RELEASE OF SUPPLEMENTARY INDEPENDENT EXPERTS REPORT

FOR IMMEDIATE RELEASE

19 May 2009

- **PKF Independent Experts Report**

Australian healthcare company Stirling Products (ASX:STI) is pleased to release a copy of the supplementary Independent Experts Report with regard to the Company's conditional agreement to enter into a joint venture with Zodiac Capital Limited , a related party.

As advised to the market on 7 May 2009, following the questioning of the independence of the originally commissioned Independent Experts Report in certain media reports, the Company appointed PKF Corporate Advisory to prepare a supplementary Independent Experts Report which is now completed and will be dispatched to all shareholders this week.

Further, as also advised on 7 May, the Company does not withdraw the original Independent Experts Report annexed to the Notice of Meeting and Explanatory Memorandum and provides the PKF Corporate Advisory Independent Report to the market and shareholders in order that any question of transparency, assurance of independence and compliance with the Rules and the spirit of the Rules is more than adequately addressed.

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STIRLING PRODUCTS LIMITED

Supplementary Independent Expert's Report
in relation to a proposed transaction
with a related party

19 May 2009

19 May 2009

The Directors
Stirling Products Limited
Level 1
275 George Street
SYDNEY NSW 2000

Dear Sirs

SUPPLEMENTARY INDEPENDENT EXPERT'S REPORT IN RELATION TO A POTENTIAL TRANSACTION WITH A RELATED PARTY OF STIRLING PRODUCTS LIMITED

INTRODUCTION

We understand that Stirling Products Limited ("**Stirling**") proposes to enter into a joint venture with Zodiac Capital Limited ("**Zodiac**") in relation to a substantial asset (as defined in the Australian Securities Exchange ("**ASX**") Listing Rules) ("**Proposal**"), as described below.

Should the Proposal proceed, the Joint Venture is expected to have worldwide (excluding the Ukraine and certain European countries) commercialisation and sales rights to 26 fully developed phyto-pharmaceutical products that have been developed though Ukrainian research centres over the past 15 to 20 years ("**Zocap Pharma Products**"). Phyto-pharmaceuticals are natural compounds derived from botanicals instead of chemicals.

Both Stirling and Zodiac believe that this could uniquely position the Joint Venture in the global pharmaceutical market with a product pipeline that, through the integration of each party's interests, would include at least four opportunities to market potentially blockbuster products with application to major health issues and diseases. These products are discussed in **Section 2.2 below**.

Mr Peter Boonen is a Director of both Stirling and Zodiac and the Listing Rules deem the two companies to be sufficiently related so that Listing Rule 10.1 is applicable to the Proposal.

As Stirling is acquiring (the joint venture interest) and/or disposing of (cash of up to $1.2 million) a substantial asset from/to a related party, Listing Rule 10.1 requires that:

- Stirling shareholders unrelated to Zodiac ("**Shareholders**") approve the Proposal; and
- an independent expert report providing an opinion as to whether or not the Proposal is fair and reasonable to the Shareholders accompany the notice of meeting ("**Notice of Meeting**").

Shareholder approval of the Proposal is being sought at a general meeting of Stirling ("**Meeting**") to be held on 29 May 2009 ("**Meeting Date**").

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PURPOSE OF THIS REPORT

An Independent Expert's Report in relation to the Proposal issued by Alpha Securities Pty Ltd ("**Alpha**") ("**Alpha IER**") accompanied the Notice of Meeting.

As outlined in an announcement made by Stirling to the ASX on Thursday 7 May 2009 ("**Announcement**"), media coverage in respect of Stirling questioned the independence of the Alpha IER, despite full disclosure being made therein of the fact that a Stirling non-executive director is also a director of Alpha and prior to its release this matter was the subject of legal advice.

As stated in the Announcement, the Directors of Stirling ("**Directors**") have appointed PKF Corporate Advisory (East Coast) Pty Ltd ("**PKFCA**"), to review the methodology and opinion expressed in the Alpha IER and issue an Independent Expert's Report outlining PKFCA's findings and opinion thereon ("**Supplementary IER**"), to ensure that there is total transaction transparency, assurance of independence, compliance with the Rules and the spirit of the Listing Rules. This Supplementary IER will be dispatched to all shareholders prior to the Meeting.

CONCLUSION

We have reviewed the methodology and opinion expressed in the Alpha IER. While we agree with the overall conclusion, we believe that there are some methodological deficiencies in the Alpha IER. Rather than set out these in detail, we have undertaken our own review of the Proposal and produced this Supplementary IER, for the use of Shareholders.

Based on the analysis set out in the body of the Report, we conclude that the Proposal is "*fair and reasonable*" to the Shareholders.

Definition of *"fair and reasonable"*

The Listing Rules do not define the term "fair and reasonable" and Regulatory Guide 111 "*Content of Expert Reports*" ("**RG111**") issued by the Australian Securities and Investments Commission ("**ASIC**") establishes certain guidelines in respect of independent expert's reports, but does not define the term as used in the Listing Rules.

Having regard to the discussion in RG111, we have determined that the Proposal is "fair and reasonable" to Shareholders if the perceived advantages of implementing the Proposal outweigh the perceived disadvantages of implementing the Proposal.

Considerations

Set out below are the matters that we consider to be relevant in assessing whether the Proposal is "fair and reasonable" to Shareholders.

Advantages

Ability to continue operations

As illustrated in **Section 4.5 below**, the financial position of Stirling has been deteriorating, with a significant decline experienced during the half year to 31 December 2008. Further, Stirling was unsuccessful in raising funds in late 2008. The previous Board of Directors indicated that in the absence of successful fund raising initiatives, they may have been forced to place Stirling into voluntary administration. Stirling had total liabilities of over $2.0 million through Stirling's Canadian subsidiary, Stirling Products NA Inc ("**Stirling NA**"). All of Stirling NA's creditors have since agreed to repayment only through profits generated by Stirling NA.

Further, without the Joint Venture, Stirling's opportunities to raise capital and continue as a going concern would be limited. The Proposal and associated fund raising initiatives present Stirling with a strategic opportunity to continue operating with a focus on new human health-related products (as distinct from the previous animal health-related products, although these opportunities remain to also be exploited, as indicated by the newly agreed Animate joint venture (refer **Section** Error! Reference source not found.)).

Potential for new products

The Proposal provides Stirling the opportunity to combine forces with Zodiac to create new products with their respective intellectual property rights that are considered by the parties to be potentially complimentary. Some of the product opportunities anticipated by management are outlined in **Section 2.2 below**.

Potential increased ability to raise funds

If the Proposal and the funding resolutions are implemented and the Joint Venture's products are successfully commercialised, the future ability of Stirling to raise equity or debt funds potentially would be increased.

Increase in Share price following implementation of the Proposal

The Share price increased substantially subsequent to the announcement of the proposed Joint Venture with Zodiac. In our opinion, the market trading exhibits a positive market re-rating of Stirling, which results from the fund raising initiatives and the Proposal and the benefits that could arise from the Joint Venture.

Receive additional cash upon Option exercise

Several options issues are proposed in the Notice of Meeting for the purpose of raising funds to continue the operations of Stirling, including the Joint Venture. Upon exercise of the options, Stirling would raise additional cash which could be deployed to generate additional shareholder value. Further, the raising of this cash would not attract any additional fund raising costs which can be relatively expensive for a company the size of Stirling.

Avoid potential adverse consequences of the Proposal being rejected

In our opinion, in the absence of additional fundraising or development of profitable operations, there are some risks in rejecting the Proposal and the funding resolutions, including the following risks:

- Stirling may become insolvent;
- the potential for downside volatility in the Share price may resume;
- as a smaller entity that is listed on the ASX, Stirling will continue to be constrained by its listed status in terms of:
  - administration costs; and
  - disclosure, governance and compliance requirements; and
- the possibility exists that ultimately, the Directors will be forced to place Stirling into voluntary administration.

However, there is no guarantee that the Joint Venture will be able to successfully develop and profitably commercialise the Zocap Pharma Products.

Disadvantages

Approval of the Proposal has the following disadvantages:

Dilution

We note that the issue of additional securities to other than existing Shareholders will dilute the interests of existing Shareholders. The issue of additional securities is not part of the Proposal upon which this Report provides an opinion and approval of the issue of additional securities is not dependent upon approval of the Proposal or vice versa.

We believe that it is commercially sensible for Stirling to seek funding to enable it to implement the Proposal (especially the conditional commitment to pay up to $1.2 million in Joint Venture commercialisation costs), albeit that the commitment is at Stirling's sole discretion and its funding obligations may be terminated by Stirling at any time (with a concomitant reduction in its interest in the Joint Venture).

As illustrated in **Section 4.6 below**, if all fully paid ordinary shares in Stirling ("**Shares**") and all Convertible Notes issuable pursuant to the Notice of Meeting are issued and are converted, the collective ownership interest and voting power of:

- the existing top 20 Shareholders decreases from 57.18% to 21.54%; and
- all the existing Shareholders decreases from 100% to 37.68%,

  (assuming that none of the existing shareholders acquire any Shares or Convertible Notes issuable pursuant to the Notice of Meeting).

These calculations exclude the potential exercise of options issuable pursuant to the Notice of Meeting.

However, even if the Proposal did not exist, it is evident that Stirling needs to urgently raise capital to continue as a going concern and in our opinion, any capital raising in the absence of the Joint Venture Proposal (or an equivalent proposal) is likely to be undertaken at a share price of approximately $0.004 (or less) which was the prevailing Share price in the early part of 2009. We are advised that prior to the Proposal being announced, existing major Shareholders were approached to invest further in Stirling at $0.003 or $0.004 per Share but all indicated that they had no interest in doing so.

Risk/return profile

Investors may wish to retain their current investment and risk profile. For investors willing to remain invested in Stirling in its current form, accepting the Proposal will potentially affect their ability to meet investment preferences.

On 7 May 2009 Stirling announced the formation of a joint venture ("**Stanimate joint venture**") with Animate Animal Health ("**Animate**") of South Africa to register where required, commercialise and distribute Stirling's patented animal growth promotion products based upon Stirling's single entantiomer beta agonist, R-salbutamol throughout South Africa and all other African countries (refer **Section** Error! Reference source not found.).

Proceeding with the Stanimate joint venture is conditional on Stirling's Shareholders approving the resolutions to be considered at the Meeting required to be passed to enable Stirling to complete its fully committed capital raisings.

The above announcement indicates that Stirling has available to it another proposal (that does not require Shareholder approval) that can be implemented without undertaking the Joint Venture.

Accordingly, the Proposal does not represent the only alternative currently available to Stirling. Stirling Management has advised that it has a number of other joint venture opportunities under discussion and development, with Stirling's major focus being to negotiate and enter into a series of commercialisation joint venture agreements globally with its respective joint venture partners being responsible for product registration and commercialisation costs. However, without additional funds, Stirling will not be able to proceed with any of these opportunities.

Further, in our view, the ability of Stirling to raise the funds that it has raised under the recent capital raisings which are to be considered at the Meeting has been due in large part to Stirling having the opportunity to participate in the Joint Venture. We also note that the Stanimate joint venture is conditional on Stirling completing its proposed capital raisings.

Conclusion

Based on the above, we conclude that the Proposal is "*fair and reasonable*" to the Shareholders, in that the perceived advantages of implementing the Proposal are considered to outweigh the perceived disadvantages of implementing the Proposal, and the perceived disadvantages of not implementing the Proposal are considered to be material.

Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time and such changes may result in our opinion becoming outdated and in need of revision. PKFCA reserves the right to revise any valuation, or other opinion, in the light of material information existing at the date of this Report that subsequently becomes known to PKFCA.

Shareholders' circumstances

PKFCA has not considered the effect of the Proposal on the particular circumstances of individual Shareholders. Some individual Shareholders may place a different emphasis on various aspects of the Proposal from that adopted in this Report. Accordingly, individuals may reach different conclusions as to whether or not the Proposal is fair and reasonable in their individual circumstances.

The decision of an individual Shareholder in relation to the Proposal may be influenced by their particular circumstances and accordingly, Shareholders are advised to seek their own independent advice.

Sources of Information

Appendix 1 of the Report identifies the information referred to, and relied upon, by PKFCA during the course of preparing this Report and forming our opinion.

Report

This Summary should be read in conjunction with the Report that sets out in full the purpose, scope, basis of evaluation, limitations, analysis and our findings.

A financial services guide is attached in **Appendix 2**.

Yours sincerely

Vince Fayad
Director

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1 SCOPE AND LIMITATIONS

1.1 Regulatory requirements

Listing Rule 10.1 requires that an entity obtain shareholder approval when it acquires or disposes of a substantial asset in any transaction with a related party.

Listing Rule 10.2 states that an asset is substantial if:

> *"its value, or the value of the consideration for it is, or in the ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the listing rules"*

In accordance with the above, the transaction between Stirling and Zodiac is considered to fall within Listing Rule 10.

In accordance with Listing Rule 10.10.2, the Notice of Meeting issued in respect of a meeting to be held under Listing Rule 10.1 must include a report from an Independent Expert. Per Listing Rule 10.10.2:

> *"the report must state whether the transaction is fair and reasonable to the holders of the entity's ordinary securities whose votes are not to be disregarded."*

1.2 Basis of assessment

Discussion

Listing Rule 10.10.2 does not define the expression "*fair and reasonable*". However, guidance is provided by RG111, which sets out ASIC's views on the form of analysis that the expert should adopt in regard to various types of transactions that may require an independent expert report. However, RG111 does not provide any specific guidance in regard to an independent expert report under Listing Rule 10.

In summary, ASIC categorises the various types of transactions upon which it provides an opinion as to the matters to be considered by the expert into only the following groups:

- control transactions;
- demergers and demutualisations;
- approval of the sale of securities under item 7 of section 611 of the Corporations Act 2001 (Cth); and
- compulsory acquisitions and buy-outs.

A control transaction is one in which a person acquires, or increases, a controlling stake in a company and can be achieved by way of a number of different legal mechanisms.

There are proposals regarding fund raising arrangements (that will allow Stirling to fund its commitments under the proposed Joint Venture), to be considered separately to the Proposal. We understand that fund raising arrangements do not involve a control transaction under RG 111 and this Report is not directed to considering whether those fund raising proposals are fair and reasonable.

We also understand that the issue of Shares following the exercise by Stirling of one or both options to increase its holding in the Joint Venture is not being approved in the Meeting and that if necessary, a future meeting or meetings of Stirling will be convened to consider such issue(s).

Accordingly, the independent expert is left to analyse Listing Rule 10 matter by inference from the comments made by ASIC in RG111 in regard to other transactions.

RG 111.10 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. RG 111.11 indicates that an offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

In the present circumstances, a takeover offer (or other control transaction) is not in contemplation. Accordingly the control transaction definition of "fair and reasonable" in RG111 is not strictly appropriate.

RG 111.39 indicates that the expert should identify the advantages and disadvantages of the proposal to security holders not associated with the transaction. The expert should provide an opinion either:

- that the advantages of the proposal outweigh the disadvantages; or
- that the disadvantages of the proposal outweigh the advantages.

RG 111.79 provides that an expert should not include prospective financial information (including forecasts and projections) in its report unless there is a reasonable basis for that information. Otherwise the opinion may be misleading.

We note that due to the very early stage of development and commercialisation of the Zocap Pharma Products, no forecasts of sales and/or earnings from such products are available.

Adopted definition of "fair and reasonable"

Having regard to the above, in analysing the term "fair and reasonable" under Listing Rule 10, we propose to consider whether or not the perceived advantages of implementing the Proposal outweigh the perceived disadvantages of implementing the Proposal. Such an analysis will not include a valuation of the Joint Venture or the Zocap Pharma Products, as such a valuation is not possible.

RG111 also specifies that the following matters be considered by the expert, where appropriate:

- whether the vendor is to receive a premium for control (RG111.40). The concept of a premium for control is not appropriate in the current circumstances as no party is obtaining control of Stirling;
- whether further transactions are planned between the entity, the vendor or any of their associates. If any are contemplated, the expert should determine whether those transactions would be on an arm's length basis. If not, an implication arises that they may compensate a vendor for a price that is too low (RG111.42). We are unaware of any further transactions that are planned between the parties; and

  whether any proposed acquisition by way of sale, if approved, might deter the making of a takeover bid for the entity (RG 111.43). Again, the concept of the potential for deterring the making of a takeover bid for Stirling is not appropriate in relation to the Proposal, as no party is obtaining control of Stirling.

1.3 Limitations

The Supplementary IER is to be provided by the Directors and sent to Shareholders entitled to vote on the Proposal separately to the Notice of Meeting and Alpha IER, (both of which have already been dispatched to Shareholders) and may be lodged by the Directors with regulatory and statutory bodies.

The Directors acknowledge that PKFCA's Supplementary IER will be prepared solely for the purpose noted above and accordingly PKFCA disclaims any responsibility from reliance on its Supplementary IER in regard to its use for any other purpose. Except in accordance with the stated purpose, no extract, quote or copy of our report, in whole or in part, should be reproduced without the prior written consent of PKFCA, as to the form and context in which it may appear.

PKFCA has not been involved with the issue of the Notice of Meeting and the Explanatory Memorandum and is not responsible for the contents of those or any other document, other that our Supplementary IER. PKFCA has provided consent for the dispatch of its Supplementary IER to Shareholders and regulatory bodies.

PKFCA's procedures, in the preparation of the Supplementary IER, may involve an analysis of financial information and accounting records. This does not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to become aware of all significant matters that might be identified in an audit or review. Accordingly, we will not express an audit or review opinion.

It is not PKFCA's role to undertake, and PKFCA will not undertake, any commercial, technical, financial, legal, taxation or other due diligence, other similar investigative activities or valuations in respect of the Proposal. PKFCA understands that the Directors will be advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary. PKFCA does not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/ or completeness of any due diligence or other similar investigative activities by the Directors or their advisors.

We note that the Supplementary IER does not deal with the individual investment circumstances of Shareholders and no opinion is provided in relation to same. Some individual Shareholders may place a different emphasis on various aspects of the Proposal from that adopted in our Supplementary IER. Accordingly, individuals may reach different conclusions on whether or not the Proposal is in their particular best interests. An individual Shareholder's decision in relation to the Proposal may be influenced by their particular circumstances (including their taxation position) and, therefore, Shareholders are advised to seek their own independent advice.

1.4 Assumptions

In forming our opinion, we made the following assumptions:

- the parties will honour in full their agreements, as publicly disclosed;
- all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts and there is no alleged or actual material breach of the same or dispute (including, but not limited to, legal proceedings), other than as publicly disclosed and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding, other than as publicly disclosed;
- Zodiac has the authority under the licence agreement with Ekomed to enter into the proposed Joint Venture on the terms publicly disclosed;
- that matters relating to title and ownership of assets (both tangible and intangible) are in good standing, and will remain so;
- information in relation to the Proposal provided to Shareholders or any statutory authority by the parties is complete, accurate and fairly presented in all material respects;
- if the Proposal is approved, that it will be implemented in accordance with its publicly disclosed terms;
- the legal mechanisms to implement the Proposal are valid and effective; and
- any other publicly available information relied upon by us is accurate and not misleading.

In addition to the above, the Directors have confirmed that there are no plans for additional corporate transactions between related parties, other than as publicly disclosed.

2 JOINT VENTURE

2.1 Proposed Terms of Joint Venture

We are advised that the material terms of the proposed joint venture between Stirling and Zodiac, for which Shareholder approval is sought, as set out in Resolution 13 of the Notice ("**Joint Venture**") will be as follows:

- Zodiac has an exclusive licence agreement with Ekomed LLC ("**Ekomed**"), the technology owner, developer and manufacturer (who is not a related party of either Stirling or Zodiac) to commercialise and sell certain herbal-based human health-related products ("**Zocap Pharma Products**") throughout the world excluding the Ukraine, Germany, Spain, France and certain former Soviet Union countries;
- the Joint Venture is known as the Zocap Pharma Products Joint Venture;
- subject to, and following approval by, the Shareholders of Resolution 13, Zodiac will immediately vest in Stirling an initial 30% interest in the Joint Venture in consideration of Stirling entering into the agreement establishing the Joint Venture ("**Joint Venture Agreement**");
- under the proposed terms of the Joint Venture Agreement, Stirling will be required to contribute 65% of the Joint Venture commercialisation costs of the Zocap Pharma Products up to a total of $1.2 million. Should Stirling elect at any time to discontinue its commercialisation funding contribution to the Joint Venture, then the interest of Stirling in the Joint Venture will be adjusted down pro rata to the amount of actual expenditure compared to the maximum funding contribution commitment of $1.2 million. Thus, if Stirling contributes only $600,000, then Stirling's interest in the Joint Venture will be adjusted down to 15% from the initial 30% interest;
- Stirling may, at any time for an 18 month period following the first anniversary of the Joint Venture (i.e. up to 30 months from commencement of the Joint Venture), acquire an additional 10% interest in the Joint Venture by issuing to Zodiac 150,000,000 Shares. The election to increase the interest in the Joint Venture from 30% to 40% is at the discretion of Stirling and should Shareholder approval be required for the issue of these Shares at the time of election, a meeting of Shareholders to consider the appropriate resolution(s) would be convened at that time;
- Stirling may, at any time for a period of 5 years from commencement of the Joint Venture, acquire a further additional 10% interest in the Joint Venture by the payment of $1,000,000 to Zodiac, subject to the Joint Venture having established audited gross operating profit before interest and taxes of a minimum of $750,000 over any 12 month period. If such an operating profit is not established then Stirling may exercise its 10% option by issuing to Zodiac an additional 150,000,000 Shares. Should Stirling elect to exercise this option and should Shareholder approval be required at the time of election, a meeting of Shareholders to consider the appropriate resolution(s) would be convened at that time;
- Stirling is required to contribute to the Joint Venture any intellectual property rights held by Stirling in relation to human applications of the beta agonist products which Stirling has been developing for commercial use in animals. We are advised that:
  - the intellectual property of Stirling in relation to the use of beta agonist in humans is at a very early stage of development;
  - both Stirling and Zodiac consider that there are potentially significant benefits arising from combining the beta agonist intellectual property with one or more of the Zocap Pharma Products; and
  - Stirling will retain the ownership of the relevant intellectual property rights and is required to contribute to the Joint Venture the right to develop, commercialise and market any products arising from those rights;

- the Joint Venture will have a management committee comprising two representatives of each of Stirling and Zodiac. Zodiac has the right to appoint the chairman to the management committee who will have a casting vote. All budgets and commercialisation activities will be approved by the management committee. The budgets will provide only for further development and commercialisation costs of the Zocap Pharma Products;
- it is proposed that the Joint Venture will operate a separate bank account to which participants will make contributions on a cash call basis. Payment of funds from the bank account will require signature of an authorised representative of each participant to ensure funds are withdrawn and paid out of the Joint Venture bank account;

We are advised that:

- the proposed Joint Venture has been structured in the above fashion so as to allow Stirling to progressively assess whether to continue in the Joint Venture, and further, to have a reasonable amount of time of up to between 2.5 and 5 years to assess if the Zocap Pharma Products can be commercialised successfully prior to issuing a substantial number of Shares or paying substantial consideration for an additional 10% or 20% interest in the Joint Venture; and
- the Joint Venture agreement is currently being finalised and in addition to the material terms referenced herein, will contain usual terms and conditions, including warranties that would be considered as commercially standard for an agreement of the kind contemplated by Stirling and Zodiac for the Joint Venture.

The Joint Venture agreement between Stirling and Zodiac will be formally finalised within seven days if Shareholder approve Resolution 13 at the Meeting.

2.2 Products

Stirling and Zodiac consider that at least four "blockbuster" products have potential for successes in the global pharmaceutical market and these are outlined below:

- Obesity – Stirling's beta-agonist intellectual property may be coupled with the Zocap natural immune adjuvant[1], improving its capability to significantly reduce body weight by blocking the body's fat production receptor with no side effects;
- Muscle wasting – Stirling's beta-agonist may be coupled with the Zocap conditioning agent for treatment of age related muscle wasting and an associated weakness (sarcopenia) which affects everyone, especially during the latter years of life;
- Cold and Flu – the Zocap immune booster has been shown to lessen the incidence of colds and flu and is a market leader sold in pharmacies throughout the Ukraine; and
- Tuberculosis and Tuberculosis/HIV – the Zocap adjuvant treatment has demonstrated in all human clinical cases to date that it is said to be positioned as the first breakthrough treatment product in 40 years for Tuberculosis ("**TB**"), drug resistant TB, multi drug resistant TB ("**MDR TB**"), extensively drug resistant TB ("**XDR TB**") and TB/HIV co-infection.

Other Zocap Pharma Products are positioned for the treatment of conditions including high cholesterol, high blood sugar, stress, arthritis and allergies.

Separately to the Joint Venture, Stirling will still continue with the commercialisation of ST810, the single enantiomer[2] beta-agonist[3] being positioned as an animal growth promotion agent to replace the use of human antibiotics and steroids currently used as growth promoters in the meat production industry.

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1 Adjuvants assist in the prevention, amelioration or cure of disease. An immune adjuvant is a substance acting to enhance the immune response to a treatment with which it is administered.

2 Enantiomers are the 'mirror image' opposite of molecular structure. A single enantiomer product is regarded as a 'pure' product having the left enantiomer, which is generally associated with side effect, chirally removed.

3 Beta-agonists are any of the various drugs that combine with and activate a beta-receptor which can be any group of receptors present on cell surfaces of some effector organs or tissues that mediate certain physiological responses when bound by specific beta-agonists.

2.3 Stirling Directors' Views on Benefits of the Joint Venture

In an announcement made to the NSX on March 26 2009, Zodiac's and Stirling's Managing Director, Mr Peter Boonen stated:

"A significant benefit of the Joint Venture is that it will own the global commercialisation rights to an extensive range and pipeline of fully developed products for which the costs and risks of discovery and development have already been fully accounted."

"The Zocap range can be marketed in most global jurisdictions following registration, whilst the beta agonist products will require regulatory approval for each new use. Our advantage here is that it is already FDA approved in the USA as well as in other jurisdictions for human use for treatment of respiratory disease and our task is to repurpose an 'old drug' for 'new uses', which is a well understood process in the pharmaceutical industry."

3 ZODIAC PROFILE

3.1 Overview

Zodiac is a boutique investment group publicly listed on the National Stock Exchange of Australia Limited ("**NSX**").

Zodiac's activities are focused on the creation, syndication and management of investment projects for itself as a principal, its shareholders and for its syndication and/or investment partners. Syndication and investment partners include wholesale investors and high net worth individuals, as well as retail investors introduced to publicly listed interests through Zodiac appointed licensed retail distribution partners.

3.2 Current Project Assets

According to its internet site[4], Zodiac's current project investments are described below:

*Consolidated Iron Sands Limited ("**Consolidated Iron Sands**")*

Zodiac has a controlling interest in Consolidated Iron Sands which owns key iron sand tenements over 16,300 hectares (163 square kilometres) within the shallow offshore regions of the northern Philippines coastline. A ban on offshore mining has recently been lifted, providing CIS the opportunity to contribute to the re-establishment of the Philippines as a strategic and significant supplier of iron ore on a world scale. Consolidated Iron Sands plans to list on the ASX in 2009.

On Friday 15 May 2009, Zodiac announced that it had entered into a Heads of Agreement with Global Nickel Investments Limited (an ASX-listed company) ("**GNI**") and Consolidated Iron Sands that, subject to due diligence will see GNI obtain an immediate 10% interest in Consolidated Iron Sands. Subject to certain milestone conditions being met, (including compliance with any regulatory requirements including any required shareholder approvals of both GNI and Consolidated Iron Sands), GNI will have the option to increase its interest in Consolidated Iron Sands by 39% and ultimately by a further 51% to 100% ownership.

*Dynamic Agricultural Products Limited ("**Dynamic Agricultural Products**")*

Zodiac owns a majority interest in Dynamic Agricultural Products which is commercialising a patent pending vertical agricultural farming system, which incorporates proven technologies that address bio-security, water quality and availability, availability of arable land and the control of pests, mould and other bacterial problems that often threaten traditional and intensive production methods. Dynamic Agricultural Products plans to list on the ASX in 2009. We understand from discussions with Zodiac Management that commercialisation is expected to proceed quite quickly.

Zocap Pharma Products

Zodiac has an exclusive licence agreement with Ekomed, the technology owner, developer and manufacturer (who is not a related party of Zodiac) to commercialise and sell certain of Ekomed's herbal-based human health-related products throughout the world excluding the Ukraine, Germany, Spain, France and certain former Soviet Union countries. The Zocap Pharma Products are discussed in further detail in **Section 3.4 below**.

4 http://www.zodiaccap.com/

3.3 Ekomed

According to Zodiac NSX announcements, Ekomed is a leading bio-pharmaceutical company located in Kiev, Ukraine and is primarily engaged in the research, production and sales of herbal products.

Over 15 years of intensive research and clinical trials have culminated in the approval of the whole range of Ekomed natural, functional supplements by the Ukraine Ministry of Health. Basic and clinical studies conducted at more than 40 research institutes and hospitals in Ukraine have confirmed the beneficial properties of Ekomed's phyto-concentrates as well as their safety and effectiveness in alleviating various ailments. Ekomed pioneered botanical products in the Ukraine by setting the standards for regulation of herbal extracts and developing the standardised extracts and ingredients for their own range of herbal nutraceuticals and natural medicinal products.

Ekomed's main products are classified as botanical immunomodulators and functional foods and are said to be beneficial for conditions including arthritis, allergies, anaemia, autoimmune disorders, AIDS (as adjuvant immunotherapy), diabetes, bronchitis, impotence, inflammation, varicose veins and haemorrhoids, menopause, obesity, excess of cholesterol, hepatitis, tuberculosis, influenza and many others.

3.4 Zocap Pharma Products

The following is an extract from the Zodiac website describing Zocap Pharma Products:

> *Zocap Pharma owns the global rights to 26 fully developed phyto-pharmaceutical[5] products, including a number of potential blockbuster candidates that have been developed within Russian research institutes over the past 25 years and are currently only available through pharmacies in the Ukraine. The products have many of the attributes of true pharmaceuticals and are regulated in most countries under such categories as natural remedies, food supplements or traditional medicines. Zocap Pharma has started operations that will lead to early marketing initiatives in selected regions and looks forward to achieving potentially significant revenues within its first full year of operations as these markets expand and the Zocap Pharma products are introduced to new regions. The first Zocap Pharma product that [Zodiac] is focused on introducing to global markets is Immunoxel, a proven and very effective complementary agent in the treatment of tuberculosis ("TB"), a highly contagious condition and major scourge within mainly developing countries and a serious health threat to the western world. Approximately a third of the world's population now carries the TB bacteria. Extensive clinical trials show that Immunoxel significantly enhances the effects of anti-TB and anti-TB/HIV drugs and protects the liver from drug related toxicity. Importantly, Immunoxel has demonstrated significant effectiveness against the rapidly emerging drug resistant strains of TB. Other key Zocap products in clinical trials have demonstrated effectiveness in the reduction of cholesterol (Cholonorm) and blood sugar (Diabetin).*

[5] Phyto-pharmaceuticals are natural compounds derived from botanicals instead of chemicals.

4 STIRLING PROFILE

4.1 Overview

Stirling is an animal health company that has developed patented animal growth promotion agents that increase meat production while decreasing fat accumulation, without the use of human antibiotics or steroids, thus use of all of which in animal production are either banned or in the process of being banned in many jurisdictions. Stirling's core growth promotion agent ST-810 is not approved or registered for commercialisation in any jurisdiction as of the date of this Report.

4.2 Products

Outlined in the table below are the products currently in Stirling's database:

Table 1: Stirling – Product Database

Tradename	Description
EquineHaler	Delivery system for inhalation medications for horses. Device will deliver any form of metered dose inhalation medication.
Equidel	Proprietary delivery system for inhalation medications for horses. Device will deliver any Respinoid and Pulmofast combinations or any Pulmovet metered dose inhaler drugs.
Equinair	A hand-held detection system for rapid assessment of the respiratory condition in horses and the presence or absence of a respiratory disorder.
Nequilizer	A hand held nebulizer for the aerosol delivery of insoluble drugs especially natural and non-medicinal herbal medications for horses.
Pulmofast	A bronchodilator for the treatment of heaves in horses and as a pre-treatment to open the airways for supplementary treatment or respiratory disorders.
Respinoid	A steroidal anti-inflammatory for the treatment of heaves and other respiratory disorders.
PetQuench	Fortified water for dogs and cats that can increase water consumption by up to 30%. May be beneficial for dehydrated animals or where increased water consumption is required to aid in the prevention of urinary tract and kidney disease.
ProVale Supplements	Beta glucan supplements for health and well being of animals that are stressed or where there is a need to provide greater immune protection such as in puppies and kittens or in aging and rehabilitating pets.
Ralbolean	R-salbutamol for the treatment of obesity in dogs
ProVale	An immune-stimulator for use in aquaculture, swine and poultry, for enhanced protection in young/newborn animals and enhanced protection for viral and bacterial infections in adult animals.
Ralbomax	A growth agent that provides productivity gains to producers primarily by enhanced feed intake and from improved carcass attributes: "more meat less fat". This product has applications in poultry, swine, cattle and sheep.

Source: Stirling 2008 Annual Report

From discussions with the current Stirling Management, we note that some of the products listed above are no longer proceeding and some are currently under review.

We are advised that:

- Stirling is the legal or beneficial owner of certain patented rights to the single enantiomer beta-agonist known as R-salbutamol also known as R-albuterol;
- Stirling shall provide to the Joint Venture the exclusive rights of its beta agonist, R-salbutamol, for all non animal growth promotion applications;
- Stirling is not required to transfer ownership of any beta agonist intellectual property to the Joint Venture, but is required to contribute the commercialisation rights to the human non respiratory applications such as obesity drug candidate and to the muscle wasting drug candidate as with both of these potential products they are potentially optimised through the incorporation of one or more of the Zocap Products; and

- the respiratory rights are owned by Sepracor[6], which was founded on the potential of the human respiratory application of the Stirling beta agonist and is now capitalised at over US$1.5 billion.

4.3 Recent Ventures

Stirling has a joint venture based in Denmark (Pulmovet ApS) which is commercialising products for the treatment and diagnosis of respiratory disorders in horses. Stirling Management advises that this joint venture is currently under review as it is indebted to Stirling for over $170,000 and has no financial resources. Substantial funds are still required to commercialise the joint venture products.

Stirling, via its North American subsidiary, Stirling NA acquired Progressive BioActives Incorporated ("**PBI**"). PBI is part of the Bioscience cluster establish on Prince Edward Island, Canada. PBI's lead product ProVale, is a high purity bete glucan extract designed as an alternative tool for sustainable livestock management in face of increasing viral disease challenges where traditional antibiotics have no or limited application. ProVale is available for targeted applications in swine, poultry and farmed aquaculture with a future focus on further developing applications for companion animals (e.g. horses, dogs, cats and reptiles). Stirling Management advises that;

- Stirling NA has over $2.0 million of liabilities and is in the process of restructuring;
- creditors have agreed to the repayment of Stirling NA's liabilities through Stirling NA's profits only; and
- this agreement is subject to the Joint Venture and funding resolutions being approved at the Meeting.

4.4 Timeline

Outlined below is a timeline of the key events in Stirling's operations over the last twelve months, leading up to the Proposal:

Table 2: Stirling - Timeline

Announcement Date	Description
21 November 2008	**Proposed Capital Raising:** Signed a mandate with RM Corporate Finance Pty Ltd ("**RM Corporate Finance**")[7] to act as lead manager to raise up to $960,000 before expenses. This was to be achieved through the placement of 35,000,000 shares at $0.006 per share, with the remaining $750,000 to be raised through the issue of convertible notes at 9.00% interest, repayment date of 30 June2011 and subject to a minimum conversion price of $0.004. The placement of the shares was subject to shareholder approval on 21 November 2008 with the convertible notes to be approved on or before 15 January 2009.
23 December 2008	**Proposed Capital Raising Unsuccessful:** RM Corporate Finance was not able to complete the placement on the terms set out in the original mandate. Stirling continued to liaise with RM Corporate Finance in relation to alternative arrangements. It also received alternative proposals for the ongoing funding of its business including the potential to raise funds by raising capital or the possible disposal of some of its assets. These proposals were in preliminary stages of negotiation and development. **Stirling announced that if it was unable to raise capital from other sources, there was the possibility that the Directors would be forced to place the company into voluntary administration.** [PKFCA emphasis]

6 See NASDAQ:SEPR or www.sepracor.com

7 According to its internet site: http://www.rmcapital.com.au/, RM Capital's Perth based Corporate Finance & Investment Banking division specialises in small to mid-cap companies, providing expertise on capital raisings for both listed and unlisted companies, underwriting and sub-underwriting, acquisitions and divestments.

Announcement Date	Description
3 February 2009	**Agreement with Alpha to raise $1,760,000:** Stirling entered into an agreement with Alpha to raise a total of $1,760,000. The placement of 35,000,000 shares approved by Shareholders in November was to proceed immediately to raise $140,000. Following this placement, a further 30,000,000 shares will be placed under the Company's 15% entitlement raising a further $120,000. The funds were to be raised at $0.004 per share, with each share having a one for two options exercisable at $0.008 each prior to 31 December 2012. A further $1,500,000 was to be raised though the issue of two sets of Convertible Notes. The first Convertible Note issue was to raise $650,000 within 14 days of Shareholder approval and be subject to an interest rate of 7.5%pa and be repayable on or before 31 December 2012 or redeemable at the lesser of $0.004 per share or the price that is 80% of the average market price of Stirling's shares calculated over the last 5 days on which sales were recorded before the date of conversion and issue. The second Convertible Note issue was to raise $850,000 within 14 days of Shareholder approval and be subject to an interest rate of 7.5% pa and be repayable on or before 30 June 2013 or redeemable at the lesser of $0.006 per share or the price that is 80% of the average market price of Stirling's shares calculated over the last 5 days on which sales were recorded before the date of conversion and issue. **Proposed Board Restructure:** Coinciding with the placement of the first tranche of funds (35,000,000 shares to raise $140,000), it was proposed that the then existing Board would step down in its entirety and the then existing CEO would step down to make way for a new executive management team.
9 February 2009	**First Placement Completed:** on 7 February 2009 Stirling completed the placement of 35,000,000 new fully paid ordinary shares at $0.004 each to sophisticated investors through Alpha to raise $140,000. The shares were issued with one for two unlisted option exercisable at $0.008 each and expiring on 31 December 2015.
9 February 2009	**Appointment of New Board:** As per the announcement made on 3 February 2009 the then existing Board of Stirling stepped down in its entirety and Stirling elected Mr Peter Boonen as an executive director, Mr Gulshan Jugroo as a director, CFO and Company Secretary and Mr George Karantzias of Alpha as a non-executive director. Dr Calvin London and Professor Clive Page who were part of the old Board agreed to stay on the board of Stirling's Pulmovet ApS Danish joint venture to assure continuity in the efforts to commercialise the equine respiratory products. Dr London also agreed to be available to Stirling on a negotiated basis over the next six months to assist the transition of strategic and operational activities and to preserve the continuity of Stirling's existing business initiatives.
23 February 2009	**Second Placement Completed:** on 23 February 2009, through Alpha, Stirling completed the placement of 30,000,000 new fully paid ordinary shares at $0.004 each to sophisticated investors to raise $120,000. This was completed pursuant to Stirling's entitlement to place up to 15% of its issued capital without shareholder approval. The proceeds were intended to be used as working capital.
26 February 2009	**Appointment of Managing Director:** Stirling appointed Mr Peter Boonen as its new Managing Director.
11 March 2009	**Potential Joint Venture:** Stirling announced that it was in advanced discussions to enter into a significant pharmaceutical Joint Venture with Zodiac.
25 March 2009	**Proceeding with Joint Venture:** Stirling announced that it would proceed with the Zocap Pharma Joint Venture with Zodiac.
29 April 2009	**Notice of General Meeting:** Stirling issued a Notice of General Meeting including an Explanatory Memorandum and Independent Expert's report with respect to the appointment of Messrs. George Karantzias and Gulshan Jugroo as directors, the issue of Convertible Notes in two tranches, the issue of shares to the Directors, ratification of 30,000,000 prior share placement, the issue of options and authorisation to enter into a Joint Venture agreement with Zodiac.
29 April 2009	**Capital Raising Advice:** Stirling issued an announcement indicating that the capital raising had been oversubscribed at substantially increased share subscription pricing.
7 May 2009	**Appointment of another Independent Expert:** Stirling appointed PKFCA to prepare a further Independent Expert's Report which is to be dispatched to Shareholders prior to the Meeting.

Source: Stirling ASX announcements

The Stirling half-year report for the 6 months to 31 December 2008 indicated that on 3 February 2009 Stirling:

- formally discontinued, to the extent that it still existed, its licensing and consultancy relationship with the Canadian company Aquience Inc. which provided Stirling with the worldwide licensing rights to the fortified water, PetQuench™, for use with pets;

- terminated its distribution agreement with Afgri Operations Limited which had the exclusive rights to R-salbutamol in South Africa as a growth agent for production animals in South Africa; and
- there were no financial penalties incurred as a result of the above terminations.

Stirling Management advises that Stirling has subsequently been served with claims seeking allegedly outstanding payments under the purported Aquience Inc. agreement which are being strongly defended. Stirling does not recognise any right to such claims (which total circa $200,000).

4.5 Historical Financial Performance

Following is an analysis of Stirling's audited financial statements for FY06, FY07 and FY08, as well as the reviewed financial statements for the 6 months ended 31 December 2008. This analysis has been undertaken with reference to management's discussion and analysis and in conjunction with the notes of each corresponding report.

4.5.1 Income Statement

Summarised in the following table are Stirling's audited income statements for the years ended 30 June 2006, 2007 and 2008 and also the reviewed income statement for the six month period ending 31 December 2008:

Table 3: Stirling - Income Statements

	30 Jun 2006 Actual ($)	30 Jun 2007 Actual ($)	30 Jun 2008 Actual ($)	31 Dec 2008 Actual ($)
Revenue	104,046	102,733	492,873	79,683
Cost of Goods Sold	-	-	(263,631)	(85,873)
Gross Profit	**104,046**	**102,733**	**229,242**	**(6,190)**
Other Income	269,884	-	549,716	221,060
Total income	**373,930**	**102,733**	**778,958**	**214,870**
Expenses				
Research & Development	(896,101)	(729,113)	(528,530)	(212,630)
Commercialisation Expense	(3,617,281)	(3,695,968)	(2,295,010)	(431,778)
Business Development	(271,991)	(280,449)	(408,380)	(99,813)
Corporate & Administrative Expense	(1,384,771)	(984,452)	(1,160,267)	(1,047,185)
Finance Costs	-	-	133,192	(49,166)
Impairment of receivables from associates	-	-	(63,711)	-
Net Foreign Currency Loss	-	-	-	(227,571)
Impairment of Intangible Assets	-	-	-	(1,654,908)
Total Expenses	**(6,170,144)**	**(5,689,982)**	**(4,322,706)**	**(3,723,051)**
Loss before Income Tax Expense	**(5,796,214)**	**(5,587,249)**	**(3,810,132)**	**(3,508,181)**
Income Tax Expense	-	-	-	-
Loss from Continuing Operations	**(5,796,214)**	**(5,587,249)**	**(3,810,132)**	**(3,508,181)**
Net Income/(Loss) from discontinued Operations	(11,186)	**-**	**-**	**-**
Total loss attributable to members of Stirling Products Limited	**(5,807,400)**	**(5,587,249)**	**(3,810,132)**	**(3,508,181)**

Source: Stirling Annual and Semi Annual Reports

We note the following with respect to the historical financial performance of Stirling, as set out above:

- revenue from sales of products has been minimal, in conformity with the very early stage of development and commercialisation of the various products being pursued by Stirling;
- a profit from continuing operations has not eventuated in any of the periods reviewed; and

- in the six months to 31 December 2008, the loss from continuing operations (excluding the Impairment of Intangible Assets) reached approximately 49% of FY08 figure. If these results were to continue through to the end of FY09 a significant loss for the period will be experienced. Stirling's downsizing of operations in the later months of 2008, particularly the North American operations, will assist in reducing operating expenses in the future and thus the expected loss from operations. However the extent of the downsizing has not been outlined. We have been advised by Stirling Management that restructuring is currently underway which could significantly improve these circumstances.

4.5.2 Balance Sheet

A summary of Stirling's audited balance sheets as at 30 June 2006, 2007 and 2008 and the reviewed balance sheet as at 31 December 2008 is set out below:

Table 4: Stirling - Balance Sheets

	30 Jun 2006 Actual ($)	30 Jun 2007 Actual ($)	30 Jun 2008 Actual ($)	31 Dec 2008 Actual ($)
Current Assets				
Cash & Cash Equivalents	1,788,236	770,104	1,136,126	65,164
Trade & Other Receivables	22,053	38,602	96,040	175,824
Inventory	-	-	44,585	66,205
Other	-	3,111	74,108	16,659
Total Current Assets	**1,810,289**	**811,817**	**1,350,859**	**323,852**
Non Current Assets				
Receivables	-	198,610	213,700	-
Plant and Equipment	41,111	35,978	215,222	206,329
Intangible Assets	8,469,533	5,117,912	4,864,318	3,019,713
Total Non-Current Assets	**8,510,644**	**5,352,500**	**5,293,240**	**3,226,042**
TOTAL ASSETS	**10,320,933**	**6,164,317**	**6,644,099**	**3,549,894**
Current Liabilities				
Trade & Other Payables	169,380	404,279	616,064	837,882
Provisions	43,111	36,132	493,151	50,575
Government Grants	-	-	25,002	16,918
Borrowings	-	-	210,877	441,669
Total Current Liabilities	**212,491**	**440,411**	**1,345,094**	**1,347,044**
Non Current Liabilities				
Borrowings	-	-	559,832	508,446
Provisions	-	-	-	511,349
Total Non-Current Liabilities	**-**	**-**	**559,832**	**1,019,795**
TOTAL LIABILITIES	**212,491**	**440,411**	**1,904,926**	**2,366,839**
NET ASSETS	**10,108,442**	**5,723,906**	**4,739,173**	**1,183,055**
Equity				
Issued Capital	23,633,624	24,818,833	27,615,330	27,615,330
Reserves	1,526,282	1,543,786	1,572,688	1,524,751
Accumulated Losses	(20,638,713)	(15,051,464)	(24,448,845)	(27,957,026)
TOTAL EQUITY	**10,108,442**	**5,723,906**	**4,739,173**	**1,183,055**

Source: Stirling Annual and Semi Annual Reports

We note the following with Stirling's financial position as displayed in the above table:

- there has been a sustained reduction in the total net asset position from period to period. This has primarily been driven by the decline in value of Intangibles, as well as the significant use of cash; and

- total liabilities have grown from a value of $212,491 as at 30 June 2006 to a value of $2,366,839 as at 31 December 2008. This is a growth of approximately 1,014 percent. Contributing to this exponential growth is the introduction of borrowings in FY08, as well as growth in the Trade and Other payables. This highlights the lack of available cash or earnings to sustain operations. We note that accumulated losses amount to $27,957,026 as at 31 December 2008.

4.5.3 Cash Flow Statement

Summarised in the table below are the audited cash flow statements of Stirling, for each of the years ended 30 June 2006, 2007 and 2008 and also the reviewed income statement for the six month period ending 31 December 2008:

Table 5: Stirling – Cash Flow Statements

	30 Jun 2006 Actual ($)	30 Jun 2007 Actual ($)	30 Jun 2008 Actual ($)	31 Dec 2008 Actual ($)
Cash flow from Operating Activities				
Receipts from customers	93	1,840	419,193	69,012
Payments to suppliers and employees	(2,624,687)	(2,044,440)	(2,708,058)	(1,213,257)
Interest received	104,046	100,893	73,679	14,751
Proceeds from rebates received	219,602	-	239,100	2,737
Proceeds from grant received	50,282	-	140,996	82,353
Interest Paid	-	-	-	(2,026)
Net cash used in Operating Activities	**(2,250,664)**	**(1,941,707)**	**(1,835,090)**	**(1,046,430)**
Cash flows from Investing Activities				
Proceeds from sale of property, plant & equipment	512	-	1,777	-
Payment for property, plant & equipment	(3,547)	(6,218)	(96,771)	-
Intellectual property milestone payment	(131,040)	-	-	-
Investment in associated entity	-	(14,610)	(78,861)	(50,213)
Proceeds from refund of Cocky Smart Deposit	-	-	-	40,000
Acquisition of controlled entities, net of cash acquired	-	-	(421,051)	(36,664)
Grants received for acquisition of plant and equipment	-	-	52,207	-
Net cash (used in)/provided by Investing Activities	**(134,075)**	**(20,828)**	**(582,695)**	**(46,877)**
Cash flows from Financing Activities				
Proceeds from issue of options	-	-	7,500	-
Proceeds from borrowings	-	-	37,451	19,417
Payment of loan to associated entity	-	(198,610)	-	-
Proceeds from issue of shares	1,035,995	1,263,975	2,915,520	-
Capital raising expenses	(88,618)	(120,962)	(213,423)	-
Net cash provided from Financing Activities	**947,377**	**944,403**	**2,747,048**	**19,417**
Net increase/(decrease) in cash and cash equivalents	**(1,437,362)**	**(1,018,132)**	**369,260**	**(1,073,890)**
Cash and cash equivalents at the beginning of the financial year	3,225,598	1,788,236	770,104	1,125,762
Net foreign exchange differences	-	-	(13,602)	13,292
Cash & Cash equivalents at the end of the financial year	**1,788,236**	**770,104**	**1,125,762**	**65,164**

Source: Stirling Annual and Semi Annual Reports

We note the following in regard to Stirling's cash flows:

- Stirling's operations have yet to produce receipts from customers that outweigh its payments to suppliers and employees. There has been a negative cash flow from operations for all the periods analysed;
- proceeds from the issue of shares have been the primary source of funds for Stirling to conduct its operations and undertake further investments; and

- with consistent negative net cash flows from both operations and investments, the survival of Stirling is reliant upon on further borrowings, capital raisings or the introduction of a profitable product.

4.5.4 Auditor's Opinions

We note the following comments in the Independent Auditor's review report in respect of Stirling's financial statements for the half year ended 31 December 2008:

> *Basis for Qualified Conclusion*
>
> *The consolidated entity has, within non-current assets, intangible assets with net carrying values as at 31 December 2008 of $3,019,713 ('the assets"). Australian Accounting Standard AASB 136 Impairment of Assets requires an asset to be carried at no more than its recoverable amount. We have been unable to obtain sufficient appropriate audit evidence of the recoverable amount of the assets and, accordingly, we have been unable to determine whether the recoverable amount of the assets exceeds there is at least equal to their carrying value. In the event that the carrying value of the assets exceeds their recoverable amount, it would be necessary for the carrying value of the assets to be written down to their recoverable amount.*
>
> *…………*
>
> *Material Uncertainty Regarding Continuation as a Going Concern*
>
> *Without further qualification to the conclusion expressed above, we draw attention to Note 1 "Going Concern" in the half year financial, report which indicates the consolidated entity incurred a net loss, after tax of $3,508,181 and cash outflows of $1,046,430 during the half-year ended 31 December 2008 and as at that date had net current liabilities of $1,023,192. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report.*

4.5.5 Conclusions

Based on the historical financial statements, the future of Stirling is dependent upon the immediate raising of new capital, the inception of a profitable product(s), the acquisition of a profitable business(s), a successful joint venture or further capital raisings or borrowings, although the latter will provide only continued short term assistance unless profitable operations are established.

4.6 Top 20 Shareholders

The following table outlines the top 20 Shareholders as at 20 April 2009:

Table 6: Top 20 Shareholders as at 20 April 2009

Ref.	Name	Number of Shares Held	% of Total Shares
1	Brown & Biggins Pty Ltd	25,000,000	10.72%
2	Citicorp Nominees Pty Limited	24,662,686	10.57%
3	Pannin Pty Ltd	12,432,199	5.33%
4	Font Sf Pty Ltd	10,000,000	4.29%
5	Impact Nominees Pty Ltd	9,993,709	4.28%
6	HSBC Custody Nominees	6,536,966	2.80%
7	Fitel Nominees Limited	4,750,000	2.04%
8	St Barnabas Investments Pty	4,556,016	1.95%
9	Aorangi Laboratories Ltd	4,000,000	1.71%
10	Courage Corporation Ltd	4,000,000	1.71%
11	Invesco Nominee Pty Ltd	3,613,916	1.55%
12	ETrade Australia Nominees Pty	3,426,000	1.47%
13	Ms Nada Saade	3,239,183	1.39%
14	Asmac Investments Pty Ltd	3,000,000	1.29%
15	Martin Eric Flood	2,500,000	1.07%
16	Mrs Baoxian Ji	2,500,000	1.07%
17	Sharechart Pty Ltd	2,500,000	1.07%
18	ANZ Nominees Limited	2,246,642	0.96%
19	Mr Stephen Smith	2,207,056	0.95%
20	Arredo Pty Ltd	2,200,000	0.94%
	Total Top 20 Shareholdings	**133,364,373**	**57.18%**
	Other Shareholdings	**99,876,425**	**42.82%**
	Total Shares Issued	**233,240,798**	**100.00%**

Source: Stirling Management

4.7 Issuable Shares

The following shares will be issued should all securities Proposed to be issued as outlined in the Notice of Meeting be issued, assuming that the capital raising is successful and that all Convertible Notes issued are converted into shares (and ignoring existing options and options attaching to shares to be issued):

Table 7: Issuable Shares

Purpose	Name	Number of Shares to be issued	Cumulative Total Shares
Existing Shares			233,240,798
Issue to Director (as partial remuneration for services)	Mr Peter Boonen	46,875,000	280,115,798
Issue to Director (as partial remuneration for services)	Mr Gulshan Jugroo	12,500,000	292,615,798
Issue to Director (as partial remuneration for services)	Mr George Karantzias	7,500,000	300,115,798
Capital Raising	Potential Shareholders	75,000,000	375,115,798
Capital Raising - issue of Convertible Notes (Note 1)	Potential Noteholders	243,958,333	619,074,131
Total		**385,833,333**	**619,074,131**

Source: PKFCA Analysis

Note 1: The Shareholding calculations assume that Convertible Note 2 (refer **Section 4.9 below**) is convertible at $0.008 for 50% of the face value issued and $0.015 for 50% of the face value issued, based on current funding indications as provided by Stirling.

The following table illustrates the potential dilution in the holdings of the existing Shareholders should the securities proposed to be issued in the Notice of Meeting proceed, assuming the existing Shareholders do not participate, conversion of all Convertible Notes proposed to be issued (and ignoring existing options and options attaching to shares to be issued):

Table 8: Potential dilution in the holdings of the existing Shareholders

	Existing Shareholders		Potential new shareholders		Potential total new shareholdings	
Current						
Top 20	133,364,373	57.18%				
Other	99,876,425	42.82%				
Total	**233,240,798**	**100.00%**				
Potential (Note 1)						
Top 20	133,364,373	21.54%				
Other	99,876,425	16.13%				
Total	**233,240,798**	**37.68%**	**385,833,333**	**62.32%**	**619,074,131**	**100.00%**

Source: Stirling Management & PKFCA Analysis

Note 1: The Shareholding calculations assume that Convertible Note 2 (refer **Section 4.9 below**) is convertible at $0.008 for 50% of the face value issued and $0.015 for 50% of the face value issued, based on current funding indications as provided by Stirling.

The following table illustrates the potential dilution in the holdings of the existing top 20 Shareholders should the securities proposed to be issued in the Notice of Meeting proceed (both to raise capital and to acquire further interest in the Joint Venture), assuming conversion of all Convertible Notes proposed to be issued (and ignoring existing options and options attaching to shares to be issued):

Table 9: Potential dilution of Top 20 Shareholders as at 20 April 2009

Ref.	Name	Number of Shares Held	% of Total Shares
1	Brown & Biggins Pty Ltd	25,000,000	4.04%
2	Citicorp Nominees Pty Limited	24,662,686	3.98%
3	Pannin Pty Ltd	12,432,199	2.01%
4	Font Sf Pty Ltd	10,000,000	1.62%
5	Impact Nominees Pty Ltd	9,993,709	1.61%
6	HSBC Custody Nominees	6,536,966	1.06%
7	Fitel Nominees Limited	4,750,000	0.77%
8	St Barnabas Investments Pty	4,556,016	0.74%
9	Aorangi Laboratories Ltd	4,000,000	0.65%
10	Courage Corporation Ltd	4,000,000	0.65%
11	Invesco Nominee Pty Ltd	3,613,916	0.58%
12	ETrade Australia Nominees Pty	3,426,000	0.55%
13	Ms Nada Saade	3,239,183	0.52%
14	Asmac Investments Pty Ltd	3,000,000	0.48%
15	Martin Eric Flood	2,500,000	0.40%
16	Mrs Baoxian Ji	2,500,000	0.40%
17	Sharechart Pty Ltd	2,500,000	0.40%
18	ANZ Nominees Limited	2,246,642	0.36%
19	Mr Stephen Smith	2,207,056	0.36%
20	Arredo Pty Ltd	2,200,000	0.36%
	Total Top 20 Shareholdings	**133,364,373**	**21.54%**
	Other Shareholdings	**485,709,758**	**78.46%**
	Total Shares Issued	**619,074,131**	**100.00%**

Source: PKFCA Analysis

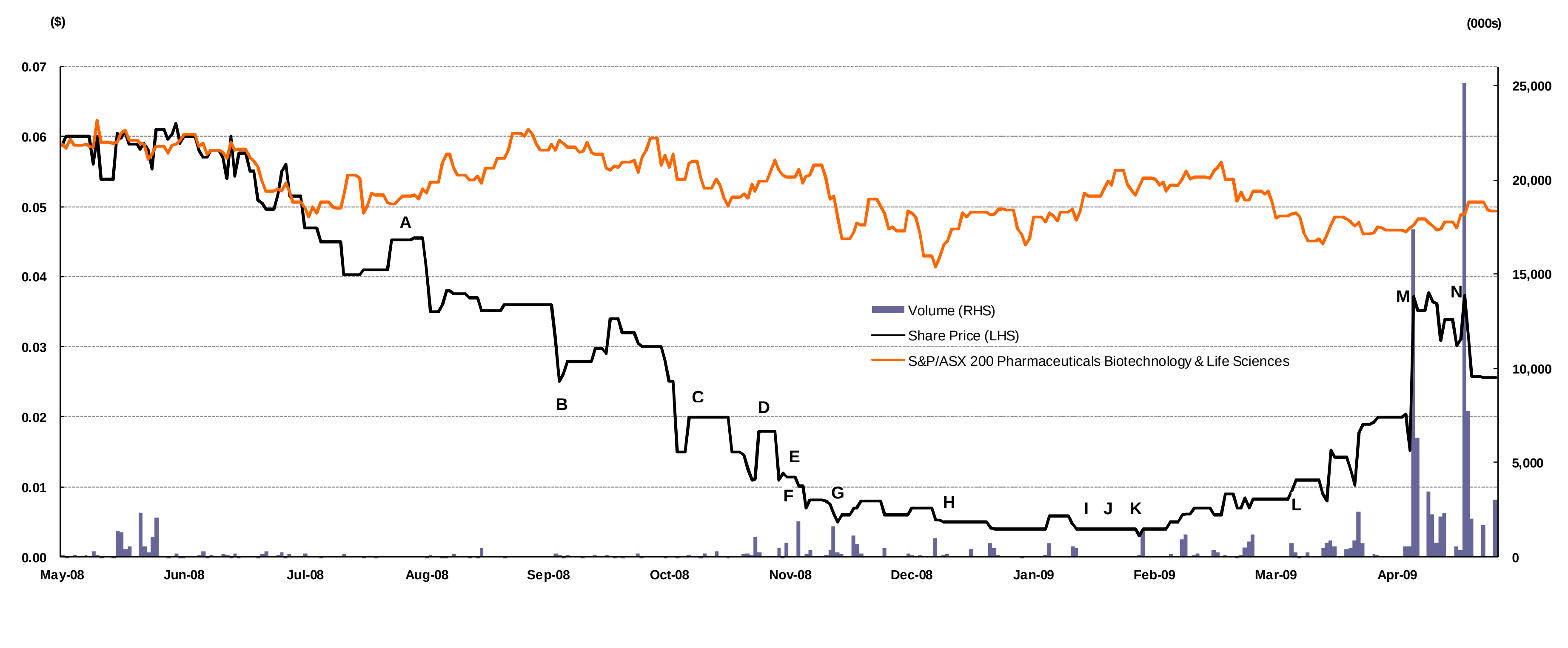
Note 1: The Shareholding calculations assume that Convertible Note 2 (refer **Section 4.9 below**) is convertible at $0.008 for 50% of the face value issued and $0.015 for 50% of the face value issued, based on current funding indications as provided by Stirling.

4.8 Share Trading History

The chart below compares Stirling's share price with the S&P/ASX 200 Pharmaceuticals Biotechnology and Life Sciences Index ("**Index**") from 6th of May 2008 to 7th May 2009 (**"Trading Period"**) (also refer Table 10 for a legend of the market sensitive announcements noted on the below chart):

Figure 1

Stirling Share Price vs. S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences Index



Source: Bloomberg & ASX Announcements

As depicted in the chart above, Stirling has significantly underperformed the Index in the Trading Period, at least until the announcement of the proposed Joint Venture (also refer Table 10). We also note that immediately before the announcement of the proposed Joint Venture on 3 February 2009, there was very little trading in Stirling's Shares. In the period 1 June 2008 to 3 February 2009, only approximately 9.3% of the Shares traded on the ASX. In the period 3 February 2009 to 11 May 2009, approximately 27% of the Shares have traded.

Notable events disclosed by Stirling which may have impacted the share price and trading volumes are set out below:

Table 10: Market sensitive announcements

Date	Chart Reference	Announcement Details
30-Jul-08	A	Releases Quarterly Report - June 08
11-Sep-08	B	Releases Preliminary Final Report for FY08
21-Oct-08	C	Releases FY08 Annual Report
31-Oct-08	D	Releases Quarterly Report - September 08
7-Nov-08	E	Grant of first patent for animal obesity drug in New Zealand
10-Nov-08	F	Terminates Cocky Smart and ProVale shrimp exclusivity arrangements
21-Nov-08	G	Mandate to RM Corporate Finance to raise up to $960,000 via placement of shares @ $0.006 and 2.5 year, 9% pa convertible notes, repayable 30 June 2011and convertible @ minimum $0.004 each
23-Dec-08	H	Unable to raise up to $960,000, on terms as previously indicated. Considering alternative funding proposals, including capital raising or disposal of assets. These proposals are in the preliminary stages of negotiation and development. **If the company is unable to conclude these negotiations or raise capital from other sources, there is the possibility that the Directors may be forced to place the company into voluntary administration.**
30-Jan-09	I	Releases Quarterly Report - Dec 08. Cash reduced to $64,000.
3-Feb-09	J	Board restructure and funding proposal -Stirling entered into an agreement with Alpha to raise a total of $1,760,000. The placement of 35,000,000 shares approved by Shareholders in November was to proceed immediately to raise $140,000. Following this placement, a further 30,000,000 shares will be placed under the Company's 15% entitlement raising a further $120,000. The funds were to be raised at $0.004 per share, with each having a one for two options exercisable at $0.008 each prior to 31 December 2012. A further $1,500,000 was to be raised though the issue of two sets of Convertible Notes. The first Convertible Note issue was to raise $650,000 with 14 days of Shareholder approval and be subject to an interest rate of 7.5% and repayable on or before 31 December 2012 or redeemable at the lesser of $0.004 per share or the price that is 80% of the average market price of Stirling's shares calculated over the last 5 days on which sales were recorded before the date of conversion and issue. The second Convertible Note issue was to raise $850,000 with 14 days of Shareholder approval and be subject to an interest rate of 7.5% and repayable on or before 30 June 2013 or redeemable at the lesser of $0.006 per share or the price that is 80% of the average market price of Stirling's shares calculated over the last 5 days on which sales were recorded before the date of conversion and issue. Coinciding with the placement of the first tranche of funds (35,000,000 shares to raise $140,000), it was proposed that the existing Board would step down in its entirety and the existing CEO was to step down to make way for a new executive management team.
9-Feb-09	K	New Board appointed & first placement completed
25-Mar-09	L	Progress Report & Potential Joint Venture
16-Apr-09	M	Breakthrough in Extensively drug resilient Tuberculosis
29-Apr-09	N	Swine Flu Prevention & treatment potential

Source: ASX Announcements

We note that the two latter announcements that coincided with peaks in the Stirling Share price and volumes traded in 2009 relate to human applications of the Zocap Pharma Products of the proposed Joint Venture and do not relate to Stirling's pre-existing animal-related products.

4.9 Funding

On 3 February 2009 Stirling announced its intention to enter into an Agreement with Alpha to raise a total of $1,760,000. Alpha is to receive 35,000,000 Facilitator options as part payment for acting for Stirling in the capital raising. These options are exercisable at $0.008 on 31 December 2012 in accordance with the terms set out in Schedule 3 of the Notice of Meeting. Alpha will also receive corporate fees of $35,000 and 6% commission on all funds raised.

Following this agreement, on 7 February 2009, through Alpha, Stirling completed the placement of 35,000,000 new fully paid ordinary shares (which was approved by Shareholders at a Meeting held in November 2008) at $0.004 each to sophisticated investors to raise $140,000. The shares were issued with 1:2 attaching unlisted options exercisable at $0.008 each and expiring on 31 December 2015.

On 23 February 2009, through Alpha, Stirling completed the placement of 30,000,000 new fully paid ordinary shares at $0.004 each to sophisticated investors to raise $120,000. This was completed pursuant to Stirling's entitlement to place up to 15% of its issued capital without shareholder approval. The proceeds were intended to be used as working capital. Stirling is seeking ratification of the issue of these shares in Resolution 8 of the Notice of Meeting in order to restore its ability to issue securities within its 15% placement capacity without shareholder approval under ASX Listing Rule 7.1.

Approval is also being sought for the issue of 66,875,000 Shares at $0.004 each to raise $267,500 to the following Directors:

- Mr P Boonen – 46,875,000;
- Mr G Jugroo – 12,500,000; and
- Mr G Karantzias – 7,500,000.

Approval is also being sought for the issue of up to 75,000,000 Shares (with attaching 1 for 2 options) at an issue price of no less than $0.004 each to raise $300,000.

A further $1,500,000 is to be raised through the issue of two Convertible Notes which also require Shareholder approval, which is being sought at the Meeting.

The first issue of Convertible Notes ("**Convertible Note 1**") is to raise $650,000 within 14 days of Shareholder approval and be subject to an interest rate of 7.5% pa. Convertible Note 1 is repayable on or before 31 December 2012 or redeemable at the election of the Note holders (in full or in part) at any time before 31 December 2012 for shares in Stirling at a minimum of $0.004 cents per share.

The second issue of Convertible Notes ("**Convertible Note 2**") is to raise $850,000 within 180 days of Shareholder approval and be subject to an interest rate of 7.5% pa. Convertible Note 2 is repayable on or before 30 June 2013, or redeemable at the election of the Note holders (in full or in part) at any time before 30 June 2013 for shares in Stirling at a minimum of $0.006 cents per share.

The Shareholding calculations in **Section 4.7 above** assume that Convertible Note 2 is convertible at $0.008 for 50% of the face value issued and $0.015 for 50% of the face value issued, based on current funding indications as provided by Stirling (refer **Section 4.10 below**).

Summary of the terms of the Convertible Notes

Material terms of the Convertible Notes as set out in the Explanatory Memorandum, are as follows:

(a) Coupon rate of 7.5% per annum with interest accruing daily and payable three months in arrears;

(b) convertible into Shares in whole or in part at the election of the Note holder at the price determined in accordance with section (d) at any time on or before expiry on 31 December 2012;

(c) unsecured, unlisted and cannot be transferred;

(d) the face value may be converted by the Note holder at $0.004 per Share in the case of the Convertible Note 1 and at a price to be determined by Stirling at the time of issue of each note but at no less than $0.006 in the case of Convertible Note 2;

(e) if on 31 December 2012 the Convertible Notes 1 and on 30 June 2013 the Convertible Notes 2 have not been converted, then the respective Convertible Notes must be repaid.

(f) if all of the Convertible Notes are repaid or converted then the convertible Notes are automatically cancelled and may not be re-issued.

(g) if Stirling undertakes any capital reconstruction (except a bonus issue, rights issue or other security issue) then, subject to the Listing Rules, the entitlement of a Note holder to convert a Convertible Note must be reconstructed in the same proportion and manner as the reconstruction;

(h) do not carry any rights to participate in any bonus offer or pro rata offer of Shares or other securities in Stirling; and

(i) Note holders may by written notice to Stirling declare a Convertible Note due and payable and/or cancel its obligations under the Deed on the occurrence of any of the following events:

- Stirling fails to make any payment within 7 business days of its due date any amount payable under the Deed;
- Stirling makes any representation, warranty or statement made or repeated in or in connection with the Deed that is untrue or misleading when so made or repeated or becomes untrue or misleading when taken as a whole;
- the application or order is made for the winding up of Stirling or for the appointment of a liquidator;
- Stirling passes a resolution for its winding up;
- a receiver, controller or analogous person is appointed to all or any part of the assets of Stirling;
- Stirling becomes insolvent;
- a statutory demand is served on Stirling under sections 459E of the Corporations Act or pursuant to section 459 F of the Corporations Act and Stirling is taken to have failed to comply with that statutory demand;
- Stirling takes any step for the purpose of entering into a compromise or arrangement with any of its members or creditors except for the purpose of a reconstruction, amalgamation, merger or consolidation on terms approved by the Note holders;
- if any event of default is conditionally waived by the Note holders and Stirling does not comply with those conditions or those conditions are not fulfilled or are or become incapable of fulfilment; or
- if any of the material provisions of the Deed:
  (i) does not have effect or ceases to have effect in accordance with its terms;
  (ii) is or becomes void, voidable, illegal, invalid, or unenforceable other than by reason of equitable principles or laws affecting creditors' rights generally; or
  (iii) is claimed by Stirling or any other person to be any of the matters referred to in paragraphs (i) or (ii) or Stirling or any other person commences any court proceedings to establish any of the matters referred to in paragraphs (i) or (ii) to be the case.

4.10 Results of Capital Raising

On 29 April 2009 Stirling announced to the ASX as follows:

- the subscription of 75 million Shares has been fully committed at $0.004 each to raise $300,000;
- the Convertible Note 1 convertible at $0.004 per share to raise a total gross $650,000 has been fully committed with partial subscription being convertible at a higher price of $0.008 per share;
- the Convertible Note 2 convertible at $0.006 per share to raise a total gross $850,000 has been fully committed with half the Note issue being convertible at a higher price of $0.008 per share and the other half being convertible at $0.015 per share.

  The higher convertibility values will result in Stirling, on any conversion, having to issue substantially less Shares than originally proposed.

5 PKFCA EVALUATION

5.1 Fairness

The 30% interest in the Joint Venture is being acquired by Stirling in return for the conditional commitment to fund up to 65% of the Joint Venture commercialisation expenses to a maximum amount of $1.2 million. Both that commitment and any acquisition of additional interest or interests in the Joint Venture are all at the option of Stirling. If Stirling contributes all the proposed funding of $1.2 million to earn a 30% interest in the Joint Venture, it might be said that the Joint Venture as a whole is valued at $4 million (1.2 / 30%).

5.1.1 Valuation of the Joint Venture

For the purposes of assessing the Proposal, we considered assessing and comparing the fair market value of the Joint Venture and the consideration payable by Stirling in respect of it. However, as there are not any available financial projections of the Joint Venture upon which we can rely, it is not possible to undertake the above assessment and comparison.

We considered the valuation methods outlined in **Appendix 3** in relation to the valuation of the Joint Venture. However, we are unable to determine a value for the Joint Venture for the following reasons:

- any value is dependent on the successful commercialisation and sale of the Zocap Pharma Products; and
- as the Zocap Pharma Products are still at the pre commercialisation stage with regard to any marketing or strategy in any region, there is no reliably determinable level of projected future maintainable earnings and/or cash flows. Hence, the capitalisation of future maintainable earnings and/or discounted cash flow valuation methods cannot be used to value the Joint Venture.

5.2 Reasonableness

We set out below other considerations that we consider to be relevant when assessing the Proposal.

Advantages

Ability to continue operations

As illustrated in **Section 4.5 above**, the financial position of Stirling has been deteriorating, with a significant decline experienced during the half year to 31 December 2008. Further, Stirling was unsuccessful in raising funds in late 2008. The previous Board of Directors indicated that in the absence of successful fund raising initiatives, they may have been forced to place Stirling into voluntary administration. Stirling had total liabilities of over $2.0 million through Stirling's Canadian subsidiary, Stirling Products NA Inc ("**Stirling NA**"). All of Stirling NA's creditors have since agreed to repayment only through profits generated by Stirling NA.

Further, without the Joint Venture, Stirling's opportunities to raise capital and continue as a going concern would be limited. The Proposal and associated fund raising initiatives present Stirling with a strategic opportunity to continue operating with a focus on new human health-related products (as distinct from the previous animal health-related products, although these opportunities remain to also be exploited, as indicated by the newly agreed Animate joint venture (refer **Section** Error! Reference source not found.)).

Potential for new products

The Proposal provides Stirling the opportunity to combine forces with Zodiac to create new products with their respective intellectual property rights that are considered by the parties to be potentially complimentary. Some of the product opportunities anticipated by management are outlined in **Section 2.2 above**.

Potential increased ability to raise funds

If the Proposal and the funding resolutions are implemented and the Joint Venture's products are successfully commercialised, the future ability of Stirling to raise equity or debt funds potentially would be increased.

Increase in Share price following implementation of the Proposal

The Share price increased substantially subsequent to the announcement of the proposed Joint Venture with Zodiac. In our opinion, the market trading exhibits a positive market re-rating of Stirling, which results from the Proposal and the benefits that could arise from the Joint Venture.

Receive additional cash upon Option exercise

Several options issues are proposed in the Notice of Meeting for the purpose of raising funds to continue the operations of Stirling, including the Joint Venture. Upon exercise of the options, Stirling would raise additional cash which could be deployed to generate additional shareholder value. Further, the raising of this cash would not attract any additional fund raising costs which can be relatively expensive for a company the size of Stirling.

Avoid potential adverse consequences of the Proposal being rejected

In our opinion, in the absence of additional fundraising or development of profitable operations, there are some risks in rejecting the Proposal and the funding resolutions, including the following risks:

- Stirling may become insolvent;
- the potential for downside volatility in the Share price may resume;
- as a smaller entity that is listed on the ASX, Stirling will continue to be constrained by its listed status in terms of:
  - administration costs; and
  - disclosure, governance and compliance requirements; and
- the possibility exists that ultimately, the Directors will be forced to place Stirling into voluntary administration.

However, there is no guarantee that the Joint Venture will be able to successfully develop and profitably commercialise the Zocap Pharma Products.

Disadvantages

Approval of the Proposal has the following disadvantages:

Dilution

We note that the issue of additional securities to other than existing Shareholders will dilute the interests of existing Shareholders. The issue of additional securities is not part of the Proposal upon which this Report provides an opinion and approval of the issue of additional securities is not dependent upon approval of the Proposal or vice versa.

We believe that it is commercially sensible for Stirling to seek funding to enable it to implement the Proposal (especially the conditional commitment to pay up to $1.2 million in Joint Venture commercialisation costs), albeit that the commitment is at Stirling's sole discretion and its funding obligations may be terminated by Stirling at any time (with a concomitant reduction in its interest in the Joint Venture).

As illustrated in **Section 4.6 above**, if all fully paid ordinary shares in Stirling ("**Shares**") and all Convertible Notes issuable pursuant to the Notice of Meeting are issued and are converted, the collective ownership interest and voting power of:

- the existing top 20 Shareholders decreases from 57.18% to 21.54%; and

- all the existing Shareholders decreases from 100% to 37.68%,

(assuming that none of the existing shareholders acquire any Shares or Convertible Notes issuable pursuant to the Notice of Meeting).

These calculations exclude the potential exercise of options issuable pursuant to the Notice of Meeting.

However, even if the Proposal did not exist, it is evident that Stirling needs to urgently raise capital to continue as a going concern and any capital raising in the absence of the Joint Venture Proposal (or an equivalent proposal) is likely to be undertaken at a share price of approximately $0.004 (or less) which was the prevailing Share price in the early part of 2009. We are advised that prior to the Proposal being announced, existing major Shareholders were approached to invest further in Stirling at $0.003 or $0.004 per Share but all indicated that they had no interest in doing so.

Risk/return profile

Investors may wish to retain their current investment and risk profile. For investors willing to remain invested in Stirling in its current form, accepting the Proposal will potentially affect their ability to meet investment preferences.

On 7 May 2009 Stirling announced the formation of a joint venture ("**Stanimate joint venture**") with Animate Animal Health ("**Animate**") of South Africa to register where required, commercialise and distribute Stirling's patented animal growth promotion products based upon Stirling's single entantiomer beta agonist, R-salbutamol throughout South Africa and all other African countries (refer **Section** Error! Reference source not found.).

Proceeding with the Stanimate joint venture is conditional on Stirling's Shareholders approving the resolutions to be considered at the Meeting required to be passed to enable Stirling to complete its fully committed capital raisings.

The above announcement indicates that Stirling has available to it another proposal (that does not require Shareholder approval) that can be implemented without undertaking the Joint Venture.

Accordingly, the Proposal does not represent the only alternative currently available to Stirling. Stirling Management has advised that it has a number of other joint venture opportunities under discussion and development, with Stirling's major focus being to negotiate and enter into a series of commercialisation joint venture agreements globally with its joint venture partner being responsible for product registration and commercialisation costs. However, without additional funds, Stirling will not be able to proceed with any of these opportunities.

Further, in our view, the ability of Stirling to raise the funds that it has raised under the recent capital raisings which are to be considered at the Meeting has been due in large part to Stirling having the opportunity to participate in the Joint Venture. We also note that the Stanimate joint venture is conditional on Stirling completing its proposed capital raisings.

5.3 Conclusion

Based on the above, we conclude that the Proposal is *"fair and reasonable"* to the Shareholders as in our opinion, the potential benefits of implementing the Proposal are considered to outweigh the actual and potential disadvantages of implementing the proposal.

6 QUALIFICATIONS AND DECLARATIONS

6.1 Qualifications

PKFCA is the licensed corporate advisory arm of PKF East Coast Practice, Chartered Accountants and Business Advisers. PKFCA provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert reports.

Mr Vince Fayad B.Bus, CA, is a Director of PKFCA and the head of the corporate advisory practice. Mr Fayad is also a partner of PKF East Coast Practice. Mr Fayad is the Director responsible for this Report. Mr Vince Fayad has over 25 years experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on transactions and acquisitions, preparation of independent expert reports, preparation of information memoranda and other corporate investigations.

Based on his experience, Mr Fayad is considered to have the appropriate expertise and professional qualifications to provide the advice offered.

6.2 Independence

PKFCA is not aware of any matter or circumstance that would preclude it from preparing this Report on the grounds of independence under regulatory or professional requirements. In particular, PKFCA has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

PKFCA was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for Stirling in relation to the Proposal, other than the preparation of this Report. Further, PKFCA has not held and, at the date of this Report, does not hold any shareholding in, or other relationship with, Stirling or Zodiac that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal.

PKFCA considers itself to be independent in terms of RG 112 Independence of experts, issued by ASIC.

PKFCA will receive a fee based on the time spent in the preparation of this Report. PKFCA will not receive any fee contingent upon the outcome of the Proposal, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposal.

Two (2) drafts of this Report were provided to the Directors of Stirling for review of factual accuracy. Certain changes were made to the Report as a result of the circulation of the draft Reports. However, no changes were made to the methodology, conclusions or recommendations made to the Shareholders.

6.3 Disclaimer

This Report has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this Report. This Report has been prepared for the sole benefit of the Directors and Shareholders. Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the Directors and Shareholders without the written consent of PKFCA. PKFCA accepts no responsibility to any person other than the Directors and Shareholders in relation to this Report.

The statements and opinions contained in this Report are given in good faith and are based upon PKFCA's consideration and assessment of information provided by the Directors, executives and management of all of Stirling.

APPENDIX 1 SOURCES OF INFORMATION

In preparing this Supplementary IER, PKFCA has had access to and relied upon the following principal sources of information:

- Stirling Notice of Meeting and accompanying Explanatory Memorandum and Alpha IER;
- Stirling audited annual financial statements for the years ended 30 June 2006, 2007 and 2008 and the reviewed financial statements for the half year ended 31 December 2008;
- Stirling ASX announcements;
- Zodiac NSX announcements;
- Zodiac website, http://www.zodiaccap.com/;
- Stirling internal management documents; and
- Discussions with Stirling and Zodiac management.

APPENDIX 2 FINANCIAL SERVICES GUIDE

This Financial Services Guide is issued in relation to a Supplementary Independent Expert's Report ("**Report**") prepared by PKF Corporate Advisory (East Coast) Pty Limited (ABN 70 050 038 170) ("**PKFCA**") at the request of the directors ("**Directors**") of Stirling Products Limited ("**Stirling**") in relation to its proposal to enter into a joint venture with Zodiac Capital Limited ("**Zodiac**") in relation to a substantial asset (as defined in the Australian Securities Exchange ("**ASX**") Listing Rules) ("**Proposal**"). This Report is to be provided to the Directors and sent to Stirling shareholders entitled to vote on the Proposal separately to the Notice of Meeting (and Independent Expert's Report from Alpha Securities Pty Ltd ("**Alpha IER**")), both of which have already been dispatched to Shareholders.

Engagement

PKFCA has been engaged by the Directors to prepare the Report expressing our opinion on the methodology used and opinion expressed in the Alpha IER in relation to the Proposal as well as PKFCA's conclusion as to whether the Proposal is fair and reasonable to the Shareholders under the ASX Listing Rules.

Financial Services Guide

PKFCA holds an Australian Financial Services Licence (License No: 247420) ("**Licence**"). As a result of our Report being provided to you, PKFCA are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of an Australian Financial Services Licence.

Financial services PKFCA is licensed to provide

The Licence authorises PKFCA to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives (limited to old law securities, options contracts and warrants) to retail and wholesale clients.

PKFCA provides financial product advice by virtue of an engagement to issue the Report in connection with the corporate restructure and issue of securities of another person.

Our Report includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our Report (as a retail client) because of your connection with the matters on which our Report has been issued.

Our Report is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the Report.

General financial product advice

Our Report provides general financial product advice only, and does not provide personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to the Proposal described in the Report may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that PKFCA may receive

PKFCA has charged fees for providing our Report. The basis on which our fees will be determined has been agreed with, and our fees will be paid by, the person who engaged us to provide the Report. Our fees have been agreed on either a fixed fee or time cost basis.

Remuneration or other benefits received by our employees

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of PKFCA or related entities but any bonuses are not directly connected with any assignment and in particular are not directly related to the engagement for which our Report was provided.

Referrals

PKFCA does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that PKFCA is licensed to provide.

Associations and relationships

PKFCA is the licensed corporate advisory arm of PKF (East Coast Practice), Chartered Accountants and Business Advisers ("**PKF**"). The directors of PKFCA may also be partners in PKF.

PKF is comprised of a number of related entities that provide audit, accounting, tax and financial advisory services to a wide range of clients.

PKFCA's contact details are as set out on our letterhead.

Complaints resolution

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, PKF Corporate Advisory (East Coast) Pty Limited, Level 10, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited ("**FOS**"). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. PKFCA is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001

Toll free:	1300 78 08 08
Facsimile:	(02) 9240 9821
Email:	info@fos.org.au

APPENDIX 3 VALUATION METHODS

Introduction

The appropriate methods to adopt in the valuation of a particular business, security interest or asset will depend on:

- the nature of the company's business;
- current performance of the company;
- its financial position;
- the nature and rights of the classes of equity on issue;
- the nature and rights of the class of equity being valued;
- the proportion of equity being valued;
- availability and reliability of forecasts; and
- the purpose of the valuation.

It is normally sensible to use or consider more than one method. This is reinforced by ASIC Practice Note 43 which in fact states that it may be appropriate to compare figures derived from one or more methods and comment on any significant differences.

The following describes the various valuation approaches used in the preparation of business valuations and intangible asset valuations.

Business Valuation Methods

Discounted Cash Flow Method

The discounted cash flow ("**DCF**") method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to ten years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value ("**NPV**").

DCF is appropriate where:

- the businesses' earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple. Maintainable earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Net Realisable Value of Assets

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value ("**NRV**") of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The NRV of the assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The NRV of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The NRV of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Share Trading History

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.

Constant Growth Dividend Discount Model

The dividend discount model works best for:

- firms with stable growth rates;
- firms which pay out dividends that are high and approximate free cash flow to equity;
- firms with stable leverage; and
- firms where there are significant or unusual limitations to the rights of shareholders.

Special Value

Special value is the amount which a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.