



The Companies Announcements Office,
The Australian Stock Exchange Limited,
SYDNEY
Via: asxonline
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APPENDIX 4E

The results for announcement to the market are as follows:-

1. The reporting period is twelve months from 1st July 2008 to 30th June 2009. The previous reporting period is twelve months to 30th June 2008.
2. Key information relating to the above reporting period is as follows:-

	30 June 2009	30 June 2008	% change	
Revenues from ordinary activities	\$1,106, 514	\$682,852	up	62 %
Loss from ordinary activities after tax				
attributable to members	\$210,906	\$1,331,146	down	84 %
Net loss attributable to members	\$210,906	\$1,331,146	down	84 %
Proposed dividend	Nil	Nil		
Not applicable				
Refer attached report				
Net tangible assets per issued security	\$0.0016	\$0.0034		

4. The company did not gain or lose control over any other entity during the reporting period.
5. There was no payment of dividends during the reporting period.
6. There is no dividend reinvestment plan in operation.
7. There are no associates or joint venture entities.
8. The company is not a foreign entity.
- 9 to 14 – see attached financials
15. The accounts are in the process of being audited.

COMMENTARY ON RESULTS FOR THE PERIOD

REVENUE

The improvement in revenues is predominantly due to increase in sales of raw material sold overseas. Sales of finished goods in the local market were reasonable despite the lack of distribution net work. This is currently being addressed, together with opportunities in other markets.

EXPENDITURE

The company has been restructured over the past year to better suit the current strategies and income levels. Operational expenditure has been reduced by further 63 % compared to the previous year, due to a further reduction in administrative and corporate expenditure, predominantly in the areas of occupancy cost, consultants fees, legal expenses and staff costs.

BUSINESS STRATEGY

The company remains focused on securing global licensing and distribution agreements with major companies for its probiotic products in Australia and overseas. As part of this strategy, the company has completed trials of its probiotic in conjunction with Ch Hansen and Griffith University. The results of the trails are currently being analysed and will be made public at an appropriate time.

PROBIOMICS LIMITED
ABN 97 084 464 193

Income Statement

FOR THE YEAR ENDED 30 JUNE 2009

	NOTES	2009 \$	2008 \$
Sale of goods	2(a)	1,103,288	674,563
Interest revenue	2(a)	3,226	8,289
Revenue		1,106,514	682,852
Cost of sales		(583,446)	(505,546)
Gross profit		523,068	177,306
Other income	2(b)	44,407	257,526
Research and development expenses		(76,232)	(45,615)
Intellectual property expenses		(96,174)	(99,607)
Marketing expenses		-	(10,000)
Administrative and corporate expenses	2(c)	(567,525)	(1,564,126)
Finance costs	2(c)	(38,449)	(46,630)
Loss before income tax		(210,906)	(1,331,146)
Income tax refund	3	-	-
Loss after tax attributable to members of the parent		(210,906)	(1,331,146)
Basic loss per share (cents per share)	5	(0.10)	(0.75)
Diluted loss per share (cents per share)	5	(0.10.)	(0.75)

The accompanying notes form part of these financial statements.

PROBIOMICS LIMITED
ABN 97 084 464 193

Balance Sheet

AS AT 30 JUNE 2009

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

The accompanying notes form part of these financial statements.

PROBIOMICS LIMITED
ABN 97 084 464 193

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2009

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

The accompanying notes form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2009

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

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Preparation

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

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

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

(a) Going concern

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

During the year convertible notes of \$ 450,000 were converted to equity on 25 May 2009 at \$ 0.01 per share. Post 30 June 2008, the convertible notes of \$50,000 are payable in September 2009 at the earliest. Also, \$402,000 was raised through a share placement.

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

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

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

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

(b) Income tax

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

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

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Income tax (continued)

recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

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

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

(c) Inventories

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

(d) Plant and equipment

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

Plant and equipment are measured on the cost basis.

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

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

Depreciation

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

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

Plant and equipment – ranging from 2 to 20 years

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Plant and equipment (continued)

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

(e) Financial Instruments

Recognition and Initial Measurement

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

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

Derecognition

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

Classification and Subsequent Measurement

Loans and receivables

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

Financial liabilities

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

Impairment

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

(f) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Research and Development

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

(h) Foreign Currency Transactions and Balances

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

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

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

(i) Provisions

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

(j) Cash and Cash Equivalents

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

(k) Revenue and Other Income

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

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

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

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

(l) Borrowing Costs

Borrowing costs are recognised in income statement in the period in which they are incurred.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Goods and Services Tax (GST)

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

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

(n) Comparative Figures

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

(o) Critical Accounting Estimates and Judgements

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

Key judgements – taxation losses

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
NOTE 2: REVENUES AND EXPENSES		
(a) Revenue		
Sales revenue - sale of goods	1,103,288	674,563
Interest revenue received from other persons	3,226	8,289
	1,106,514	682,852
(b) Other income		
Government grants refunded	-	-
Licence agreement milestone payments	-	175,000
Other income	44,407	82,526
	44,407	257,526
(c) Expenses		
Cost of sales	583,446	505,546
Finance costs paid to external parties	38,449	46,630
Depreciation	4,206	14,408
Foreign currency translation losses	27,978	1,499
Bad and doubtful debts – trade receivables	12,295	-
Net loss on disposal of plant and equipment	3,514	29,131
Write-off of obsolete stock	-	142,952
Share based payment expense	49,292	-

NOTE 3: INCOME TAX

The components of income tax expense (benefit) comprise:

Current income tax

Research and development rebate received in respect of the year ended 30 June 2007	-	(267,524)
Income tax expense (benefit) reported in the income statement	-	(267,524)
Prima facie tax payable (benefit) on profit (loss) from ordinary activities before income tax at 30% (2008: 30%)	(63,272)	(399,344)
Expenditure not allowable for income tax purposes	2,961	8,957
Losses not brought to account	60,311	390,387
Research and development tax rebate	-	-
Income tax expense (benefit) attributable to the company	-	-

The applicable weighted average effective tax rates are as follows: 0% 0%

No research and development rebate was received in respect of the year ended 30 June 2008.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
NOTE 4: DIVIDENDS PAID AND DECLARED		
No dividends have been paid or declared in the reporting period.		
NOTE 5: EARNINGS PER SHARE		
Earnings (loss) used to calculate basic and diluted EPS	210,906	1,331,146
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	234,158,365	176,741,771
Weighted average number of options outstanding not included in diluted EPS calculations as the options are anti-dilutive in nature.	3,076,522	10,089,686
NOTE 6: CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	85,925	196,827
Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(210,906)	(1,331,146)
<i>Non-cash flows in profit</i>		
Depreciation	4,206	14,408
Net loss on disposal of plant and equipment	3,514	29,131
Cost of share options	49,292	-
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in inventories	24,708	133,160
(Increase)/decrease in trade and other receivables	(148,540)	(153,242)
(Increase)/decrease in prepayments	-	3,993
(Decrease)/increase in trade and other payables	(213,752)	255,416
(Decrease)/increase in provisions	-	(41,360)
Decrease/(increase) in government grants	-	-
Net cash flows from operating activities	(491,478)	(1,089,640)
NOTE 7: TRADE AND OTHER RECEIVABLES		
Trade receivables	376,164	188,789
Other receivables	16,856	55,691
	393,020	244,480
Australian dollar equivalent of amounts receivable in US dollars not formally hedged	373,540	106,169
NOTE 8: INVENTORIES		
Raw materials at cost	-	24,709
Finished goods at cost	-	-
	-	24,709

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

2009	2008
\$	\$

NOTE 9: PLANT & EQUIPMENT

Plant and equipment at cost	28,604	40,609
Accumulated depreciation	(21,920)	(24,205)
	6,684	16,404

Movements in carrying amounts

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

Balance at 1 July	16,404	58,460
Additions	-	6,536
Disposals	(5,514)	(34,184)
Depreciation charge for the year	(4,206)	(14,408)
Balance at 30 June	6,684	16,404

NOTE 10: TRADE AND OTHER PAYABLES

Trade payables	274,236	393,898
Accrued expenses	92,213	156,230
GST liability	506	911
Employee superannuation payable	2,094	8,533
PAYG payable	2,706	25,241
	371,755	584,813

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

Australian dollar equivalent of amounts payable in Euros not formally hedged

171,855	74,178
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NOTE 11: PROVISIONS

Current

Employee annual leave		
Opening balance at 1 July	-	38,223
Amounts used	-	(38,223)
Closing balance at 30 June	-	-

Non-current

Employee long service leave		
Opening balance at 1 July	-	3,137
Unused amounts reversed	-	(3,137)
Closing balance at 30 June	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
NOTE 12: FINANCIAL LIABILITIES		
Convertible notes	50,000	500,000

The company has issued unsecured convertible notes of \$50,000 maturing in September 2009. The note holders have an option to convert to ordinary shares at 4 cents per share or be repaid. The interest on the notes is 10% per annum and is payable in arrears at the end of every quarter.

NOTE 13: ISSUED CAPITAL

Ordinary shares – issued and fully paid	294,235,077	27,311,399
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Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

Movement in ordinary shares on issue	Number of shares	\$
Ordinary shares at 1 July 2008	202,235,077	26,933,518
Issued 20 August 2008 for cash	30,000,000	300,000
Transaction costs on share issues	-	(18,000)
	232,235,077	27,215,518
Issued 25 May 2009 for cash	17,000,000	515,500
Transaction costs on share issues	-	(6,119)
Issued 25 May 2009 re conversion of \$ 450,000 Convertible Notes	45,000,000	450,000
Ordinary shares at 30 June 2009	294,235,077	27,761,399

NOTE 14: RESERVES

Option Reserve

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

NOTE 15: CAPITAL AND LEASING COMMITMENTS

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

NOTE 16: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 17: SEGMENT INFORMATION

Business segment

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

Geographical segments

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

The following table presents revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 30 June 2009 and 30 June 2008.

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

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

NOTE 18: SHARE BASED PAYMENTS

Employee Share Option Plan

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 18: SHARE BASED PAYMENTS (Continued)

The outstanding balance as at 30 June 2009 is represented by:

- 15,000,000 options over ordinary shares with an exercise price of \$0.002 each, exercisable by 25 November 2013;
- 2,000,000 options over ordinary shares with an exercise price of \$0.01 each, exercisable by 3 December 2013; and
- 2,500,000 options over ordinary shares with an exercise price of \$0.02 each, exercisable by 24 May 2014

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 is 167 months (2008: 4.8 months).

NOTE 19: EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 17th July 2009, a report titled “Probiotics, illness and immunity in athletes”, based on study conducted at the Australian Institute of Sports by Griffith University, sponsored 50% each by the company and Christian Hansen , was received. The report is currently being analysed and will be made public at an appropriate time.

	2009 \$	2008 \$
NOTE 20: AUDITORS' REMUNERATION		
Remuneration of the current auditor, RSM Bird Cameron Partners, for:		
Auditing or reviewing the financial report	26,000	26,000
Remuneration of the previous auditor, Ernst & Young, for		
Auditing or reviewing the financial report	12,854	73,776
Other services – special audit required by the regulator	-	-
	38,854	99,776

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Person	Position
P.D Ford	Chairman (appointed 24 July 2008)
S.O'Loughlin	Non-executive director (appointed 31 July 2008)
S Taylor	Non-executive director (appointed 25 July 2008)
Prof R Penny	Non-executive director (retired 6 August 2008))
B Walsh	Non-executive director (retired 7 August 2008))
S. Craig	Chief Executive Officer (resigned 31 July 2009)
A. K. Jairath	Chief Financial Officer & Company Secretary

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION (Continued)

(b) Option holdings of key management personnel

	<i>Balance 1.7.2008</i>	<i>Granted as compe- nsation</i>	<i>Options exercis ed</i>	<i>Options lapsed</i>	<i>Balance 30.6.2009</i>	<i>Vested at 30 June 2009</i>		
						<i>Total</i>	<i>Exercisable</i>	<i>Not- exercisable</i>
Directors								
B M Gardiner	1,000,000	-	-	1,000,000	-	-	-	-
R Penny	1,250,000	-	-	1,125,000	-	-	-	-
P D Ford	1,000,000	5,000,000	-	1,000,000	5,000,000	5,000,000	5,000,000	-
S O'Loughlin		5,000,000			5,000,000	5,000,000	5,000,000	-
S Taylor		5,000,000			5,000,000	5,000,000	5,000,000	-
Executives								
K R Slatyer	5,000,000	-	-	5,000,000	-	-	-	-
P B Magoffin	1,000,000	-	-	1,000,000	-	-	-	-
A Jairath	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000	-
P L Conway	-	-	-	-	-	-	-	-
Total	9,250,000	17,000,000	-	9,250,000	17,000,000	17,000,000	17,000,000	-

(c) Shareholdings of key management personnel

	<i>Balance 1.7.2008</i>	<i>Granted as compensation</i>	<i>Net change other *</i>	<i>Balance 30.6.2009</i>
Directors				
P.D. Ford (i)	3,935,999	-	-	3,935,999
S. O'Loughlin	-	-	1,000,000	1,000,000
S. Taylor	-	-	-	-
Executives				
S. Craig	-	-	-	-
A. Jairath	-	-	-	-
Total	3,935,999	-	1,000,000	4,935,999

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

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

NOTE 22: RELATED PARTY TRANSACTIONS

1) During the year Probiomics Limited was provided services, on normal terms and conditions, by Diskdew Pty Ltd totalling \$18,182. Mr P D Ford is a director of Diskdew Pty Ltd. During the year ended 30 June 2008, due to an oversight, consulting fees \$ 8,000 received as indirect payment from the company were not declared.

2) During the year Probiomics Limited was provided legal services, on normal terms and conditions by O'Loughlin Lawyers totalling \$10,381. Mr S O'Loughlin is a partner in O'Loughlin Lawyers.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management

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

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

The company does not have any derivative instruments at 30 June 2009.

Financial risk exposures and management

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

Interest rate risk

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

Foreign currency risk

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

Credit risk

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

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

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

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

Liquidity risk

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

(b) Financial Instrument Composition and Maturity Analysis

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

	Weighted average interest rate 2009 %	Non-interest bearing 2009 %	Floating interest rate 2009 \$	Fixed interest rate maturing within 1 year 2009 \$	Total 2009 \$
Financial Assets					
Cash and cash equivalents	4.5%	-	85,925	-	85,925
Receivables	-	393,020	-	-	393,020
Total financial assets		393,020	85,925	-	478,945
Financial liabilities					
Trade and other payables	-	392,484	-	-	392,484
Convertible notes	10%	-	-	50,000	50,000
Total financial liabilities		392,484	-	50,000	442,484

	Weighted average interest rate 2008 %	Non-interest bearing 2008 %	Floating interest rate 2008 \$	Fixed interest rate maturing within 1 year 2008 \$	Total 2008 \$
Financial Assets					
Cash and cash equivalents	5.95%	-	196,827	-	196,827
Receivables	-	244,480	-	-	244,480
Total financial assets		244,480	196,827	-	441,307
Financial liabilities					
Trade and other payables		584,813	-	-	584,813
Convertible notes	10%-	-	-	500,000	500,000
Total financial liabilities		584,813	-	500,000	1,084,813

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

(c) Net Fair Values

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

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

(d) Sensitivity Analysis

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 24 COMPANY DETAILS

The registered office and principal place of business of the company is:

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