

PHARMAUST LIMITED

ABN 35 094 006 023

ENTITLEMENT ISSUE PROSPECTUS

For a non-renounceable entitlement issue of one (1) Share for every one (1) Share held by Shareholders registered at 5.00pm (WST) on 21 September 2007 at an issue price of 3 cents per Share

Underwriter

Cardrona Capital Pty Ltd
ABN 99 094 515 492

IMPORTANT NOTICE

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the securities being offered under this Prospectus or any other matter, you should consult your stockbroker, accountant or other professional adviser.

The securities offered by this Prospectus should be considered as speculative.

THE UNDERWRITING AGREEMENT IS CONDITIONAL UPON THE UNDERWRITER SECURING SUB UNDERWRITERS. REFER TO SECTION 5.2 OF THIS PROSPECTUS FOR A SUMMARY OF THE TERMS AND CONDITIONS OF THE UNDERWRITING AGREEMENT.

TABLE OF CONTENTS

1.	DETAILS OF THE OFFER	5
2.	PURPOSE AND EFFECT OF THE OFFER.....	10
3.	RIGHTS AND LIABILITIES ATTACHING TO SHARES.....	18
4.	RISK FACTORS	20
5.	ADDITIONAL INFORMATION.....	25
6.	DIRECTORS AUTHORISATION.....	33

TIMETABLE AND IMPORTANT DATES

Lodgement of Prospectus with the ASIC	12 September 2007
Notice to Shareholders	14 September 2007
Ex Date	17 September 2007
Record Date for determining Shareholder entitlements	21 September 2007
Opening Date and despatch of Prospectus to Shareholders	25 September 2007
Closing Date of Offers	10 October 2007
Shares quoted on a deferred settlement basis	11 October 2007
Allotment and dispatch of holding statements	18 October 2007

*The Directors may extend the Closing Date by giving at least 6 Business Days notice to ASX prior to the Closing Date. These dates are determined based upon the current expectations of the Directors and may be changed without notice.

IMPORTANT INFORMATION

Investors should read this document in its entirety and, if in doubt, should consult their professional advisers before deciding whether to apply for Shares offered under this Prospectus.

This Prospectus is dated 12 September 2007 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The Expiry Date of the Prospectus is the date that is 13 months after the date of this Prospectus (**Expiry Date**). No Shares will be allotted or issued on the basis of this Prospectus after the Expiry Date.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in the Prospectus.

The Offer contained in this Prospectus is conditionally underwritten by the Underwriter. If the conditions of the Underwriting Agreement are not satisfied, the Underwriter will not be obliged to fulfil its obligations to underwrite the Offer. In those circumstances the Offer would not proceed. If the Offer does not proceed the Company would need to assess the options available to the Company including appointing an external administrator to the Company.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company or the payment of a return on the Shares. Please read this document carefully before you make a decision to accept the Offer. An investment in the Company has specific risks which you should consider before making a decision to invest. This is a speculative investment.

Certain terms and abbreviations used in this Prospectus have defined meanings which are set out in the Glossary.

This Prospectus is a transaction specific prospectus for an offer of continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with section 713 of the Corporations Act. It does not contain the same level of disclosure as an initial public offering prospectus. In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

Electronic Prospectus

This Prospectus will be issued as an electronic prospectus. The offer of Shares pursuant to this Prospectus is available to persons receiving an electronic version of this Prospectus within Australia. The Corporations Act prohibits any person from passing to another person an Entitlement and Acceptance Form unless it is attached to or accompanies the complete and unaltered version of this Prospectus.

CORPORATE DIRECTORY

Directors

Bryant McLarty
Simon Owen
Henry Gulev

Company Secretaries

Sam Wright
Simon Owen

Registered Office

71 Division Street
WELSHPOOL WA 6106

Telephone: (08) 9311 0700
Facsimile: (08) 9311 0788

Solicitors to the Offer

Steinepreis Paganin
Level 4, Next Building
16 Milligan Street
PERTH WA 6000

Share Registry*

Computershare Registry Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000

Auditors*

RSM Bird Cameron
8 St Georges Terrace
PERTH WA 6000

Underwriter

Cardrona Capital Pty Ltd
Level 5
33 York Street
SYDNEY NSW 2000

* These entities have not been involved in the preparation of this Prospectus and have not consented to being named in this Prospectus. Their names are included for information purposes only.

CHAIRMAN'S LETTER

Dear Shareholder

The purpose of this Prospectus is to offer Shareholders the opportunity to participate in an issue of Shares on a pro rata non-renounceable basis of one (1) Share for every one (1) Share held on the Record Date to raise approximately \$3,550,618.

As you may be aware from the Company's recent announcements to the ASX the Board has had to arrive at a difficult decision in settling the terms of this Offer.

This Offer will have a significant impact on the capital structure of the Company. The rationale for this capital raising is to enable the Company to secure sufficient funding in order to meet the Company's immediate requirements and to better position the Company and its businesses to recover from recent losses and to begin to manifest the potential value of those businesses. Based upon the Company's existing budget, the funds raised pursuant to this Prospectus are expected to satisfy the Company's funding requirements for the next 6 months.

The Company has assessed alternative funding arrangements and concluded that with limited funding options available, this Offer should be made on the basis that it affords all Shareholders with the first option to participate in the issue of additional Shares.

The Board wishes to confirm its commitment to doing all things possible to restore value to the Shareholders and encourages the acceptance of Entitlements offered.

Yours sincerely

Simon Owen
Chairman

SECTION 1

1. DETAILS OF THE OFFER

1.1 Offer of Shares

The Offer is being made as a non-renounceable entitlement offer of one (1) Share for every one (1) Share held by Shareholders registered at 5.00pm on 21 September 2007 at an issue price of 3 cents per Share.

Based on the capital structure of the Company (and assuming no existing Options are exercised prior to the Record Date), the maximum number of Shares to be issued pursuant to this Offer is 118,353,939. The Offer will raise approximately \$3,550,618. The purpose of the Offer and the use of funds raised are set out in Section 2 of this Prospectus.

The Company currently has 82,825,512 Options on issue. The terms and conditions of these Options do not allow for the participation by those Option holders in new issues of securities. Those Option holders will, however, be entitled to exercise their Options during the time period set out in the ASX Listing Rules in order to participate in the Offer.

1.2 Minimum Subscription

The minimum subscription for the Offer is \$3,550,618. No Shares will be allotted or issued until the Offer has reached its minimum subscription. If the minimum subscription has not been achieved within four (4) months after the date of this Prospectus, all application monies will be refunded without interest in accordance with the Corporations Act.

1.3 How to Apply

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying this Prospectus. Your acceptance must not exceed your Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Entitlement.

You may participate in the Offer as follows:

- (a) if you wish to accept your Entitlement in full:
 - (i) complete the Entitlement and Acceptance Form, filling in the details in the spaces provided; and
 - (ii) attach your cheque for the amount indicated on the Entitlement and Acceptance Form; and
 - (iii) send your completed Entitlement and Acceptance Form to the Company's Share Registry in accordance with the instructions set out on the back of the form; or
- (b) if you only wish to accept part of your Entitlement:
 - (i) fill in the number of Shares you wish to accept in the space provided on the Entitlement and Acceptance Form; and
 - (ii) attach your cheque for the appropriate application monies (at 3 cents per Share); and

- (iii) send your completed Entitlement and Acceptance Form to the Company's Share Registry in accordance with the instructions set out on the back of the form; or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to "Pharmaust Limited – Entitlement Offer Account" and crossed "Not Negotiable".

Your completed Entitlement and Acceptance Form and cheque must reach the Company's Share Registry no later than 5pm WST on the Closing Date.

The Offer is non-renounceable. Accordingly, a holder of Shares may not sell or transfer all or part of their Entitlement.

1.4 Shortfall

The Company reserves the right to allot and issue the Shortfall subject to the discretion of the Underwriter and the terms of the Underwriting Agreement. If you wish to apply for any part of the Shortfall, you may complete a Shortfall Application Form and submit it together with the appropriate application monies to the Company on or before the Closing Date in accordance with the instructions on the back of the Shortfall Application Form.

In relation to placement of the Shortfall the Underwriter has the right to require the Directors to accept or reject an application for Shortfall in whole or in part under the terms of the Underwriting Agreement. This means that there is no guarantee a Shareholder will receive any Shortfall applied for under this Prospectus. If the number of Shares allotted is fewer than the number applied for, surplus application monies will be refunded in full. Interest will not be paid on monies refunded.

The offer of the Shortfall is independent from the Offer and will remain open after the Offer has closed for a period not exceeding 3 months. Under the terms of the Underwriting Agreement, the Company will issue Shares under the Shortfall within 6 Business Days of the Closing Date.

1.5 ASX Listing

Application for official quotation by ASX of the Shares offered pursuant to this Prospectus will be made within 7 days of the date of this Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus (or such period as varied by the ASIC), the Company will not issue any Shares and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares now offered for subscription.

1.6 Allotment of Shares

All Shares offered pursuant to this Prospectus will be allotted as soon as practicable after the Closing Date. Where the number of Shares issued is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the applicant as soon as

practicable after the Closing Date.

Pending the allotment and issue of the Shares or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

1.7 Market price of Shares on ASX

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest and lowest market sale prices of the Company's Shares on ASX during the 3 months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

- (a) Highest - 10 cents on 14 June 2007; and
- (b) Lowest - 4 cents on various dates, the last date recording this price being 3 September 2007.

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with the ASIC was \$0.045 per Share on 10 September 2007.

1.8 Underwriter

The Offer is conditionally fully underwritten by Cardrona Capital Pty Ltd (**Underwriter**) pursuant to the Underwriting Agreement. The Underwriting Agreement is conditional on securing by the Underwriter, of sub-underwriters. If the Underwriter does not secure sub-underwriters in accordance with the terms of the Underwriting Agreement, the Underwriter may terminate its obligations to underwrite the Offer. Please refer to Section 5.2 of this Prospectus for a summary of the terms and conditions of the Underwriting Agreement.

In consideration for the Underwriter agreeing to underwrite the Offer, the Company has agreed to pay the Underwriter a fee equal to 5% of the amount raised under this Prospectus.

In addition, the Company has agreed to pay the Underwriter a management fee equal to 1% of the amount raised under this Prospectus and an administration fee of \$35,000, in consideration for managing the Offer and assisting the Company with management of its share register post completion of the Offer. The administration fee of \$35,000 is payable in the event the Underwriting Agreement is terminated.

1.9 Electronic Prospectus

This Prospectus will be issued in paper form and as an electronic prospectus. The Offer constituted by this Prospectus in electronic form is available only to persons receiving this Prospectus or accompanying Entitlement and Acceptance Form in electronic form within Australia. The Corporations Act prohibits any person from passing onto another person the Entitlement and Acceptance Form unless it is attached to or accompanied by a complete and unaltered version of this Prospectus. Whilst the Offer is open, any person may obtain a hard copy of this Prospectus by contacting the Company using the contact details set out in this Prospectus.

1.10 Taxation Implications

The Directors do not consider that it is appropriate to give potential Applicants advice regarding the taxation consequences of applying for Shares under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation consequences. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to potential applicants. Applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Offer.

1.11 Clearing House Electronic Sub-Register System (CHES) and Issuer Sponsorship

The Company will not be issuing Share certificates. The Company will apply to ASX to participate in CHES, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHES will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Shares allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number (HIN) and explain, for future reference, the sale and purchase procedures under CHES and issuer sponsorship.

Further monthly statements will be provided to holders in circumstances in which there have been any changes in their security holding in the Company during the preceding month.

1.12 Privacy Act

If you complete an application for Shares, you will be providing personal information to the Company (directly or by the Company's Share Registry). The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company Share Registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its Share Registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

1.13 Overseas Shareholders

Only Shareholders who are registered as at 5.00 pm WST on the Record Date with registered addresses in Australia and New Zealand will be able to $\frac{1}{8}$

participate in the Offer. To make the Offer in any other jurisdiction may constitute a violation of application securities laws. The Directors believe that it is unreasonable to make the Offer to Foreign Shareholders, having had regard to the number of Shareholders in the relevant jurisdictions, the number and value of Shares those Shareholders would be offered and the cost of complying with the securities legislation of those jurisdictions.

Accordingly, the Offer is not being made, and no Shares will be issued to, any Shareholders whose registered address is in a country other than Australia or New Zealand. This Prospectus is being sent to Foreign Shareholders for information purposes only. No Entitlement and Acceptance Form will be sent to Foreign Shareholders.

1.14 Enquiries

Any questions concerning the Offer should be directed to the Company Secretary, on (08) 9311 0700.

SECTION 2

2. PURPOSE AND EFFECT OF THE OFFER

2.1 Purpose of the Offer and Use of Funds Raised

The purpose of the Offer is to raise approximately \$3,550,618 (before expenses of the Offer). The funds raised from the Offer will be used to fund the Company's activities including:

- (a) payment of the Company's hire purchase facilities;
- (b) payment of working capital funding facility and associated costs and fees;
- (c) operational and capital expenditure;
- (d) corporate overheads; and
- (e) costs of the Offer.

The estimated use of the proceeds of the Offer will be as follows:

Application Of Funds for PharmAust Limited

Application of Proceeds	Maximum Subscription
<u>Epicchem Pty Ltd</u>	
Operational Expenditure	\$20,342
Capital Expenditure	\$20,000
<u>PharmAust Manufacturing Pty Ltd</u>	
Operational Expenditure	\$1,464,627
Capital Expenditure	\$551,000
<u>Corporate</u>	
Corporate Overheads (Legal, Administrative exp)	\$549,235
Repayment of Working Capital Facility	\$450,000
Repayment of Hire Purchase Agreements	\$187,143
Costs and Fees associated with repayment of Working Capital Facility*	\$13,000
<u>Costs of the Offer</u>	
- ASIC Fees	\$2,010
- Printing, mailing, etc	\$4,000
- ASX Fees	\$21,261
- Legal Fees	\$20,000
- Underwriting Fees	\$248,000
Total	\$3,550,618

* NB Assumes full use of \$450,000 working capital facility

The application of funds raised from the Offer set out in the above table has been compiled by taking the maximum of funds raised under the Offer and applying the following principles stemming from the Company's internal budgeting process:

Allowance for Fixed Costs

Items such as "Costs of the Offer" and the moneys to be repaid to meet the Company's obligations as part of the Company's re-financing of its NAB facility (referred to in the above table as "repayment of Working Capital Facility" and "Costs and Fees associated with repayment of Working Capital Facility") are fixed and are fundamental to the fulfilment of the Company's existing contractual obligations.

Capital Expenditure

The Company's budget for the next 6 months assumes the Company undertaking limited capital expenditure. The focus of this expenditure is to support the largest revenue-generating sector of the Company's product range to enable a greater scale of production and thereby immediately increase profit margins. Indeed in a number of instances the Company has quoted successfully on major contracts based upon this "next level" otherwise it would not have been able to compete competitively.

Inclusive in this process is an upgrade of the Company's operating software platform to a new ERP operating system . Currently the Company improvises with MYOB, which system is simply not capable of dealing with the scale and nature of future contract requirements. Whilst essential from a functional perspective, additional cost efficiencies, and reduction of operational expenses are also anticipated.

Additionally, funds have been allocated to the minimum requirements to take the Company's investment in generic pharmaceuticals to the next stage. Significant sums have been invested to date and these "sunk" funds would be lost unless these modest regulatory and stock issues are addressed over the next 3 to 6 months.

In addressing these fundamental areas, priority has been given to immediately improve the manufacturing capacity and cost efficiency of the business. This is envisaged to deliver an immediate increase to the profitability of the business as well as to increase the potential value of the overall facility in a market context.

Corporate Overheads

In addition to the normal operational requirements of the parent company, the Board has anticipated provision for significant legal and financial advisory requirements based upon the current circumstances presenting the Company.

It is worth noting that the Board has reduced the overall payments to executive management over the budget period by an amount which equates to at least \$100,000 per annum.

Operational Expenses

The remainder of funds have been allocated to meet existing creditors and maintain operational levels to meet the Company's existing manufacturing requirements as well as to take advantage of the benefits to flow from the capital expenditure and potential new business currently being sourced.

2.2 Effect of the Offer

The principal effect of the Offer (assuming the Offer is fully subscribed) will be to:

- (a) increase cash reserves by approximately \$3,255,347 after deducting estimated cash expenses of the Offer and assuming all Shares offered under this Prospectus are issued; and
- (b) increase the number of Shares on issue from 118,353,939 as at the date of this Prospectus to approximately 236,707,878 Shares.

2.3 Statement of Financial Position

Set out below is:

- (a) an unaudited consolidated statement of financial position of the Company as at 30 June 2007; and
- (b) an unaudited pro-forma consolidated statement of financial position of the Company as at 30 June 2007 incorporating and assuming:
 - (i) the payment of cash costs of the Offer of \$295,271 (which are payable from the proceeds of the Offer) and the payment of non-cash costs of the Offer through the issue of 118,353,939 new Shares; and
 - (iii) the Offer of 118,353,939 Shares to raise approximately \$3,550,618.

PHARMAUST LIMITED
PRO-FORMA BALANCE SHEET
AT 30 JUNE 2007

	Unaudited 30 June 2007 \$000	Proforma 30 June 2007 \$000
Current assets		
Cash and cash equivalents* (Note 1)	3,254	6,509
Trade and other receivables	2,200	2,200
Inventories	609	609
Other current assets	284	284
Total current assets **	<u>6,347</u>	<u>9,602</u>
Non-current assets		
Financial assets	453	453
Property, plant and equipment	12,644	12,644
Intangible assets	577	577
Other non-current assets	91	91
Total non-current assets	<u>13,765</u>	<u>13,765</u>
TOTAL ASSETS	<u>20,112</u>	<u>23,367</u>
Current liabilities		
Trade and other payables	5,064	5,064
Short-term borrowings	392	392
Short-term provisions	166	166
Total current liabilities	<u>5,622</u>	<u>5,622</u>
Non-current liabilities		
Long-term borrowings	4,473	4,473
Long-term provisions	10	10
Total non-current liabilities	<u>4,483</u>	<u>4,483</u>
TOTAL LIABILITIES	<u>10,105</u>	<u>10,105</u>
NET ASSETS	<u>10,007</u>	<u>13,262</u>
Equity		
Issued capital (Note 2)	24,387	27,642
Reserves	3,446	3,446
Accumulated losses	(17,826)	(17,826)
TOTAL EQUITY	<u>10,007</u>	<u>13,262</u>

* Subsequent to 30 June there will be a facility to increase the cash balance with an agreed working capital facility of \$300,000 which may be increased to \$450,000.

** This includes balance sheet items as a result of the consolidation of Commonwealth Biotechnologies Inc (CBI) at 30 June 2007, including a cash balance of \$4,309,739. These funds are not practically accessible by Pharmaust as:

- Pharmaust's shareholding in CBI is 40%; and
- CBI operates independently of Pharmaust and in separate geographical locations.

Accordingly, as disclosed elsewhere in this Prospectus, the funds raised are expected to last for the next 6 months.

Note 1

	\$
Cash	
Balance at 30 June 2007	3,254,018
Entitlement issue	3,550,618
Costs of Entitlement issue	(295,271)
Proforma balance	\$6,509,365

Note 2

Share capital	
Balance at 30 June 2007	24,386,582
Entitlement issue	3,550,618
Costs of entitlement issue	(295,271)
Proforma balance	\$27,641,929

2.4 Pro Forma Capital Structure of the Company

Upon completion of the Offer, the capital structure of the Company will be:

Pro-forma Structure	No. of Shares		
Shares			
Shares on issue as at the date of this Prospectus	118,353,939		
Shares offered pursuant to this Prospectus	118,353,939		
Total Number of Shares on issue on completion of the Offer	236,707,878		
Listed Options	No. of Options	Option Exercise Price	Expiry Date
Listed Options on issue as at the date of this Prospectus	62,983,110	30 cents	30/11/07
Unlisted Options	No. of Options	Option Exercise Price	Expiry Date
Options on issue as at the date of this Prospectus	1,842,402	0.375 cents	30/06/08
Options on issue as at the date of this Prospectus	3,250,000	20 cents	31/12/07
Options on issue as at the date of this Prospectus	6,500,000	22 cents	31/12/2007
Options on issue as at the date of this Prospectus	8,250,000	15 cents*	3 years from the completion of a rights issue announced on 20 April 2007

* The Option exercise price shall be reduced as specified in Listing Rule 6.22.2 if the Company makes a pro rata issue (except a bonus issue) to the holders of the underlying securities.

2.5 Effect of the Offer on Voting Power in the Company

The potential effect the issue of Shares under the Offer will have on the control of the Company is as follows:

- (a) if all members take up their Entitlement under the Offer then the Issue will have no effect on the control of the Company;
- (b) if some or all members do not take up their entitlements under the Offer then the Issue may have an effect on control of the Company because the Offer is fully underwritten. The following demonstrates the potential effect:

Cardrona Capital Pty Ltd (**Underwriter**) does not currently have a relevant interest in any Shares. Pursuant to the terms of the Underwriting Agreement, the Underwriter has agreed to fully underwrite the Offer, subject to the condition precedent that the Underwriter enter into sub-underwriting arrangements with unrelated sub-underwriters. The Underwriting Agreement also provides that the Underwriter must ensure that neither it or any one of its sub-underwriters subscribe for Shares in the Shortfall if this would result in any one of the Underwriter or a sub-underwriter acquiring a relevant interest of 20% or more of the issued capital of the Company. It is a term of the Underwriting Agreement that the Underwriter and no sub-underwriter is to be a related party or associate of the Company.

At the date of this Prospectus, the Underwriter has yet to secure written agreements with all sub-underwriters. The Underwriter has however, advised that it will be entering into sub-underwriting agreements with up to 12 sub-underwriters. The Underwriter has advised that the maximum number of Shares to be sub-underwritten by one sub-underwriter is intended to be 29,588,485 Shares and the minimum number of Shares to be sub-underwritten by one sub-underwriter is 3,333,333 Shares. The Company is unaware of the identity of the sub-underwriters. Accordingly, there is a risk that the Underwriter will not satisfy the condition precedent that it enter into sub-underwriting arrangements. If the Underwriter fails to secure sub-underwriters then the Offer may not raise the minimum subscription and the Offer may not proceed. In those circumstances the Company will need to assess alternative funding options including appointing an external administrator of the Company.

The table below demonstrates the potential maximum extent of the increase in the voting power of the Underwriter and sub-underwriters (assuming that there are 12 sub-underwriters as a result of underwriting the Offer:

Event/Date	Number of Shares held by Underwriter/Sub-Underwriter	Voting Power of Underwriter
Date of Prospectus	Nil	Nil
After issue of Shares assuming 100% Shortfall	(a) Largest sub-underwriter – 29,588,485 Shares;	(a) Largest Sub-underwriter 1 – 12.5%;
	(b) Smallest sub-underwriter – 3,333,333 Shares.	(b) Smallest Sub-underwriter 2 – 1.41%.
After issue of Shares assuming 75% Shortfall	(a) Largest sub-underwriter – 22,191,364 Shares;	(a) Largest Sub-underwriter 1 – 9.38%;
	(b) Smallest sub-	(b) Smallest Sub-

	underwriter – 2,500,000 Shares;	underwriter 2 – 1.06%;
After issue of Shares assuming 50% Shortfall	(a) Largest sub- underwriter – 14,794,243 Shares; (b) Smallest Sub- underwriter– 1,666,667 Shares;	(a) Largest Sub- underwriter 1 – 6.25%; (b) Smallest Sub- underwriter 2 – 0.70%;
After issue of Shares assuming 25% Shortfall	(a) Largest Sub- underwriter 1 – 7,397,121 Shares (b) Smallest Sub- underwriter 2 – 833,333 Shares;	(a) Largest Sub- underwriter 1 – 3.13%; (b) Smallest Sub- underwriter 2 – 0.35%;

The sub-underwriters noted above are not identified because as at the date of this Prospectus, they have not been secured.

The figures depicted above demonstrate the potential effect of the underwriting. However, it is unlikely that none of the Shareholders will take up their Entitlement under this Prospectus as set out in the table above. The underwriting obligation of the Underwriter and therefore voting power of the Underwriter will reduce by a corresponding amount for the amount of Shareholders who take up their Entitlement.

As noted above, neither the Underwriter nor any sub-underwriter will gain control of the Company as a result of underwriting the Offer because the terms and conditions of the Underwriting Agreement explicitly provide that neither the Underwriter nor any of the sub-underwriters can obtain an interest of 20% or more of the voting power of the Company.

SECTION 3

3. RIGHTS AND LIABILITIES ATTACHING TO SHARES

The following is a summary of the more significant rights and liabilities attaching to Shares. Full details of the rights attaching to Shares are set out in the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

(a) **Notice of Meetings**

Each Shareholder is entitled to receive notice of general meetings of the Company. Except in certain circumstances, Shareholders are entitled to be present in person, or by proxy, attorney or representative to speak or to vote at general meetings of the Company or to join in demanding a poll. Shareholders may requisition general meetings in accordance with the Corporations Act.

(b) **Voting**

At a general meeting, on a show of hands, every person present who is either a member, a proxy, an attorney or a representative of a Shareholder has one vote. At the taking of a poll, every Shareholder present in person or by proxy, attorney or representative has one vote for each fully paid Share held, and for each partly paid up Share held, the Shareholder has a fraction of one vote equal to the proportion which the amount paid or credited on that Share (excluding any amounts paid up in advance of the relevant due date for payment) bears to the total amounts paid and payable (including amounts credited) on that Share.

(c) **Dividends**

The Directors may from time to time authorise and pay dividends out of the profits of the Company. Dividends are payable in proportion to the number of Shares and paid up amounts (including amounts credited) held by Shareholders.

(d) **Winding Up**

On a winding up (subject to the Corporations Act, Listing Rules and any rights or restrictions attached to a class of Shares) any surplus must be divided among the Shareholders in the proportion which the amount paid and payable (including amounts credited) on the Shares of all Shareholders.

If the Company is wound up, the liquidator may, with the sanction of a special resolution, divide among the Shareholders the whole or any part of the property of the Company. The liquidator may also, with the sanction of a special resolution, vest the whole or any part of the property in a trustee on trust for Shareholders.

(e) **Transfer of Shares**

A Shareholder may transfer Shares by a written transfer or by a transfer

effected under a computerised or electronic system recognised by the Listing Rules or by the Corporations Act. The Directors may refuse to register a transfer of Shares where the Listing Rules permit the Company to do so. On any refusal to register a transfer of Shares, the Company must give written notice to the transferee and the reasons for the refusal.

(f) **Allotment of Shares**

The Directors may, subject to the Constitution, allot new Shares with such terms and conditions as they think fit.

SECTION 4

4. RISK FACTORS

4.1 General

The Shares offered under this Prospectus should be considered speculative.

The business activities of the Company are subject to various risks that may impact on the future performance of the Company. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. Accordingly, an investment in the Company carries no guarantee with respect to the payment of dividends, return of capital or price at which Shares will trade.

A number of material risk factors are set out below. This list is not exhaustive and potential Applicants should examine the contents of this Prospectus and consult their professional advisers before deciding whether to apply for Shares.

4.2 Underwriting Agreement terminated

If the Underwriting Agreement is terminated for any reason in accordance with the terms of the Underwriting Agreement the Offer may not proceed and the Company would have limited financial resources to continue to operate its businesses. In the event that this was to occur, the Directors would assess the options available to the Company including appointing an external administrator to the Company.

4.3 Funding requirements

The capital raised under this Prospectus is expected to meet the Company's funding requirements for the next 6 months, but not beyond that time period. There can be no guarantee that the Company will not require additional funding in the future. The Company's ongoing capital requirements will depend on a number of factors including the Company's ability to generate income from activities.

Should the Company require additional funding, there can be no assurance that it will be available or that it will be on terms satisfactory to the Company. Any additional equity financing will dilute shareholdings and any additional debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing and operating activities as needed, it may need to reduce the scope of its operations and the lack of financing may have a serious adverse impact on the Company.

4.4 Economic Risks

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's development and commercialisation activities, as well as on its ability to fund those activities.

4.5 Market Conditions

The market price of the Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and healthcare stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the

Company.

4.6 Uncertainty of Future Profitability

The Company's ability to operate both its pharmaceutical business and biotechnology/chemistry businesses profitably in the future and the extent to which it will do so will depend on its ability to commercialise its products or activities. This will depend on the ultimate demand for its products or activities by clients and/or consumers, which cannot be guaranteed.

Other factors that will determine the Company's profitability are its ability to manage its costs, to execute its development and growth strategies, economic conditions in the markets in which it operates, competitive factors and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve a sustained profitability is uncertain. Moreover, the level of any profitability cannot be predicted.

4.7 Government and Regulatory Issues

The Company's operations and its products (both chemical and pharmaceutical) may be subject to numerous laws, regulatory restrictions, approvals and controls and certain government policy, directives, recommendations and guidelines, both in Australia and throughout the world, relating to, amongst other things, the manufacture of pharmaceutical and biotechnology products, occupational safety, laboratory practice, use and handling of hazardous materials, prevention of illness and injury and environmental protection.

The requirements referred to above may affect both the timing and the cost of bringing the Company's products or services to the market. Delays or failures in complying with these requirements or obtaining approvals may also have an adverse effect on the value of the Company and a consequent impact on its financial performance.

There can also be no assurance that future legislation will not impose further government regulation, or that current laws, regulations or policy may not change. This may adversely affect the business or financial condition of the Company. For example, laws, regulations and policies towards discounts and incentives offered by the Company or governing the PBS or the registration or manufacture of pharmaceuticals may change, affecting generic products to be manufactured or distributed by the Company and changes in the regulations affecting distribution margins of PBS pharmaceuticals or patent and data exclusivity provisions could adversely affect the Company's planned generic pharmaceutical activities.

Like other businesses, changes in general political and governmental conditions in Australia and elsewhere could materially and adversely affect the financial and business prospects or the overall profitability of the Company. These political uncertainties include but are not limited to changes in government or political leadership, war or acts of terrorism.

4.8 TGA and PBS and Other Registrations

The ability of the Company to offer its pharmaceutical products for sale depends on relevant licences and registrations being obtained by the Company and it receiving favourable audit reports from the regulatory authority of the country in which products are offered for sale. An unfavourable audit can impose unbudgeted costs, which may have a material adverse effect on the

Company's ability to conduct its business. In extreme cases, the Company may have its licence revoked, which would prevent it from offering any products for sale.

Delays or failure to obtain registration, approval or validation of licences of products may have a material adverse effect on the financial performance of the Company.

4.9 Intellectual Property Rights

Securing rights to intellectual property, and in particular to patents, is an integral part of securing potential product value arising out of pharmaceutical, biotechnical and chemical research and development. The Company's success depends in part, on its ability to obtain patents, protect trade secrets and operate without infringing third parties' proprietary rights.

The granting of a patent does not guarantee that the rights of other parties are not infringed or that competitors will not develop competing intellectual property that circumvents the patents. In addition, there can be no assurance that any patents that the Company may own or control or licence now or in the future will afford the Company commercially significant protection of its intellectual property or its projects or have commercial application.

Competition in obtaining, retaining and maintaining protection of intellectual property and the complex nature of intellectual property rights can also lead to expensive and lengthy disputes for which there can be no guaranteed outcome.

While the Company is not aware of any third party interests in its intellectual property rights and has taken steps to protect and confirm its interest in these rights, there is always a risk of third parties claiming involvement in pharmaceutical, biotechnical and chemical discoveries and if any disputes arise, they could adversely affect the Company.

4.10 Competition and competing products

The pharmaceutical manufacturing industry and the biotechnology and chemistry industry are each highly competitive and subject to rapid, significant technological change. There are currently several generic pharmaceutical companies competing in the Australian market and the Company's current and future potential competitors include companies with substantially greater resources. Other international companies may enter the market and increase competition, despite significant financial and regulatory barriers to entry. In an increasingly competitive market, the Company's prices and margins could be difficult to maintain and its market share hard to maintain or increase. Price-cutting by competitors could lead to reduced margins on the Company's products. Competition within distribution networks could intensify and lead to the erosion of distribution margins affecting the end market.

The Company can give no assurance in respect of its ability to compete in these markets. No assurances can be given that the actions of existing and future competitors will not have a material adverse impact on the Company's ability to implement its business plan and on the Company's operating and financial performance. In particular, there is no assurance that competitors will not succeed in developing products that are more effective or economic than the Company's current products or any of those being developed by the Company or which would render those products obsolete or otherwise uncompetitive.

4.11 Reliance on Key Personnel and Qualified Staff

The Company's success will depend, to some extent, upon the abilities and continued efforts of its existing Directors and senior management. On 22 August 2007 the Company received a requisition from certain shareholders to hold a meeting of the Company to consider the removal of the current Directors from the Board. If the resolutions to remove the current Directors from the Board are successful, the loss of these Directors may adversely affect the Company's performance and ability to compete effectively in the chemistry, pharmaceutical or biotechnical industry. Similarly, the Company's future success would also depend on its employees and other personnel.

Because of the specialised nature of the Company's business, its ability to successfully commercialise its products and service its clients in both the pharmaceutical and biotechnology and chemistry industries will depend in part upon its ability to attract and retain suitably qualified management and employees.

There can be no assurance that the Company will be able to retain its Directors or key senior management, or secure and retain sufficiently qualified management or personnel on a timely basis.

4.12 General Contract Risks and Reliance on Third Party Suppliers/Distributors

The Company and its subsidiaries operate through a series of contractual relationships with third parties through various contracts. All contracts carry risks associated with the performance by the parties of their obligations such as time commitments, achieving targets and quality of work performed.

Contracts will need to be negotiated with a number of third parties including for the sales, marketing and distribution of pharmaceutical products. The Company may become reliant on suppliers and distributors, the loss of whose services may materially adversely affect the Company and impede the achievement of its objectives.

4.13 Risk of Product Liability and Uninsured Risks

The Company's pharmaceutical and biotechnology/chemistry businesses expose it to potential product liability risks inherent in development, manufacturing, marketing, quality and use of its products, as well as other related risks. The Company has insurances in place to cover certain of these risks in the course of operating its businesses.

However, there can be no assurance that any adverse event will necessarily be covered by the insurance or that any product liability or other claims will not materially and adversely affect the business or financial condition of the Company even if they are covered by insurances. The possibility also exists that the Company, its products or aspects of its business may be brought into disrepute through malicious interference or tampering with the Company's or a competitor's products.

4.14 Foreign Exchange Risks

Revenue and expenditure in overseas jurisdictions are subject to fluctuations in international currency exchange markets and changes in foreign exchange laws or regulations. Foreign taxes, inflation, interest rates, limitation on the repatriation of earnings, compliance with foreign accounting and business laws and cultural differences also carry a certain amount of risk and may also have

an impact on the performance of the Company.

4.15 Potential Acquisitions

As part of its business strategy, the Company may make acquisitions of or significant investments in complementary companies, products or technologies, although no such acquisitions or investments are currently planned. Any such transactions would be accompanied by risks encountered in making such acquisitions.

4.16 Investment Speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Prospectus. Therefore, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, return of capital or the market value of those Shares.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Shares.

SECTION 5

5. ADDITIONAL INFORMATION

5.1 Continuous Disclosure Obligations

This document is issued pursuant to section 713 of the Corporations Act as a transaction specific prospectus.

Section 713 of the Corporations Act enables companies to issue transaction specific prospectuses where those companies are and have been for a period of 12 months disclosing entities.

The Company is a disclosing entity under the Corporations Act and, as such, is subject to regular reporting and disclosure requirements. As a listed company, the Company is subject to the Listing Rules that require it to immediately notify ASX of any information concerning the Company of which it is or becomes aware and which a reasonable person would expect to have a material effect on the price or value of Shares. The Shares offered pursuant to this Prospectus are of a class that has been continuously quoted on ASX for at least 12 months prior to the date of issue of this Prospectus.

Copies of documents lodged in relation to the Company with the ASIC may be obtained from or inspected at any office of the ASIC.

Information that is already in the public domain has not been reported in this document, other than that which is considered necessary to make this document complete.

The Company will provide a copy of each of the following documents free of charge, to any person on request during the application period in relation to this document:

- (a) the Annual Report of the Company most recently lodged with the ASIC;
- (b) any half year financial report lodged with ASIC by the body after the lodgement of the Company's Annual Report and before the lodgement of this Prospectus with the ASIC; and
- (c) any continuous disclosure given by the Company after the lodgement of that Annual Report and before lodgement of this document with ASIC.

For details of documents lodged with the ASX since the date of lodgement of the Annual Report refer to the table set out below:

Date	Announcement
12/09/2007	Rights Issue
11/09/2007	Initial Director's Interest Notice
03/09/2007	Preliminary Final Report
29/08/2007	Working Capital and Re-Finance Facility
23/08/2007	Director Appointment
23/08/2007	Motion to remove directors and request to call GM
20/08/2007	Results of EGM
09/08/2007	Initial Director's Interest Notice
09/08/2007	Final Director's Interest Notice
08/08/2007	Company Secretary Appointment/Resignation
03/08/2007	Resignation of Director's and Appointment of New

	Director
31/07/2007	Appendix 4C – quarterly
24/07/2007	Becoming a substantial holder
20/07/2007	Notice of Extraordinary General Meeting
09/07/2007	Change of Registered Address
28/06/2007	PharmAust-CBI obtains Approval to work on Avian Flu Virus
22/06/2007	AHG ann: Update on PAA Court Action
21/06/2007	Court Action with Advanced Healthgroup Group Ltd
15/06/2007	Change of Director's Interest Notice
08/06/2007	Audio Broadcast
07/06/2007	PharmAust-CBI Completes Acquisition of Tripos
07/06/2007	Company Secretary Appointment
31/05/2007	Awarded NZ\$715000 for Specialist GMP Peptide Capabilities
01/05/2007	Change of Director's Interest Notice
30/04/2007	Commitments Test Entity – Third Quarter Report
20/04/2007	Placement and Rights Issue
17/04/2007	Change of Director's Interest Notice
12/04/2007	Change of Director's Interest Notice
26/02/2007	Half Yearly Report/Half Year Accounts
20/02/2007	PharmAust to Supply Five New Generic Drugs in Australia
15/02/2007	TGA Approves PharmAust Generic Cholesterol Drug
14/02/2007	Audio Broadcast
14/02/2007	Merger Proposal with Advace Healthcare Group
14/02/2007	Completes Sale of Mimotapes
14/02/2007	Reinstatement of Official Quotation
13/02/2007	AHG: Update on capital raising
09/02/2007	Suspension from Official Quotation
06/02/2007	Trading Halt
02/02/2007	Replacement: Change/Becoming substantial S/S for AHG
31/01/2007	Commitments Test Entity-Second Quarter Report
24/01/2007	AHG ann: Trial Dates Vacated
24/01/2007	AHG ann: re conditional merger proposal from PAA
22/01/2007	Market Update of AHG Query re Appendix 3Y
17/01/2007	Response to ASX Query re Appendix 3Y
15/01/2007	Change of Director's Interest Notice
11/01/2007	AHG: Important message to shareholders
09/01/2007	AHG: Pharmaust Litigation & Pharmaust Takeover announcement
08/01/2007	AHG: Company update
05/01/2007	Conditional Merger Proposal to Advance Healthcare Group Ltd
29/12/2006	Results of EGM
21/12/2006	Change in substantial holding
13/12/2006	16 th Fastest Growing Tech Company in Asia Pacific – Deloitte
13/12/2006	Change of Director's Interest Notice
29/12/2006	Notice of Extraordinary General Meeting
28/11/2006	Appendix 3B/Section 708A Notice
28/11/2006	Results of Meeting
28/11/2006	PharmAust Signs Share Purchase Agreement – Sale of Mimotopes
28/11/2006	Sale of Mimotopes – GBTE Release
21/11/2006	Change of Director's Interest Notice
21/11/2006	6 th fastest growing technology company in Aust—

	Deloitte
16/11/2006	Becoming a substantial holder
09/11/2006	Placement
31/10/2006	Commitments Test Entity – First Quarter Report
26/10/2006	Appendix 3B and Section 708 Notice – Share Placement
25/10/2006	Notice of Annual General Meeting
25/10/2006	Annual Report 2006

5.2 Underwriting Agreement

On 12 September 2007, the Company entered into an underwriting agreement (**Underwriting Agreement**) with Cardrona Capital Pty Ltd (**Underwriter**).

Pursuant to the Underwriting Agreement, the Underwriter agreed to fully underwrite the Offer. In consideration for this, the Company has agreed to pay the Underwriter a fee equal to 5% of the amount raised under this Prospectus.

In addition, the Company has agreed to pay the Underwriter a management fee equal to 1% of the amount raised under this Prospectus, and an administration fee of \$35,000 in consideration for managing the Offer and assisting the Company with management of its share register post completion of the Offer. Upon termination for whatever reason the Underwriter is entitled to be paid the administration fee of \$35,000.

The Company has also agreed to reimburse the Underwriter for all reasonable costs and expenses incurred in connection with the underwriting to a maximum of \$10,000.

The obligations of the Underwriter to complete its obligations are conditional upon the Underwriter entering into appropriate sub-underwriting arrangements on terms satisfactory to the Underwriter in its sole and absolute discretion.

The above condition precedent must be satisfied within 21 days of the date of the Underwriting Agreement (or such other date as is notified to the Company by the Underwriter).

If the above condition precedent is not satisfied, the Underwriting Agreement will be terminated and the Offer will not proceed.

Despite anything contained in the Underwriting Agreement the Underwriter shall ensure that neither it nor any of the sub-underwriters who subscribe for Shares pursuant to the Underwriting Agreement:

- (a) subscribe for Shares if that subscription would result in that party acquiring a relevant interest of 20% or more of the issued capital of the Company; or
- (b) are an associate or related party of the Company.

The Underwriter may terminate its obligations under the Underwriting Agreement on the occurrence of certain standard events including (definitions and terms mentioned in this summary have the same meaning as contained in the Underwriting Agreement):

- (a) Any governmental regulation which, in the reasonable opinion of the Underwriter, seriously and adversely affects or may or will seriously and adversely affect the business of the Company;

- (b) Any outbreak or escalation of hostilities (whether or not war has been declared) not presently existing, or a major escalation in existing hostilities occurs in the United Kingdom, United States of America, China or Australia which, in the reasonable opinion of the Underwriter, makes it impractical or inadvisable to proceed with the underwriting;
- (c) Any other calamity, crisis or material change in the financial, political, economic or market conditions in the United Kingdom or Australia or the United States of America, or in currency controls which, in the reasonable opinion of the Underwriter, makes it impractical or inadvisable to proceed with the Underwriting (including any disruption to trading for two or more conservative trading days generally on the New York Stock Exchange, the London Stock Exchange or on ASX);
- (d) Any other crisis of international or (Australian or UK) national effect which in the reasonable opinion of the Underwriter, makes it impractical or inadvisable to proceed with the underwriting;
- (e) There is a fall of 20% or more of the volume weighted average market price (**VWAP**) of shares of the Company for any five consecutive days upon which shares of the Company are traded on the ASX after the date of the Underwriting Agreement, in comparison to the equivalent share price at the close of trading on ASX on the date of this Agreement;
- (f) the All Ordinaries Index of ASX or the S & P ASX 200 Index is at any time on any 3 consecutive Business Days prior to allotment of the Shares 90% or less than the level that Index attained at the close of trading on the Business Day before the date of signing the Underwriting Agreement;
- (g) Any material adverse change in the financial position or prospects of the Company (compared to such at the date of the Underwriting Agreement);
- (h) Any material breach by the Underwriting Agreement by the Company which is not remedied within 5 business days after the breach occurs so long as the breach is capable of remedy;
- (i) Any representation or warranty of the Company in the Underwriting Agreement is or becomes materially untrue or incorrect, including but not limited to each Warranty;
- (j) Suspension of the trading of the ordinary shares of the Company on the ASX for a total of more than five ASX trading days from the date of this Agreement up to the Completion Date;
- (k) ASIC gives notice of an intention to hold a hearing or issues an order under section 739(1) of the Corporations Act or an interim order under section 739(3) of the Corporations Act or ASIC applies for an order under sections 1324B or 1325 of the Corporations Act in relation to the Prospectus, if any, or gives notice of an intention to prosecute the Company or any of its directors (in each case where the relevant order, notice or application is not withdrawn within 2 Business Days without the matter having become public);
- (l) A Change in Control Event occurs;
- (m) Any person (other than the Underwriter) whose consent to the issue of

the Prospectus is required by the Corporations Act refuses to give their consent or having previously consented to the issue of the Prospectus withdraws such consent;

- (n) A supplementary Prospectus is, in the reasonable opinion of Cardrona, required under the Corporations Act, and the Company does not lodge a supplementary or replacement Prospectus with the necessary consents and within the time reasonably required by the Underwriter;
- (o) A material change in the major or controlling shareholder or shareholders of the Company or any takeover offer or scheme of arrangement is publicly announced in relation to the Company;
- (p) A change to the structure or composition of the Board or senior management of the Company (compared to such at the date of this Agreement) occurs without prior written consent of the Underwriter;
- (q) A director or officer of the Company or any Group Company is charged with an indictable offence;
- (r) The Company failing to lodge the Prospectus by the Lodgement Date or the Company failing to apply to the ASX for official quotation of the Shares by the ASX and lodging all necessary forms for official quotation of the Shares by the ASX;
- (s) Approval to the quotation of all Shares on the ASX is refused, not granted or granted subject to any condition which is unacceptable to the Underwriter (acting reasonably) or subsequently withdrawn, prior to the date of allotment of the Shares;
- (t) The Prospectus contains a misleading or deceptive statement or a statement which is likely to mislead or deceive or likely to become misleading or deceptive, or the Prospectus has an omission of information material to an investor or does not contain all information required for the Prospectus to contain pursuant to the Corporations Act;
- (u) Any Material Contract is terminated or substantially amended;
- (v) An application is made to the Takeovers Panel with respect to the Company, or the Takeovers Panel makes a declaration in accordance with Part 6.10 Corporations Act;
- (w) Any permit or authorisation which is material to the Rights Offer and Prospectus is revoked, repealed, terminated or expires;
- (x) Any litigation, mediation, arbitration, administrative, industrial or other proceedings are commenced against the Company which have not previously been notified to the Underwriter;
- (y) An Insolvency Event occurs;
- (z) Any default or breach by the Company of any terms of the Underwriting Agreement;
- (aa) Any breach of the Company of its Constitution;
- (bb) Any information supplied to the Underwriter at any time prior to or during the term of the Underwriting Agreement and prior to and during the

Offer is or becomes misleading or deceptive;

- (cc) The Company withdraws the Offer;
- (dd) Any circumstance arises after the Prospectus is lodged a consequence of which is either that the Company is required to repay the money received from Applicants or to offer Applicants an opportunity to withdraw their applications and receive a refund of their application money;
- (ee) Any permit or authorisation required by the Therapeutic Goods Act 1989 (Cth) or similar legislation which is material to the Company is withdrawn;
- (ff) National Australia Bank debt facility being terminated and not replaced with debt funding arrangements on equivalent or more favourable terms.

The occurrence of any of the above events (except paragraphs (c) to (h), (j) to (l), (o) to (t), (v), (y), (z) and (cc) to (dd)) will not entitle the Underwriter to terminate the Underwriting Agreement unless, in the reasonable opinion of the Underwriter the event has or could have a materially adverse affect on the prospects of the Company or give rise to a liability of the Underwriter under the Corporations Act.

5.3 Consents

The following consents have been given in accordance with the Corporations Act and have not been withdrawn as at the date of lodgement of this Prospectus with the ASIC.

Steinepreis Paganin have given and have not withdrawn its written consent to be named in this Prospectus as the solicitor to the Offer.

Cardrona Capital Pty Ltd has given and has not withdrawn its written consent to be named in this Prospectus as the Underwriter for the Offer.

None of the entities referred to in this Section 5.3 have authorised or caused the Offer of this Prospectus and do not accept any liability to any persons in respect of any false or misleading statement in, or omission from, any part of this Prospectus.

5.4 Directors' Interests and Remuneration of Directors

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the promotion or formation of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the offer of securities pursuant to this Prospectus; or
- (c) the offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise—

for services rendered by him or by the firm in connection with the promotion or formation of the Company.

The Directors' interests in Shares and Options at the date of this Prospectus are:

Directors	Shares	Unlisted Options
Bryant McLarty	2,578,424	5,000,000
Simon Owen	Nil	Nil
Henry Gulev	Nil	Nil

The Constitution of the Company provides that the Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting or until so determined as the Directors resolve (currently set at \$200,000), to be divided among the Directors and in default of agreement then in equal shares.

Directors, companies associated with the Directors or their associates are also reimbursed for all reasonable expenses incurred in the course of conducting their duties which include, but are not in any way limited to, out of pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

No non-executive Director shall be paid as part or whole of his remuneration a commission on or a percentage of profits or operating revenue.

If any of the Directors are called upon to perform extra services or make any special exertions on behalf of the Company or its business, the Directors may remunerate this Director in accordance with such services or exertions, and this remuneration may be either in addition to or in substitution for the remuneration provided in the form of directors fees.

The table below sets out the remuneration provided to the Directors of the Company and their associated companies during the last financial year prior to the date of this Prospectus and their current remuneration at the date of this Prospectus, inclusive of directors fees and consultancy fees.

Director	Year Ended 30 June 2007	Current
Bryant McLarty	\$214,199*	\$150,000
Simon Owen**	N/A	\$150,000
Henry Gulev**	N/A	\$25,000

* This amount comprised salary of \$61,538, leave accrual which was paid out, a termination payment of \$100,000 and director's fees of \$25,000.

**Note that Simon Owen and Henry Gulev were appointed to the Board on 3 August 2007 and 23 August 2007 respectively and were not previously employed by the Company in any capacity.

5.5 Interests of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no expert or adviser nor any firm in which such an expert or adviser is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the promotion or formation of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the offer of securities

pursuant to this Prospectus; or

(c) the offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or shares or otherwise) to any expert or adviser or to any firm in which any such expert or adviser is a partner, either to induce him to become, or to qualify him as, an expert or adviser or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the Company.

Steinepreis Paganin have acted as solicitor to the Company in relation to the Offer. The Company estimates it will pay them \$20,000 in respect of this work.

Cardrona Capital Pty Ltd has acted as Underwriter in respect of the Offer to the Company in relation to the Offer. The Company estimates it will pay them \$177,500 in respect of this work. Cardrona Capital Pty Ltd will provide management services to the Company in relation to the Offer. The Company estimates it will pay the Underwriter \$35,000 in respect of this work. In addition an administrative charge of \$35,500 is payable to the Underwriter by the Company.

5.6 Expenses of the Offer

The estimated expenses of the Offer (excluding GST) are as follows:

ASIC fees	\$2,010
Printing, mailing and other expenses	\$4,000
ASX fees	\$21,261
Legal fees	\$20,000
Underwriting Fees	\$248,000
Total	\$295,271

SECTION 6

6. DIRECTORS AUTHORISATION

6.1 Directors' Authorisation and Consent

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with the ASIC.



Mr Simon Owen
For and on behalf of
Pharmaust Limited

GLOSSARY

Applicant means an investor who applies for Shares pursuant to the Offer.

ASIC means the Australian Securities and Investments Commission.

ASX means, as the context requires, ASX Limited (ACN 008 624 691) or the Australian Securities Exchange.

Business Day means a day on which trading takes place on the stock market of ASX.

Closing Date means the closing date of the Offer, being 5pm (WST) on 9 October 2007 (unless varied by the Directors).

Company or **Pharmaust** means Pharmaust Limited (ABN 35 094 006 023).

Constitution means the Company's Constitution as at the date of this Prospectus.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the directors of the Company at the date of this Prospectus.

Dollar or "**\$**" means Australian dollars.

Entitlement means the entitlement of a Shareholder to participate in the Offer.

Entitlement and Acceptance Form means the entitlement and acceptance form either attached to or accompanying this Prospectus.

ERP means Enterprise Resource Planning.

Foreign Shareholder means a person registered as a Shareholder as at the Record Date whose registered address is outside Australia or New Zealand.

Listing Rules or **ASX Listing Rules** means the Listing Rules of ASX.

Offer, Issue or **Entitlement Issue** means the non-renounceable entitlement issue of one (1) Shares for every one (1) Shares held.

Option means an option to acquire a Share.

PBS means the Australian Federal Government's Pharmaceutical Benefits Scheme.

Prospectus means this prospectus.

Record Date means the record date for determining a Shareholder's entitlement to participate in the Offer, being 21 September 2007.

Share means a fully paid ordinary share in the capital of the Company.

Share Registry means Computershare Registry Services Pty Ltd.

Shareholder means a shareholder of the Company.

Shortfall means the Shares (if any) not taken up under the Entitlement Issue.

Shortfall Application Form means the shortfall application form either attached to or accompanying this Prospectus.

TGA means the Australian Therapeutic Goods Administration.

Underwriter means Cardrona Capital Pty Ltd (ABN 99 094 515 492).

Underwriting Agreement means an underwriting agreement between the Underwriter and the Company dated on or about the date of this Prospectus.

Underwritten Shares means all of the Shares the subject of the Offer.

WST means Western Standard Time.

INSTRUCTIONS TO APPLICANTS

Please post or deliver the completed Shortfall Application Form together with a cheque to the share registry of the Company. If an Applicant has any questions on how to complete this Shortfall Application Form, please telephone the Company on (08) 9311 0700. The Form must be received by the Registry no later than **5.00 pm on Closing Date (or such other date as directed by the Company or the Underwriter)**.

- A. Application for Shares**
The Shortfall Application Form must only be completed in accordance with instructions included in the Prospectus.
- B. Name of Applicant**
Write the Applicant's FULL NAME. This must be either an individual's name or the name of a company. Please refer to the bottom of this page for the correct form of registrable title. Applications using the incorrect form of registrable title may be rejected.
- C. Name of Joint Applicants or Account Designation**
If JOINT APPLICANTS are applying, up to three joint Applicants may register. If applicable, please provide details of the Account Designation in brackets. Please refer to the bottom of this page for instructions on the correct form of registrable title.
- D. Address**
Enter the Applicant's postal address for all correspondence. If the postal address is not within Australia, please specify Country after City/Town.
- E. Contact Details**
Please provide a contact name and daytime telephone number so that the Company can contact the Applicant if there is an irregularity regarding the Shortfall Application Form.
- F. CHES HIN or existing SRN Details**
The Company participates in CHES. If the Applicant is already a participant in this system, the Applicant may complete this section with their existing CHES HIN. If the applicant is an existing shareholder with an Issuer Sponsored account, the SRN for this existing account may be used. Otherwise leave the section blank and the Applicant will receive a new Issuer Sponsored account and statement.
- G. Cheque Details**
Make cheques payable to "Pharmaust Limited – Entitlement Offer Account" in Australian currency and cross them "**Not Negotiable**". Cheques must be drawn on an Australian Bank. The amount of the cheque should agree with the amount shown on the Shortfall Application Form.
- H. Declaration**
By completing the Shortfall Application Form, the Applicant will be taken to have made to the Company the declarations and statements therein. The Shortfall Application Form does not need to be signed.

If a Shortfall Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be accepted. Any decision of the Directors as to whether to accept a Shortfall Application Form, and how to construe, amend or complete it, shall be final. A Shortfall Application Form will not however, be treated as having offered to subscribe for more Shares than is indicated by the amount of the accompanying cheque.

Forward your completed application together with the application money to:

Pharmaust Limited – Entitlement Offer Account
71 Division Street
WELSHPOOL WA 6106

CORRECT FORMS OF REGISTRABLE TITLE

Note that ONLY legal entities are allowed to hold securities. Shortfall Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. Shortfall Application Forms cannot be completed by persons under 18 years of age. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mr John Alfred Smith	J A Smith
Company Use the company's full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings Use full and complete names	Mr Peter Robert Williams & Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts Use the trustee(s) personal name(s).	Mrs Susan Jane Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates Use the executor(s) personal name(s).	Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>	Estate of late John Smith or John Smith Deceased
Minor (a person under the age of 18) Use the name of a responsible adult with an appropriate designation.	Mr John Alfred Smith <Peter Smith A/C>	Master Peter Smith
Partnerships Use the partners personal names.	Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C>	John Smith and Son
Long Names.	Mr John William Alexander Robertson-Smith	Mr John W A Robertson-Smith
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s).	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds Use the name of the trustee of the fund.	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Superannuation Fund