe COPD.

We have concentrated only on the markets in the USA, the 5 leading markets of Europe, Japan and Australia/NZ due to the dominance of these markets and the fact that exacerbations are more likely to receive attention in these countries. Market size is determined from prevalence rates for these regions with knowledge that there are no treatments available or in development, including HI-164OV, which will reduce prevalence.

The inclusion of other regions and additional indications clearly will add marginally, in our opinion no more than 5% to 10%, to the valuations of the program. From this perspective our valuation is conservative.

The valuation date is 1 November 2011. We have developed financial projections based on the available information for the term of the composition of matter patents. Thus the valuation term for HI-164OV based on WO2010/032141 (filed 17 September 2009) is to September 2029. We have ignored the potential for sales beyond that term, even though there may be available an additional five years resulting from patent extensions in the major pharmaceutical markets (including USA[28]) and that product may be sold as a generic. The assumption is, however, that a licence will be granted only to assured expiry of the patent.

It should be noted that the valuation is for the one unit of IP owned by HIL and not of the Company as a sustainable entity. A valuation of the Company may make the assumption of life-to-perpetuity, achievable through greater R&D investment, and include a terminal value in the cash flow model. Although WO2010/032141 is the key patent, the valuation assumes that certain other patents, along with knowhow and experimental data, support the product's worth. Furthermore, the valuation does not include tax losses currently available to the Company.

Time frames for finalisation of clinical trials, approvals and market launch are based on realistic schedules as outlined in the following sections.

The models for HI-164OV are based on the selling of product by a licensee or licensees following completion of the Phase II study and prior to the Phase III. As such, the licensee(s) are responsible for funding the final trial and regulatory costs.

Revenues are based on a treatment cost as may be anticipated from trends for respiratory drugs NCE's and an estimated market share.

The model examines cash flows from two perspectives – one for the licensor, HIL, and one for its licensee(s). The licensee, in addition to development and commercialisation expenses, may pay milestone fees and royalties to HIL. HIL meets the cost for completion of the current Phase II study.

[28] A patent extension is available in the USA under the Drug Price Competition and Patent Restoration Act (1984) also known as the Hatch-Waxman Act. The Act added Section 156 to the Patent Act permitting patent term extension for patents on products (or processes for making or using the same) that are human drugs, and other products, subject to regulation under the Federal Food, Drug and Cosmetic Act. The Act restores a portion of the patent term during which the patentee is unable to sell or market a product while awaiting government approval, such as the FDA's review of a prescription drug.

The cost of goods sold ("COGS") and Selling, General and Administrative ("SG&A") expenses are based on an examination of annual reports for major pharmaceutical companies.

Completion of the current trials for COPD exacerbations is estimated by the Company to be approximately $4.5 million including company overheads. Pivotal stage clinical trial costs are based on estimates of numbers of patients required as extracted from clinical trials information for COPD therapy regimens,[29] multiplied by a per patient cost as available from published literature. It is assumed that these estimates include the manufacturing of trial drugs and overheads. Additional expenses are included for preparation and submission of regulatory dossiers and post market surveillance.

It is assumed that capital assets are not acquired and held by HIL in relation to the HI-164OV product.

The cash flows are probability adjusted using published data on vaccine and respiratory drug development success rates with probabilities applied at the time point where development hurdles are passed. Probabilities are cumulative.

The objective of modelling the licensee's cash flow as well as the licensor's is to apportion the net benefit of the technology's commercialisation between the two parties as a basis for determining royalty rates and milestone payments. It is a commonly accepted rule-of-thumb that the licensee needs to realise a significant return for the risk involved in taking the technology from a development program to a marketable product. Generally a step-up factor of approximately four is required to make the investment attractive - often referred to as the 25% rule.[30, 31] As a technology gets closer to market it is likely that the licensor can demand a higher fraction and there are numerous example of an equal distribution of profits once clinical trials are complete. The splits analysis is done on the basis of before tax cash flows as the putative licensee's tax affairs are seldom known.

In the current analysis, the valuation is based solely on royalties and any licensing deal that HIL may enter into would be based on achieving the same valuation through a combination of milestone payments and royalties net present valued to the same date. In other words, if more is realised through cash payments, then the royalty rate will reduce.

In determining the licensor's valuation of the IP in its current form tax was deducted at the Australian company tax rate of 30% and tax losses are carried forward.

Cash flows are discounted at an appropriate discount rate that reflects industry risks but with no additional premiums.

The following assumptions apply to the modelling for exacerbations in moderate-severe COPD:

- We have utilised Datamonitor estimates of approximately 12,790,000 extant cases of moderate to severe COPD patients in the US who will be available for treatment, 15,075,000 in Europe and 4,700,000 in Japan with provision for a further 1.3 million in Australasia and other parts of Asia. Growth in prevalence has been assumed to be 1.3%, 0.6% and 0.1% for the three regions respectively.

[29] http://www.ClinicalTrials.gov
[30] FP Boar (Reference 20), page 255.
[31] R Razgaitis. Valuation and Pricing of Technology-based Intellectual Property. Wiley (NY), 2003, page 204.

- It is assumed that each of these sufferers has one exacerbation a year (the statistics suggest higher) or at least has one course of treatment a year to avert exacerbations.

- The models assume that a successful product will garner 20% of the market. There is currently no adequate treatment for the condition but it is likely Daxas will be the first product for exacerbations and will command market leadership. Should HI-164OV prove to reduce exacerbation incidence with fewer side effects it will be the treatment of choice for many of the patients.

- Completion of the current trial, including data analysis and reporting, followed by protocol development for a pivotal study will require a further year for an all up cost of US$4.6 million.

- A Phase III study will commence in mid-2012 and take three years. It will require 1,250 patients at an average patient cost of US$30,000.

  Some Phase III clinical trial numbers from *http://www.clinicaltrials.gov* are presented in the following table:

  Table 9: Clinical Trial Patient Numbers

Study	Sponsor	Trial Numbers
Simvastatin	Merck	1126
LAS 34273	Almirall / Forest Labs	804
Aclidium bromide LAS-MD-38	Almirall / Forest	510
Aclidium / Formoterol	Almirall / Forest	1575
Aclidium / Formoterol cf Formoterol	Almirall / Forest	1550
Fulticasone furoate/Vilanterol vs. Tiopropium	GlaxoSmithKline	248
GSK573719/GW642444 and GSK573719	GlaxoSmithKline	500
Prednisolone in severe exacerbations	Hôpital Universitaire Fattouma Bourguiba	200
Macrolide azithromycin	National Heart, Lung, and Blood Institute	1142
QVA149 vs. NVA237/Triopium	Novartis	2198
Roflumilast (Phase IV)	Forest Labs	2300
Salmeterol (Phase IV)	Boehringer Ingelheim Pharmaceuticals	7376

- A further year is required before FDA approval is granted. Approval is granted 12 months later in Europe and other regions.

- The cost of treatment is US$100 per course.

- Product sales continue to the date of expiry of the key patent in 2029.

- The modelling assumes that sales increase linearly over a four year period to reach peak penetration and that there is no erosion of the 20% share for a further three years. Sales then decline at 5% per annum to patent expiry due to increased competition or price erosion.

- COGS for the licensee is set at 20% of selling price based on an analysis of industry averages for ethical pharmaceutical producers (average 21.8%).

- SG&A expense to the licensee is 30% of selling price. These figures are similar to that determined by Myers and Howe[32] (who provide a figure of 31.1%) but because they may be out of date a crosscheck was made with seven listed pharmaceutical companies (AstraZeneca, Amgen, Merck, Novartis, Genentech, Pfizer and GSK) which gave an average of 29.9% for combined selling and administrative costs.

- Regulatory dossier preparation and submission has been assumed to be US$2.5 million for all regions and US$2.0 million for post market surveillance.

- Included on the licensor side is an expense of 0.5% of revenues as administrative cost subsequent to out-licensing to cover accounting and audit charges, and general office expenses.

- Royalties are receivable from the licensee with the amount adjusted, in the absence of milestone payments, to achieve an approximately 25% split in (before tax) earnings. The model computes royalties of 12.6% of sales revenue.

- Milestone payments have not been included in the analysis but quite clearly HIL would seek a licence fee and milestone payments in lieu of high royalty payments such that the same current valuation is realised.

- HIL's profit is taxed at the Australian rate of 30% with losses carried forward.

- The cash flows have been risk adjusted with cumulative probabilities applied at the time points where development stages are completed. As the key patent has not been granted, we have assumed a 75% likelihood[33] that this will occur with an 80% chance that scaled-up production is achieved. A Phase II transitional probability of 75% is higher than suggested by the published data but we believe that HIL has generated sufficient data to indicate that the product will successfully pass this phase of testing. For Phase III, we have utilised 71% and for FDA approval 95% (similar to the findings of Struck). Therefore, the cumulative likelihood of a successful product launch is 30.4%. Should HIL be the party that fully develops and exploits the IP, greater risks apply and the overall probability would be lower.

The analysis is in constant 2011 dollars and no consideration has been allowed for inflation. The discount rate is therefore real.

The modelling shows product sales commencing in 2017 and peaking at around US$730 million pa (non-probability adjusted). The probability adjusted cash flows approximate US$200 million pa once peak penetration has been achieved.

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[32] Myers SC & Howe CD. A Life-cycle Financial Model of Pharmaceutical R&D. Sloan School of Management. WP #41-97, April 1997.

[33] Although there are various estimates of the likelihood of a patent application proceeding to grant it would appear that a reasonably reliable figure for the US is around 75% based on patent families (RA Clark. US Continuity Law and its Impact on the Comparative Patenting Rates of the US, Japan and the European Patent Office. J Pat & Trademark Off Soc 85(4):335, 2003). A higher success rate is obtainable if continuations, divisional and continuances in part are considered as independent events, which they clearly are not (LB Ebert. Patent Grant Rates at the United States Patent and Trademark Office. Chicago-Kent J Intell Prop, p 108, 2004). Clarke also presents data for Europe and Japan which determined likelihoods of granting of 83% and 86% respectively for filings lodged between 1994 and 1998. In contrast to the US, which showed no obvious trend in fractions granted over the period in question, both Europe and Japan data show a declining likelihood.

Applying a discount rate of 15% to the probability adjusted after tax cash flows for the licensor yields a valuation of approximately US$32.7 million (A$31.7 million at an exchange rate of A$1.00 = US$1.03).

The pre-tax valuation from the licensee's perspective is about US$143 million after probability adjustment. As royalties and milestones payments exchanged between the parties are "cash neutral" in the hypothetical collaboration, the sum of the licensee and licensor valuations is the overall project valuation. The pre-tax figure is US$190 million and assuming that the licensee also pays tax at 30%, the after tax project valuation is approximately US$133 million.

8.2.1 Sensitivity Analysis

As a number of input parameters to the models are, at best, estimates and may change with time and as development advances, we subjected these to a perturbation analysis. Various inputs were adjusted by plus or minus 10%, or time frames extended or brought forward by 12 months while retaining the ~25% value apportionment. The impact of increasing or decreasing the split was also examined. The findings are presented in Table 10.

A number of variables have an approximately proportional effect on the valuation: market size or share, selling price or peak penetration; and probability of success. It is therefore important that the estimates be as reliable as possible. Much of the market data is based on published information but at this stage it is difficult to be prescriptive about market penetration or the likelihood of success. The price estimate is, in our view reasonable.

Clearly, discount rate has an important impact on the valuation – a lower rate providing a higher valuation. We have chosen a figure that may be reasonable for an Australian biotechnology company (following consideration of likelihoods of success). However, the weighted average costs of capital ("WACC") for big pharma is generally lower than the figure used – anywhere between 8% and 12%. A lower figure could reasonably be applied, particularly to the licensee-side valuation, but we are comfortable that 15% encompasses risks associated with ongoing funding while development is under its management and a potential loss of control while under the licensee's administration.

We have chosen to be conservative and use low probabilities which are in line with recent data on respiratory drug development. In the absence of probability adjustments an "effective discount rate" of 29% would achieve the same valuation.

A major risk with all R&D programs is that of delays to completion. In this instance a 12 month delay to marketing approval decreases the valuation by 14% and a delay is more likely than early completion.

One of the important aspects of the current modelling is the splitting of benefits 25:75 between developer and licensee. The current trend in deal transactions seems to favour the originator with many deals exceeding 30% of net gain and, in some cases, achieving 50%. Once Phase II studies are over it would not be unreasonable to consider a benefit to the licensor of more than 33%. Plus or minus 10% change to our proposed mix adds or removes about 10% to the value. However, negotiating one third to licensor provides a valuation of $42.4 million.

Table 10: Sensitivity Analysis on Key Variables

Variable	Impact		Comment
	Valuation A$'mil	Variance %	
Base Valuation	**31.7**		
Discount Rate: +10% -10%	 27.4 36.7	 -13.4 +15.8	When considered along with probability adjustments, the proposed rate is reasonable.
Probability (cumulative) +10% -10%	 34.8 28.5	 -10.0 +10.0	As a vaccine with novel mode-of-action it is difficult to correlate with published figures.
Treatment Cost / Selling Price +10% -10%	 35.3 28.0	 +11.6 -11.4	A higher cost is reasonably achievable.
Market Share or Target Population +10% -10%	 35.3 28.0	 +11.6 -11.4	As little competition in pipeline market share could be greater.
Numbers of Trial Subjects or Cost of Trials (Phase III) +10% -10%	 31.3 32.0	 -1.0 +1.0	There is a possibility that more subjects rather than fewer will be required.
Licensee COGS or SG&A +10% -10%	 28.2 35.2	 -10.9 +10.9	Could move either way depending on particular licensee.
Tax Rate +10% -10%	 30.3 32.1	 -4.4 +4.4	It is the current Australian Government's intention to reduce corporate tax rate to 29%.
Split between Licensee & Licensor +10% -10%	 35.0 28.6	 +10.1 -9.7	Could negotiate a higher cut, say 1/3rd, should trials be highly successful.
Development Time Delay 12 months Advance 12 months	 27.2 37.9	 -14.2 +19.6	Experience suggests that delays are the more likely event.

9. Conclusions

Our overall perception of this project is that it represents a novel and highly promising approach to the treatment of COPD exacerbations with significant implications on morbidity and mortality in the condition. The facts that there are few products in development specifically targeting exacerbations and no vaccines as such augers well for HI-164OV. The HIL product may have advantages in its exceptional safety profile.

The valuation is based on conservative data concerning market size and growth rate, selling price, and development costs and timeframes.

There are generally two broad-brush approaches to the preparation of a DCF for a start-up company or technology developer – to assume that the innovator/researcher undertakes all development and exploitation itself, in which case modelling includes production, marketing and administrative costs as well as full development expenses; or a licensing model in which income derives from milestone payments and royalties and there are no significant expenses once the IP has been licensed out.

In a licensing arrangement, the royalty rate is negotiated such that the acquirer realises a level of return which ensures he can operate profitably even under the most adverse of circumstances and compensates for the risks he has taken in commercialising the IP. Rules-of-thumb suggest that an early stage technology licence should be based on a 75% apportionment of total gain to the licensee because the commercialising entity faces significant barriers, whereas in a late-stage licensing deal the licensee may realise 66.7% or 50% with the licensor benefiting from partially progressing development through the risky stages. Recent trends in pharmaceutical licensing show that in some instances a 50:50 deal is struck.

A full development model should include in the analysis capital expenditure for a production facility, or an additional margin on COGS where contract manufacturing is anticipated, and working capital. In addition, a small company will not have the economies of scale in production, marketing and administrative overheads available to an established pharmaceutical giant. The likelihood of successfully taking development through clinical trials and regulatory approvals is potentially lower for a small company relative to big pharma. For this reason a valuation based on full exploitation using typical big pharma costs and probabilities is not realistic for a start-up operation or the technology inventor. Such a valuation is not appropriate for negotiating a licence because both parties, licensor and licensee, need to realise a return.

A venture capitalist, for the sake of discussion, may apply a 35% to 45% discount rate to the cash flow forecasts when presented by a start-up compared to a pharmaceutical industry WACC of 8% to 12% when the same cash flows are proffered by a pharmaceutical giant.

We have utilised a split of 25% in the current assessment on the assumption that HIL can advance the development to Phase III, although the final split will be the subject of negotiation. We have examined a range between 20% to the developer to 33.3%.

Base on our analysis, we offer the opinion that the after tax valuation of all HIL IP is approximately $31.7 million in the range $25.3 million to $42.5 million. Such valuations are supported by the comparables analysis.

10. Disclaimer

The valuation makes certain assumptions in relation to the revenue prospects. The projections used derive from information which we have obtained from HIL, a number of publicly available sources and our own view in relation to projections based on this information.

In applying these figures to the determination of the value of the HIL IP, we are making no representation that further technology development will be successful, or that market growth and penetration will be realised. The valuation utilises financial projections which are based on hypothetical assumptions for which there is no certainty that future events or management actions will occur.

Neither Acuity nor its principals have any pecuniary interest in HIL or Probiomics that could be regarded as affecting the ability to provide an unbiased opinion of the matters contained in this report. Acuity will receive a professional fee for the preparation of this Independent Valuation Report.

This valuation has been prepared solely for DMR Corporate to assist in the preparation of an Independent Expert's Report to HIL shareholders in relation to a proposed acquisition by Probiomics. As such, neither Acuity nor any employee undertakes responsibility in any way whatsoever to any person or organisation (other than DMR Corporate and HIL) in respect of information set out in this report, including any errors or omissions here-in, arising through negligence or otherwise, however caused.

Yours sincerely

David H Randerson, BE, PhD
Managing Director

Experience & Qualifications

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

An area of special interest is the provision of advice to investors and financial institutions on the funding of high technology R&D and the exploitation of outcomes.

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

Dr Randerson has experience with valuing software, internet, electronics, telecommunications, mining and petrochemical projects, process engineering, production engineering and automotive technologies. In the area of biotechnology, he has valued pharmaceuticals, medical devices, diagnostics, agriculture and environmental products and projects. Research-in-process is of particular interest to Dr Randerson.

Dr Randerson considers his engineering and biomedical expertise as essential prerequisites for the types of analyses he performs. An understanding of pharmaceutical development practices and regulations, research and development, project management, probability and statistics, discounted cash flow methodologies, real options analysis, life cycle forecasting, engineering depreciation and functional obsolescence analysis, are amongst the important tools in which Dr Randerson has competence.

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

As principal of Acuity for 21 years, Dr Randerson has undertaken in excess of 200 valuations in biomedical sciences and 100 in applied sciences.