

BRAINZ INSTRUMENTS LIMITED

ACN 116 829 675

ENTITLEMENT ISSUE PROSPECTUS

For a non-renounceable entitlement issue of 1 Option for every 2 Shares held by those Shareholders registered at 5.00pm (WST) on 16 April 2010 at an issue price of 0.5 cents per Option to raise up to approximately \$187,500.

The Offer will be managed by Alto Capital. Please refer to Section 3.5 of this Prospectus for further information.

IMPORTANT NOTICE

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

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

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1. SUMMARY OF IMPORTANT DATES AND IMPORTANT NOTES

TIMETABLE AND IMPORTANT DATES*

| | |
|--|----------------------------------|
| Lodgement of Appendix 3B with ASX | 30 March 2010 |
| Lodgement of Prospectus with the ASIC and ASX | 7 April 2010 |
| Notice sent to Shareholders | On or before 9 April 2010 |
| Ex date | 12 April 2010 |
| Record Date for determining Entitlements | 5.00pm (WST) on 16 April 2010 |
| Prospectus despatched to Shareholders | 20 April 2010 |
| Closing Date* | 5.00pm (WST) on 5 May 2010 |
| Securities quoted on a deferred settlement basis | 6 May 2010 |
| ASX notified of under subscriptions | 7 May 2010 |
| Despatch of holding statements | 10 May 2010 |

* The Directors may extend the Closing Date by giving at least 6 Business Days notice to ASX prior to the Closing Date. As such the date the Options are expected to commence trading on ASX may vary. Shareholders should also note that as a result of the proposed change in nature and scale of activities which remains subject to Shareholder approval ASX has indicated that the Company's securities will be suspended from trading on the day of the general meeting of Shareholders to be held on or about 10 May 2010 and will remain suspended until such time as the Company has satisfied Chapters 1 and 2 of the ASX Listing Rules. The Offer is not conditional upon Shareholder approval.

IMPORTANT NOTES

Shareholders should read this document in its entirety and, if in doubt, should consult their professional advisors.

This Prospectus is dated 7 April 2010 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the content of this Prospectus.

The Expiry Date of the Prospectus is 13 months after the date the Prospectus was lodged with the ASIC. No Options will be allotted or issued on the basis of this Prospectus after the Expiry Date.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

Applications for Options offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form or Shortfall Application Form.

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

of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

RISK FACTORS

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Options pursuant to this Prospectus. For further information in relation to the risk factors of the Company please refer to Section 6 of this Prospectus.

ELECTRONIC PROSPECTUS

A copy of this Prospectus can be downloaded from the website of the Company at www.brainzinstrumentsltd.com. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

2. CORPORATE DIRECTORY

| | |
|--|---|
| <p>Directors</p> <p>Keith Goodall (Non-Executive Chairman)</p> <p>Garry Ralston (Non-Executive Director)</p> <p>Mathew Walker (Non-Executive Director)</p> <p>Company Secretary</p> <p>James Robinson</p> <p>Registered Office</p> <p>Suite 9, 1200 Hay Street WEST PERTH WA 6005</p> <p>Telephone: (08) 6460 4960 Facsimile: (08) 9324 3045</p> <p>Website: www.brainzstrumentsltd.com</p> | <p>Manager to the Offer</p> <p>Alto Capital Level 17, Exchange Plaza 2 The Esplanade PERTH WA 6000</p> <p>Solicitors to the Company</p> <p>Steinepreis Paganin Lawyers and Consultants Level 4, The Read Buildings 16 Milligan Street PERTH WA 6000</p> <p>Share Registry*</p> <p>Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street ABBOTSFORD VIC 3067</p> <p>Telephone: (03) 9415 4000 Facsimile: (03) 9473 2500</p> |
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* This entity has not been involved in the preparation of this Prospectus and has not consented to being named in this Prospectus. Their name is included for information purposes only.

3. DETAILS OF THE OFFER

3.1 Offer

The Offer is being made as a non-renounceable entitlement issue of 1 Option for every 2 Shares held by Shareholders registered at the Record Date at an issue price of 0.5 cents per Share. Fractional Entitlements will be rounded down to the nearest whole number.

Based on the capital structure of the Company as at the date of this Prospectus, a maximum of 37,500,000 Options will be issued pursuant to this Offer to raise up to approximately \$187,500.

All of the Options offered under this Prospectus will be issued on the terms and conditions set out in Section 5.1 of this Prospectus.

All of the Shares issued upon the future exercise of the Options offered under this Prospectus will rank equally with the Shares on issue at the date of this Prospectus. Please refer to Section 5.1 for further information regarding the rights and liabilities attaching to the Shares.

The purpose of the Offer and the use of funds raised are set out in Section 4.1 of this Prospectus.

3.2 Application for Options

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

You may participate in the Offer as follows:

- (a) if you wish to accept your **full** Entitlement:
 - (i) complete the Entitlement and Acceptance Form; and
 - (ii) attach your cheque, drawn on an Australian bank or bank draft made payable in Australian currency, for the amount indicated on the Entitlement and Acceptance Form; or
- (b) if you only wish to accept **part** of your Entitlement:
 - (i) fill in the number of Options you wish to accept in the space provided on the Entitlement and Acceptance Form; and
 - (ii) attach your cheque, drawn on an Australian bank or bank draft made payable in Australian currency, for the appropriate application monies (at 0.5 cents per Option); or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

Completed Entitlement and Acceptance Forms and accompanying cheques made payable to “**Brainz Instruments Limited – Share Issue Account**” and crossed “**Not Negotiable**” must be mailed or delivered to one of the following addresses no later than the Closing Date:

Brainz Instruments Limited
C/- Computershare Investor Services
Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067

Brainz Instruments Limited
C/- Computershare Investor Services
Pty Limited
GPO Box 2975EE
MELBOURNE VIC 3000

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

3.3 Minimum Subscription

There is no minimum subscription.

3.4 Shortfall Offer

Any Entitlement not taken up pursuant to the Offer will form the Shortfall Offer. The Shortfall Offer is a separate offer made pursuant to this Prospectus and will remain open for three months following the Closing Date. The issue price for each Option to be issued under the Shortfall Offer shall be 0.5 cents being the price at which Options have been offered under the Offer.

The Directors reserve the right to issue Shortfall Options at their absolute discretion. Accordingly, do not apply for Shortfall Options unless directed to do so by the Directors.

3.5 Manager to the Offer

The Company has entered a mandate letter agreement with Alto Capital to act as manager to the Offer. In addition, Alto Capital will also manage the placement of Options referred to in Section 4.4 of this Prospectus.

The fee payable to Alto Capital under the mandate is \$10,000.

Mathew Walker, a Director, has a relevant interest in 6% of the shares on issue in Alto Capital.

3.6 Allotment of Options

Options issued pursuant to the Offer will be allotted in accordance with the ASX Listing Rules and timetable set out in Section 1 of this Prospectus.

Options issued pursuant to the Shortfall Offer will be allotted on a progressive basis. Where the number of Options issued is less than the number applied for, or where no allotment is made surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the closing date of the Shortfall Offer.

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

Holding statements for Options issued under the Offer will be mailed in accordance with the ASX Listing Rules and timetable set out in Section 1 of this

Prospectus and for Shortfall Options issued under the Shortfall Offer as soon as practicable after their issue.

3.7 ASX Listing

Application for Official Quotation of the Options offered pursuant to this Prospectus was made on 30 March 2010. If ASX does not grant Official Quotation of the Options offered pursuant to this Prospectus before the expiration of 3 months after the date of issue of the Prospectus, (or such period as varied by the ASIC), the Company will not issue any Options and will repay all application monies for the Options within the time prescribed under the Corporations Act, without interest.

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

3.8 Overseas Shareholders

This Offer does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of Options these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and Options will not be issued to Shareholders with a registered address which is outside Australia or New Zealand.

Shareholders resident in New Zealand should consider the additional statements set out in Section 3.9 of this Prospectus and should consult their professional advisors as to whether any government or other consents are required, or other formalities need to be observed, to enable them to exercise their Entitlements under the Offer.

3.9 Offer in New Zealand

The Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and the Corporations Regulations 2001. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008.

The Offer and the content of the Prospectus are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act sets out how the Offer must be made.

There are differences in how securities are regulated under Australian law.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offer. If you need to make a complaint about the Offer, please contact the Securities Commission, Wellington, New Zealand.

The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The Offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

As stated at Section 3.7 of this Prospectus, the Company will apply to ASX for quotation of the Options offered under this Prospectus. If quotation is granted the Options offered under this Prospectus will be able to be traded on ASX. If you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

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

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

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

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

3.11 Privacy Act

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

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers,

regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

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

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

3.12 Enquiries

Any questions concerning the Offer should be directed to James Robinson, Company Secretary, on +61 8 6460 4960.

4. PURPOSE AND EFFECT OF THE OFFER

4.1 Purpose of the Offer

The purpose of the Offer is to raise up to approximately \$187,500. The funds raised from the Offer are planned to be used in accordance with the table set out below:

| Item | Proceeds of the Offer | Full Subscription ¹ |
|------|------------------------------------|--------------------------------|
| 1 | Working Capital | \$137,000 |
| 2 | Expenses of the Offer ² | \$50,500 |
| | Total | \$187,500 |

Notes:

1. In the event less than the full subscription is raised the proceeds of the Offer will be reduced from working capital.
2. Refer to Section 7.6 of this Prospectus for further details relating to the estimated expenses of the Offer.

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

4.2 Effect of the Offer

The principal effect of the Offer, assuming all Options offered under the Prospectus are issued, will be to:

- (a) increase the cash reserves by \$137,000 (after deducting the expenses of the Offer) immediately after completion of the Offer; and
- (b) increase the number of Options on issue from nil as at the date of this Prospectus to 37,500,000 Options.

4.3 Pro-Forma Balance Sheet

The unaudited Pro-Forma Consolidated Balance Sheet as at 31 March 2010 and the unaudited Pro-Forma Company Balance Sheet as at 31 March 2010 shown below have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position. They have been prepared assuming all Options offered under the Prospectus are issued and incorporating the effect of the post-balance date events referred to in the assumptions below.

The Balance Sheet has been prepared to provide investors with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

| | PROFORMA CONSOLIDATED 31 March 2010 | PROFORMA COMPANY 31 March 2010 |
|----------------------------------|---|--------------------------------------|
| CURRENT ASSETS | | |
| Cash | 2,250,452 | 7,264,902 |
| Other current assets | 8,730 | 0 |
| TOTAL CURRENT ASSETS | 2,259,182 | 7,273,632 |
| | | |
| NON-CURRENT ASSETS | | |
| Exploration | 217,272 | 217,272 |
| TOTAL NON-CURRENT ASSETS | 217,272 | 217,272 |
| | | |
| TOTAL ASSETS | 2,476,454 | 7,490,904 |
| | | |
| CURRENT LIABILITIES | | |
| Creditors and borrowings | 18,500 | 18,500 |
| TOTAL CURRENT LIABILITIES | 18,500 | 18,500 |
| | | |
| TOTAL LIABILITIES | 18,500 | 18,500 |
| | | |
| NET ASSETS | 2,457,954 | 7,472,404 |
| | | |
| EQUITY | | |
| Share capital | 21,104,764 | 26,119,214 |
| Reserves | (1,062,957) | (1,062,957) |
| Retained loss | (17,583,853) | (17,583,853) |
| TOTAL EQUITY | 2,457,954 | 7,472,404 |

The following assumptions have been made on the pro-forma balance sheet:

- **Cash:** Completion of the Offer (\$187,500) as well as completion of the placement of Shares (\$5,000,000) and placement of Options (\$187,500) referred to in Section 4.4 of this Prospectus together with estimated expenses of all capital raisings being a total of \$360,550.
- **Share Capital:** Completion of the Offer (\$187,500) as well as completion of the placement of Shares (\$5,000,000) and placement of Options (\$187,500) referred to in Section 4.4 of this Prospectus together with estimated expenses of all capital raisings being a total of \$360,550.

4.4 Effect on Capital Structure

The effect of the Offer on the capital structure of the Company, assuming all Options offered under the Prospectus are issued, is set out below.

Shares

| | Number |
|--|-------------------|
| Shares currently on issue | 75,000,000 |
| Shares offered pursuant to the Offer | NIL |
| Total Shares on issue after completion of the Offer¹ | 75,000,000 |

¹ As announced on 26 March 2010, the Company is proposing a change in nature and scale of its activities subject to obtaining Shareholder approval at a general meeting to be held on or about 10 May 2010. As a result the Company will be required to re-comply with Chapters 1 and 2 of the ASX Listing Rules, which will include, amongst other things, raising additional capital at 20 cents per Share. The details of the placement of Shares are not yet known and the Company will make a further announcement once these details have been determined, however, the Company will be seeking Shareholder approval at a general meeting to be

held on or about 10 May 2010 for the issue of up to a further 25,000,000 Shares to raise up to an additional \$5,000,000.

Options

| | Number |
|---|-------------------|
| Options currently on issue | NIL |
| Options (listed) (exercise price 20 cents / expiry date 31 May 2011) | 37,500,000 |
| Total Options on issue after completion of the Offer¹ | 37,500,000 |

¹ As announced on 30 March 2010, the Company will also be undertaking a placement of 37,500,000 Options, on the same terms as those issued under the Offer, to raise a further \$187,500. This issue of Options is subject to Shareholder approval which is intended to be sought at the general meeting of Shareholders to be held on or about 10 May 2010 as such these Options will not be issued prior to the completion of the Offer.

5. RIGHTS AND LIABILITIES ATTACHING TO OPTIONS AND SHARES

5.1 Options

The Options to be issued pursuant to this Prospectus entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Option gives the Optionholder the right to subscribe for one Share.
- (b) The Options will expire at 5.00pm (WST) on 31 May 2011 (**Expiry Date**). Any Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The amount payable upon exercise of each Option will be \$0.20 (**Exercise Price**).
- (d) The Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (e) An Optionholder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised;

(Exercise Notice).

- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (g) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
- (h) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
- (i) The Company will apply for quotation of the Options on ASX.
- (j) The Company will also apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (k) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (l) There are no participating rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business

Days after the issue is announced. This will give Optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

- (m) An Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Option can be exercised.

5.2 Shares

The following is a summary of the more significant rights and liabilities attaching to Shares being the underlying securities of the Options to be issued pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

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

General Meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (a) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (c) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Share held, but in respect of partly paid shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

Dividend Rights

The Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend. Subject to the rights of any preference Shareholders and to the rights of the holders of any shares credited or raised under any special arrangement as to dividend, the dividend as declared shall be payable on all Shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares in accordance with Part 2H.5 of Chapter 2H of the Corporations Act. The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividends shall

be payable except out of profits. A determination by the Directors as to the profits of the Company shall be conclusive. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

The Directors may from time to time grant to Shareholders or any class of shareholders the right to elect to reinvest cash dividends paid by the Company by subscribing for Shares in the Company on such terms and conditions as the Directors think fit. The Directors may, at their discretion, resolve in respect of any dividend which it is proposed to pay or to declare on any Shares of the Company, that holders of such Shares may elect to forgo their right to the whole or part of the proposed dividend and to receive instead an issue of Shares credited as fully paid to the extent and on the terms and conditions of the Constitution.

Winding-Up

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

Transfer of Shares

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act and the Listing Rules.

Future Increase in Capital

The allotment and issue of any new shares is under the control of the Directors of the Company. Subject to restrictions on the issue or grant of securities contained in the Listing Rules, the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the Directors may issue shares as they shall, in their absolute discretion, determine.

Variation of Rights

Under Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution

passed at a separate meeting of the holders of the shares of that class.

6. RISK FACTORS

6.1 Introduction

The Options offered under this Prospectus are considered speculative, and involve investors being exposed to risk. The Directors strongly recommend potential applicants examine the contents of this Prospectus and consult their professional advisers before deciding whether to apply for Options pursuant to this Prospectus.

There are specific risks which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors. The risks identified in this section, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Options.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

6.2 Change in nature and scale of activities

As announced on 26 March 2010, the Company is proposing a change in nature and scale of its activities subject to obtaining Shareholder approval at a general meeting to be held on or about 10 May 2010. The Company previously sold its main undertaking and currently has no assets other than cash.

Completion of the Offer is intended to occur prior to this Shareholder approval, however, after consultation with its major Shareholders the Company considers it highly unlikely that Shareholder approval will not be obtained. Consequently, the risks specific to the Company as set out in Section 6.3 of this Prospectus are on the basis that Shareholder approval is obtained and the Company completes its change to an oil and gas exploration company.

6.3 Risks Specific to the Company

(a) Exploration Success

The prospects in which the Company has an interest are at various stages of exploration, and potential investors should understand that exploration and development are high-risk undertakings.

There can be no assurance that exploration of these prospects, or any other prospects that may be acquired in the future, will result in the discovery of a commercial oil and gas reserve. Even if an apparently viable reserve is identified, there is no guarantee that it can be economically exploited or will flow at commercial rates.

The exploration costs of the Company are based on certain assumptions with respect to the method and timing of exploration. By their nature, these estimates and assumptions are subject to significant uncertainties and, accordingly, the actual costs may materially differ from these estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realised in practice, which may materially and adversely affect the Company's viability.

(b) **Operating Risks**

The operations of the Company may be affected by various factors, including failure to locate or identify oil and gas reserves, failure to achieve predicted well production flow rates, operational and technical difficulties encountered in production, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated reservoir problems which may affect field production performance, adverse weather conditions, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment.

No assurances can be given that the Company will achieve commercial viability through the successful exploration and/or production of its prospect interests.

(c) **Oil and Gas Reserves and Commercial Flow**

Oil and gas reserves are expressions of judgment based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated, may change significantly when new information or techniques becomes available. In addition, by their nature, oil and gas reserves are imprecise and depend to some extent on interpretations which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and commercial flow plans which may, in turn, either benefit or adversely affect the Company's operations.

(d) **Oil and Gas Price Volatility and Exchange Rate Risks**

If the Company achieves success leading to oil and gas production, the revenue it will derive through the sale of oil and gas exposes the potential income of the Company to oil and gas price and exchange rate risks. Oil and gas prices fluctuate and are affected by many factors beyond the control of the Company. Such factors include supply and demand fluctuations, technological advancements, forward selling activities and other macro-economic factors.

Furthermore, international prices of oil and gas are denominated in United States dollars, whereas the income and expenditure of the Company are and will be taken into account in Australian currency, exposing the Company to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets.

(e) **Environmental Risks**

The operations and proposed activities of the Company are subject to laws and regulations concerning the environment applicable in the jurisdiction of those activities. As with most production operations, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or production proceeds. It is the Company's practice to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws. Nevertheless, there are certain risks inherent in the Company's activities such as accidental leakages or spills, or

other unforeseen circumstances which could subject the Company to extensive liability.

(f) **Sovereign Risk**

The Company's projects outside Australia are subject to the risks associated in operating in a foreign country. These risks may include economic, social or political instability or change, hyperinflation, currency non-convertibility or instability and changes of law affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, export duties, repatriation of income or return of capital, environmental protection, labour relations as well as government control over natural resources or government regulations that require the employment of local staff or contractors or require other benefits to be provided to local residents.

Any future material adverse changes in government policies or legislation in foreign jurisdictions in which the Company has projects that affect foreign ownership, exploration, development or activities of companies involved in oil and gas exploration and production, may affect the viability and profitability of the Company.

(g) **Contractual Risks**

The Company is party to various contracts. The ability of the Company to achieve its objectives will depend on the performance by the other parties to those contracts. If a party defaults in the performance of its obligations it may be necessary for the Company to approach a court to seek a legal remedy. Legal action can be costly and there can be no guarantee that a legal remedy will be ultimately granted on the appropriate terms.

6.4 **General Risks**

(a) **Economic Risks**

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

(b) **Market Conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- general economic outlook;
- interest rates and inflation rates;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

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

(c) **Dividends**

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

(d) **Taxation**

The acquisition and disposal of Shares and Options will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares and Options from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Options under this Prospectus.

(e) **Additional Requirements for Capital**

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under the capital raising. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration programmes as the case may be. There is however no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.

(f) **Reliance on Key Personnel**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

(g) **Investment Speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future

materially affect the financial performance of the Company and the value of the Options offered under this Prospectus

Therefore, the Options to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Options.

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

7. ADDITIONAL INFORMATION

7.1 Continuous Disclosure Obligations

The Company is a “disclosing entity” (as defined in Section 111AC of the Corporations Act) for the purposes of Section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company’s securities.

This Prospectus is a “transaction specific prospectus”. In general terms a “transaction specific prospectus” is only required to contain information in relation to the effect of the issue of securities on a company and the rights attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 3 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

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

The Company, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in Section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:
 - (i) the annual financial report most recently lodged by the Company with the ASIC;
 - (ii) any half-year financial report lodged by the Company with the ASIC after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC; and

- (iii) any continuous disclosure documents given by the Company to ASX in accordance with the ASX Listing Rules as referred to in Section 674(1) of the Corporations Act after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

Details of documents lodged by the Company with ASX since the date of lodgement of the Company's latest annual financial report and before the lodgement of this Prospectus with the ASIC are set out in the table below.

| Date | Description of Announcement |
|-------------|--|
| 06/04/2010 | Change of Address |
| 31/03/2010 | Amended Appendix 3B |
| 30/03/2010 | Appendix 4C – monthly |
| 30/03/2010 | Entitlement Issue of Options and Appendix 3B |
| 30/03/2010 | Constitution |
| 26/03/2010 | Participation in Amazon Oil and Gas Project |
| 26/03/2010 | Reinstatement to Official Quotation |
| 24/03/2010 | Request for Suspension from Official Quotation |
| 24/03/2010 | Suspension from Official Quotation |
| 22/03/2010 | Request for Trading Halt |
| 22/03/2010 | Trading Halt |
| 22/02/2010 | Becoming a substantial holder |
| 22/02/2010 | Becoming a substantial holder |
| 22/02/2010 | Ceasing to be a substantial holder |
| 22/02/2010 | Appendix 4C – monthly |
| 19/02/2010 | Change of Director's Interest Notice x 2 |
| 19/02/2010 | Completion of Placement and Appendix 3B |
| 08/02/2010 | Results of Meeting |
| 28/01/2010 | Appendix 4C – quarterly |
| 20/01/2010 | Change in substantial holding |
| 20/01/2010 | Appendix 4C – monthly – Corrected |

| | |
|------------|---|
| 20/01/2010 | Appendix 4C – monthly |
| 15/01/2010 | Change in substantial holding |
| 15/01/2010 | Change in substantial holding |
| 07/01/2010 | Notice of General Meeting/Proxy Form |
| 31/12/2009 | Appendix 3B |
| 29/12/2009 | Appendix 4C – monthly |
| 30/11/2009 | Half Yearly Report and Accounts – Appendix 4D |
| 25/11/2009 | Change of Company Address |
| 24/11/2009 | Revised Company Strategy |
| 24/11/2009 | Appendix 4C – monthly |
| 04/11/2009 | Final Director’s Interest Notice x 2 |
| 04/11/2009 | Initial Director’s Interest Notice x 2 |
| 04/11/2009 | Board Changes |
| 20/10/2009 | Appendix 4C – monthly |
| 15/10/2009 | Company Secretary Appointment/Resignation |
| 12/10/2009 | Initial Director’s Interest Notice |
| 08/10/2009 | Board Change |
| 30/09/2009 | Becoming a substantial holder |
| 30/09/2009 | Becoming a substantial holder |
| 30/09/2009 | Becoming a substantial holder |
| 30/09/2009 | Becoming a substantial holder |
| 29/09/2009 | Appendix 4C – monthly |
| 29/09/2009 | Ceasing to be a substantial holder |
| 28/08/2009 | Appendix 4C- monthly |
| 28/08/2009 | Results of Meeting |
| 28/08/2009 | Chairman’s Address to Shareholders |
| 31/07/2009 | Notice of Annual General Meeting/Proxy Form |

ASX maintains files containing publicly available information for all listed companies. The Company’s file is available for inspection at ASX during normal office hours.

7.2 Directors' Interests

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

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

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

Directors' relevant interests in securities of the Company at the date of this Prospectus are:

| Name | Shares | Options | Entitlement |
|---------------|------------|---------|-------------|
| Keith Goodall | 4,000,000 | Nil | 2,000,000 |
| Garry Ralston | 6,000,000 | Nil | 3,000,000 |
| Mathew Walker | 13,750,000 | Nil | 6,875,000 |

The Board recommends all Shareholders take up their Entitlement and advises that all Directors intend to take up their respective Entitlements.

Mathew Walker, a Director, has a relevant interest in approximately 1.78% of the shares on issue in Pass Petroleum LLC. As announced to ASX on 26 March 2010, the Company has entered into an agreement with Pass Petroleum LLC pursuant to which the Company has the exclusive right to earn a 30% working interest in the Amazon oil and gas prospect in Louisiana, USA.

The Constitution provides that the non-executive Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors and in default of agreement then in equal shares.

For the year ended 31 March 2009 and 31 March 2010 the Company has paid (or has payable) by way of approved remuneration for services provided by all Directors or former directors of the Company (executive, non-executive and alternate), companies associated with those Directors or former directors of the Company or their associates in their capacity as Directors or former directors of the Company, employees, consultants or advisers (and including superannuation payments) a total of NZ\$109,666.42 and \$111,699.51 respectively.

Directors, companies associated with the directors or their associates are also reimbursed for all reasonable expenses properly incurred in the course of conducting their duties which include, but are not in any way limited to, out of

pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

7.3 Interests of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

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

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus, or to any firm in which any of those persons is or was a partner, or to any company with which any of those persons is or was associated, for services rendered by that person, or by the firm or the company, in connection with the formation or promotion of the Company or the Offer.

Steinepreis Paganin act as solicitors to the Company in respect of this Prospectus. Steinepreis Paganin will be paid approximately \$10,000 (excluding GST) for services in relation to this Prospectus. In the past two years, Steinepreis Paganin has been paid fees totalling \$9,982.50 (excluding GST) for legal services provided to the Company.

Alto Capital act as manager to the Offer in respect of this Prospectus. Alto Capital will be paid approximately \$10,000 (excluding GST) for services in relation to this Prospectus. In the past two years, Alto Capital has been paid fees totalling \$23,760 (excluding GST) for services provided to the Company.

7.4 Consents

Each of the parties referred to in this Section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this Section; and
- (b) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Alto Capital has given its written consent to being named as manager to the Offer in this Prospectus. Alto Capital has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

7.5 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

7.6 Expenses of Offer

In the event that the full amount of \$187,500 is raised under this Prospectus, the total expenses of the Offer are estimated to be approximately \$50,500 (excluding GST) and are expected to be applied towards the items set out in the table below:

| | \$ |
|-----------------------------|---------------|
| ASIC fees | 2,010 |
| ASX fees | 14,944 |
| Legal fees | 10,000 |
| Manager to the Offer fees | 10,000 |
| Share Registry fees | 10,984 |
| Printing and other expenses | 2,562 |
| Total | 50,500 |

7.7 Market Price of Shares

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

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

| | | |
|---------|------------|-----------------|
| Highest | 24 cents | 30 March 2010 |
| Lowest | 4.1 cents | 12 January 2010 |
| Last | 17.5 cents | 6 April 2010 |

7.8 Electronic Prospectus

Pursuant to Class Order 00/44, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Forms. If you have not, please phone the Company on +61 8 6460 4960 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both. Alternatively, you may obtain a copy of this Prospectus from the Company's website at www.brainzstrumentsltd.com.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the

electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

8. DIRECTORS' AUTHORISATION

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

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



Mathew Walker
Non-Executive Director
For and on behalf of
BRAINZ INSTRUMENTS LIMITED

9. DEFINITIONS

\$ means Australian dollars.

Alto Capital means ACNS Capital Markets Pty Ltd (ACN 088 503 208) ATF The ACNS Unit Trust T/A Alto Capital (AFSL 279099).

Applicant means a Shareholder who applies for Options pursuant to the Offer or a Shareholder or other party who applies for Shortfall Options pursuant to the Shortfall Offer.

Application Form means an Entitlement and Acceptance Form or Shortfall Application Form as the context requires.

ASIC means the Australian Securities and Investments Commission.

ASTC Settlement Rules means the settlement rules of the securities clearing house which operates CHESS.

ASX means ASX Limited (ACN 008 624 691).

ASX Listing Rules means the Listing Rules of the ASX.

Board means the board of Directors unless the context indicates otherwise.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a business day.

Closing Date means the date specified in the timetable set out in Section 1 of this Prospectus (unless extended).

Company means Brainz Instruments Limited (ACN 116 829 675).

Constitution means the constitution of the Company as at the date of this Prospectus.

Corporations Act means the Corporations Act 2001 (Cth).

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

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

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

Offer means the non-renounceable entitlement issue of 1 Option for every 2 Shares held by Shareholders on the Record Date at an issue price of 0.5 cents per Option to raise up to approximately \$187,500.

Official Quotation means official quotation on ASX.

Option means an option to acquire a Share on the terms and conditions set out in Section 5.1 of this Prospectus.

Optionholder means a holder of an Option.

Prospectus means this prospectus.

Record Date means the date specified in the timetable set out in Section 1 of this Prospectus (unless extended).

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

Shareholder means a holder of a Share.

Shortfall means the Options not applied for under the Offer (if any).

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

Shortfall Offer means the offer of the Shortfall at an issue price of 0.5 cents per Shortfall Option.

Shortfall Options means those Options issued pursuant to the Shortfall.

WST means Western Standard Time as observed in Perth, Western Australia.