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15 September 2011

Dear Shareholder,

SHAREHOLDER UPDATE – SEPTEMBER 2011

We are writing to provide you with an update of our progress and key developments over the past year, our financial results for year ended 30 June 2011, and our plans for the year ahead.

Since becoming operational in September 2010, we have made solid progress in establishing the foundations to enable the Company to move forward with developing follistatin as a bio-therapeutic.

Refining our Strategy

A decision has been made to focus on the development of follistatin for the treatment and prevention of respiratory diseases and conditions. This represents a potentially huge market for Paranta. It includes the Orphan Drug indications of Cystic Fibrosis (CF) and Idiopathic Pulmonary Fibrosis (IPF); the $10 billion per annum Chronic Obstructive Pulmonary Disease (COPD) market; and the broad range of lung inflammatory conditions including acute viral infections such as influenza.

The focus on respiratory diseases and conditions is important as it aligns the Company's strategy to our existing and foreseeable intellectual property (IP) assets. It also allows Paranta to tap into the considerable research resources (including animal models) available locally to support our preclinical and clinical programs.

Consolidating our Intellectual Property Position

A key activity has been consolidating the Company's IP portfolio acquired from ITFP Pty Ltd (Monash University) in December 2010. This IP comprised two patent application families; one relating to the use of follistatin in the treatment and prevention of

inflammatory conditions (the Inflammation Application) and the other relating to fibrotic diseases and conditions (the Fibrosis Application).

Since acquiring the IP, we have sought to obtain exclusive rights to the Fibrosis Application which is jointly owned with US company Beckman Coulter Inc. Whilst discussions with Beckman Coulter progressed slower than hoped, we are pleased to advise that an agreement is close to being finalised on favourable terms to Paranta.

We have also aggressively pursued a strategy of converting our Applications into granted patents. To this end, Paranta's first patent was granted in April 2011 for the Inflammation Application in Australia. Prosecution of our Applications in other jurisdictions is ongoing and is most advanced in the US, where we are confident our two Applications will proceed to grant. However, based on examinations to date, our patent position in the US is expected to be narrower than originally anticipated. In response to this we are actively pursuing opportunities for new (complementary) IP.

We have identified potential new IP which we believe will significantly strengthen our IP portfolio, particularly in relation to the use of follistatin in the treatment and/or prevention of respiratory diseases and conditions. We are currently drafting several new provisional patent applications. We are also scoping a study with Monash Institute of Pharmaceutical Sciences to investigate the feasibility of delivering follistatin directly to a patient's lungs using powder inhalers of the type commonly used by asthma sufferers. If successful, we expect this study will generate additional new IP.

Manufacturing Clinical Grade Follistatin

Another key activity progressed over the past six months has been developing our strategy for manufacturing clinical grade (cGMP) follistatin. The first step is to develop a cell line for producing high levels of recombinant human follistatin 288 based on a cGMP banked and regulatory cleared host cell line. Proposals have been received from most of the leading recombinant protein manufacturers and also from a number of smaller companies for development of our follistatin cell line. Based on these proposals and subsequent negotiations, we have selected our cell line development partner (a US company) and expect to execute contracts during October. If our cell line development project proceeds to schedule, we will transfer our follistatin cell line to a contract manufacturing organisation (CMO) for cGMP scale-up during the third quarter of 2012. Follistatin 288 material for a formal toxicology study will then be available from mid 2013.

We are also seeking proposals from two local research groups to re-design our follistatin purification process. The current process used by Monash/NCRIS on the follistatin research cell line is not suitable for industrial scale-up. Our intention is to commence this re-design project before the end of 2011. This should ensure that we're in a position to transfer our new purification process to the CMO without delaying our cGMP scale-up program.

Establishing our Preclinical Research Program

In May, Paranta appointed Dr David Phillips as Research Director to drive the Company's preclinical program. Dr Phillips has extensive knowledge of follistatin biology and is a co-inventor of the two patent Application families acquired from ITFP Pty Ltd.

The immediate objective of our preclinical program is to generate data in animal models of lung injury and fibrosis. This work will inform the Company on how we should proceed with formal toxicology and ultimately a Phase I clinical trial. Our preclinical program currently encompasses several animal studies which are briefly outlined below:

- A rat model of lung fibrosis using the pro-fibrotic agent, bleomycin. This model has been previously used overseas to demonstrate efficacy of the 315 isoform of follistatin for reducing lung fibrosis. Our study will be conducted by a Melbourne-based contract research organisation using the 288 isoform of follistatin. Subject to animal ethics approval, this study will commence in October with results available by May 2012.

- A mouse model of lung fibrosis using bleomycin will be conducted by our research collaborators at Monash University. This study will confirm the efficacy of follistatin in lung fibrosis and should also enable some preliminary dose ranging information to be assessed, which is an important consideration for clinical trial design. Subject to animal ethics approval, this study will commence in November with results available by April 2012. Concordance of results between this mouse model and the aforementioned rat model will enable Paranta to use the less expensive mouse model in future preclinical studies.

- A transgenic mouse model of cystic fibrosis is currently being conducted by a research group based at The Alfred Hospital in Melbourne. Preliminary findings are very promising in showing therapeutic benefit of follistatin 288 in ameliorating the symptoms of cystic fibrosis. We are currently exploring with this group how Paranta can build on these exciting preliminary results.

Financial Results & Outlook

A copy of our Financial Report for year ended 30 June is enclosed with this update. The Company made a net loss after income tax of $239,913 and finished the year with net assets (almost all as interest bearing cash deposits) of $4,652,800.

The forecast costs for cell line development and cGMP scale-up, including manufacture of follistatin 288 for toxicology studies and a Phase I clinical trial, are significantly higher than originally estimated. We therefore expect Paranta will need to raise an additional $4 -5 million to fund activities through to the completion of a Phase I clinical trial. We will initiate activities in this regard during 2012 after we have accumulated additional data to support further development work.

Further Information

We understand the importance of keeping our Shareholders informed and encourage you to contact either of the undersigned if you require additional information. We also hope to see you at our forthcoming Annual General Meeting scheduled for the 19th of October and refer you to the notice herewith enclosed.

Kind regards

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