ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 31 MARCH 2012

CONTENTS

COMPANY DIRECTORY
AS AT 31 MARCH 2012

Company Number	DN/1042367
Issued Capital	175,826,655 Ordinary Shares
Registered Office	**BLIS Technologies Limited** 87 St David Street Dunedin 9016
Shareholders	Listed on the New Zealand Stock Exchange Main Board
Share Registrar	**Link Market Services Limited** PO Box 384 Ashburton
Directors	**P F Fennessy (Chairman)** **C E Dawson** **A P Offen** **M G Shepherd** **B H Wallace**
Chief Executive	**B C Richardson**
Auditors	**Deloitte** PO Box 1245 Dunedin
Bankers	**Bank of New Zealand** Dunedin **Wetpac Banking Corporation** Dunedin
Solicitors	**Anderson Lloyd** PO Box 1959 Dunedin 9054
Website	www.blis.co.nz
Facebook	https://www.facebook.com/BLISTechnologiesLtd?ref=ts Blis Technologies Limited

OPERATIONS REPORT

FOR THE YEAR ENDED 31 MARCH 2012

FINANCE

	FY 2012 $000	FY 2011 $000	Change $000
Revenue			
New Zealand	546	217	329
United States of America	676	976	(300)
Asia	52	26	26
Australia	129	125	4
Other	64	7	57
Trading Revenue	1,467	1,351	116
Research & Development income	0	173	(173)
Grant Revenue	0	168	(168)
Other Revenue	43	50	(7)
Total Revenue	1,510	1,742	(232)
Net Deficit before depreciation, amortisation, capitalisation of costs, finance and tax	(1,340)	(1,124)	(216)
Depreciation and amortisation of assets	(414)	(330)	(84)
Capitalisation of Development & Patent Costs	516	590	(74)
Finance Costs			
Amortisation of transaction costs for Convertible Preference Shares	(121)	(121)	0
Dividend – Convertible Preference Shares	(400)	(400)	0
Net Deficit	**(1,759)**	**(1,385)**	**(374)**

Whilst the Company (parent) recorded a net deficit of $1,733k (2011:$1,385k), the Group recorded a net deficit of $1,759k. This is an increase of $374k from the previous financial year. This increase in the deficit was due to a reduction in revenue from the United States, the absence of licensing and grant income, a reduction in capitalisation of operating costs associated with development, and the incorporation of losses of $251k incurred by BLIS Functional Foods (“BFF”) consequent upon the acquisition of the business of the Gourmet Ice Cream Company.

Revenues

The Group’s trading revenue increased from $1,351k to $1,467k. The increase was mainly due to incorporation of $271k revenue from eight months of BFF trading, increased sales in New Zealand ($50k) and Asia ($57k) and an increase in other trade revenue ($57k, inclusive of internet sales) offset by a reduction in sales to United States ($300k). The decline in sales to the United States resulted from a realignment of international distribution arrangements and associated supply chain destocking in the first half of the year. This was further exacerbated by market conditions generally and the change in sales strategy of one of our largest North American end-customers. It was pleasing to note sales to the United States in the second half of the year were $668k in marked contrast to the $8k achieved in the first half.

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

Costs

The Group maintained a disciplined approach to containment of operating costs with costs of goods sold increasing only $5k and employment costs pre BFF reduced by $15k despite a reduction of $139k in the amount capitalised to development.

A cost review reported to the Board in March included further cost saving initiatives which will take effect in the 2013 financial year whilst the Board determined to forego Directors fees from the March quarter 2012 in light of the financial performance and position of the Group.

Cash Flows

	FY 2012 $000	FY 2011 $000	Change $000
Operating Activities			
Group Net cash outflow before payment of dividend on Convertible Preference Shares	(1,358)	(327)	(1,031)
Payment of Dividend	(400)	(361)	(39)
Net Cash Outflow from Operating Activities	(1,758)	(688)	(1,070)
Investing Activities			
Acquisition of business	(225)	0	(225)
Capital Expenditure	(521)	(750)	233
Net Cash Outflows from Investing Activities	(747)	(750)	8
Financing Activities			
Issue of ordinary shares during the year	1,551	0	1,551
Other	0	(4)	4
Net Cash Outflows from Financing Activities	1,551	(4)	1,555
Bank Balance 31/03/2012	565	1,519	(954)

The Group recorded a Net Cash Outflow from Operating Activities of $1,758k, an increase of $1,070k. Shortly after balance date the Company received $569k from a customer for amounts owing as at 31 March 2012.

During the year the company spent $225k acquiring the assets of BFF and invested a further $517k principally in product development.

Balance Sheet and Dividend

Total Investors' interest as at 31 March 2012 inclusive of the Preference Share Capital re-classified as a current liability for the group was $3,843k (2011: $3,915k).

No tax is payable and no dividend will be paid on the ordinary shares.

Capital

During the course of the year the Company instigated two capital raising initiatives.

The first, a Share Purchase Plan (SPP) in September 2011, involved an offer to all ordinary shareholders to subscribe for up to $15,000 each of new ordinary shares at a discount to the then prevailing market price. The SPP was conducted contemporaneously with a placement on the same terms. The SPP and Placement raised $1,551k through the issue of 32m shares at a price of $0.0485 each including

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

the subscription by Edinburgh Equity Nominees of $500,000 for a total of 10.3m shares upon the granting of a waiver by the NZX pursuant to Listing Rule 9.2.1.

The second, the appointment of Murray + Co is currently in train with an Information Memorandum prepared and distributed confidentially to interested parties during April. The Board expects to be able to report more fully on this process at the Annual General Meeting.

Post balance date, on 8 May 2012, and as detailed elsewhere in this report the Company issued 12,990,194 Ordinary Shares to the holders of the Preference Shares in satisfaction of the final dividend accrued on the Preference Shares equating to a gross value of $200,000 (less tax) and the 4,000,000 Preference Shares on issue were converted to Ordinary Shares pursuant to their terms of issue at a ratio of 74.515 Ordinary Shares per Preference Share held. A total of 311,052,981 Ordinary Shares were issued by the Company pursuant to the conversion of the Preference Shares.

COMMERCIALISATION PROGRESS

Overall the 2012 financial performance of the Company disappointed as our expectations were for growth in ingredient sales into the nutraceutical sector.

The major impact on BLIS Technologies during the financial year was poor sales in North America during the first six months of the period. After a review, the Company decided to end its global distribution agreement with Frutarom Ltd. This was not a decision taken lightly by the Company and despite this remedial action, due to specific contractual obligations of the global distribution agreement with Frutarom Ltd, the termination could not take effect until 30 November 2011. In appointing another distributor for its branded probiotic ingredients, BLIS Technologies, after considering the alternative options and candidate companies available to it, had just four months remaining within the financial year to work with the new distributor and improve the market performance.

Novus Nutrition Brands subsidiary Stratum Nutrition (www.stratumnutrition.com) was appointed as the global distributor except China and New Zealand for BLIS probiotic ingredients. Staff from BLIS Technologies spent a significant period of time in Europe and North America during the period December 2011 until the end of March 2012, working with Stratum Nutrition and their customers on product and sales training for both the BLIS K12™ and the BLIS M18™ ingredients.

While regulatory barriers remain in the European Union, the achievement of self-affirmed GRAS in the United States and the approval of BLIS K12™ as a food ingredient in the Peoples Republic of China stand out as major milestones for the Company that will have a profound impact on the future of the Company.

There is no doubt that, in terms of commercialisation, BLIS Technologies has and continues to make significant progress in several areas including regulatory, Intellectual Property, market development and product support documentation, its probiotic ingredient delivery systems, and quality assurance and production systems. Affirmation of this progress and the underlying scientific support for claims associated with our proprietary probiotics is reflected in peer recognition and independent commissioning of clinical studies, scientific publications and an increasing number of global research collaborations. These are solid achievements for a small company with limited resources.

The focus for the Company remains the need to build immediate sales in conjunction with its new global partner Stratum Nutrition. This will be achieved on the basis of communication to and education of product formulators and ultimately the consumer on the benefits of BLIS oral probiotics.

STRATEGY

BLIS Technologies Ltd is a biotechnology company whose principal focus is the execution of a global branded probiotic ingredient strategy supported by exemplar in-market consumer products and food applications in New Zealand.

When founded the initial focus was upon identifying and incorporating naturally-occurring bacteria into consumer products that are beneficial to humans, but potent in their ability to kill many of those bacteria known to cause misery or discomfort. BLIS Technologies has a large portfolio of more than 2000 beneficial strains of bacteria that are known to be active against such bacteria. During the 1990's, Professor John Tagg at the University of Otago conducted a six-year study following the lives of 800 Dunedin school children. The study found that in the small group of children who naturally had certain types of these beneficial bacteria in their mouth and throat that they were less likely to acquire the bacteria that cause "strep throat", while the larger group of children were significantly more likely to acquire these usually detrimental bacteria. This early research was the start of a number of additional studies, which eventually lead to the formation of the Company. This research also confirmed the theory held by Professor Tagg that regular supplementation of good bacteria such as BLIS K12™ could greatly reduce the chances of acquiring a strep throat infection. Strep throat is a serious concern because in a small number of cases the condition leads to a much more serious disease called rheumatic fever, and it is this disease which has reached levels in certain parts of New Zealand, normally seen only in third world populations.

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

Since the introduction of the BLIS K12™product range in 2002, the Company has challenged for a dominant role in pharmacies against multinational competitors when it comes to protecting against bacterial complications from winter coughs, colds and flu.

At the end of 2009, seven years after its introduction, market research company Synovate ranked the company's BLIS K12™ **Throat Guard** range 5th overall in pharmacy retail sales in New Zealand for the cough and cold category. This was a respectable position to have reached, despite not having the marketing spend that other larger competitors had. The **Throat Guard** product range had grown to its 5th rank position largely on repeat business from satisfied customers and word of mouth.

But, by the end of 2010, the BLIS K12™ **Throat Guard** range further exceeded expectations and displaced two other well-known brands and moved into 3rd place behind the global retail pharmacy brands of Difflam and Strepsils. Sales for the **Throat Guard** range continued to grow (28%) in the 2012 financial year and is considered to be one of the fastest growing product ranges in the pharmacy cold and flu category according to Pharmabroker Sales (NZ) Ltd.

The execution of the Company's "branded ingredient" strategy, initiated in 2007, has continued as the priority over the past 12 months.

Sales into the North American market are a major component of the "branded ingredient strategy" and in the first half of 2011, when the Company saw the lower than expected sales performance in North America, it quickly took action to address these concerns.

After a review, the Company decided to end its global distribution agreement with Frutarom Ltd earlier than its 2014 renewal date. This was not a decision taken lightly by the Company and signalled the importance that the Company placed on a solid distribution relationship in its future international success. It had become apparent that as the market has developed and evolved for BLIS probiotics within the oral care sector, the Company's market and commercial expectations had outpaced the ability of Frutarom Ltd to deliver. However, despite taking remedial action in the first half of the year, due to specific contractual obligations of the global distribution agreement with Frutarom Ltd, the termination of this agreement could not take effect until 30 November 2011.

The Company had, however, been evaluating several alternative options for the distribution and marketing of its branded ingredients and, after evaluation of potential partners, the Company signed a letter of intent to appoint Stratum Nutrition as its new global distribution partner from 1 December, 2011.

Unlike many other companies in the international nutraceutical distribution and supply chain, Stratum Nutrition has chosen to keep a narrow focus on the ingredients that it will offer to the market, preferring instead to represent the best examples within an ingredient category. This is a strategy that demands a premium ingredient with the highest standards of scientific validation which Stratum Nutrition considers our branded probiotic ingredients to possess. Stratum Nutrition has been successful in implementing its strategy to date and we share expectations that our branded ingredients will build on and share in that success.

The Market

The Global Demand for Probiotics is Growing

Despite recent issues in Europe over the regulatory status and health claims with respect to certain strains of probiotics, the global probiotic products market continues to grow. According to an October 2011 report by the UK based market research company BCC, total global sales of probiotics across all markets and applications were approximately $US25 billion in 2011 with a compound annual growth rate of 7.6%. BCC indicated that probiotics in the dietary supplement market will generate global sales of $2.1 billion by 2015 and growth of that market segment will out-pace the use of probiotics compared to the food industry and other industrial ingredient applications. The food industry remains the major market for probiotics and this is expected to generate global sales of $US28 billion by 2015.

The Role of Oral Health for the Prevention of Major Disease

The major brand position for the BLIS probiotic range is for "protecting the gateway to the body's health". For the past several years, we have focused our research and understanding on the myriad of health benefits of BLIS K12™ and BLIS M18™ within the mouth and oral cavity. The scientific community continues to investigate the association and importance of the health of the mouth and throat, to the body's overall wellbeing.

Each year, cardiovascular disease kills more Americans than cancer. And while most people are aware that lifestyle choices such as eating right, getting enough exercise and quitting smoking can help prevent cardiovascular disease, they may not know that by just brushing and flossing their teeth each day, they might also be avoiding this potentially lethal condition.

BLIS K12™ is the world's only probiotic specifically designed to protect the entire oral cavity, which includes the throat, mouth, gums and teeth. Under specific conditions, BLIS K12™ has even been shown to protect the nasal sinus from infection and so this research will likely have far-

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

reaching implications for the company and its future product applications.

Business Development Based on Three Strategic Platforms

The business development strategy is based on three primary platforms as below.

1. Building nutraceutical and dietary ingredient sales in North America and other markets (in conjunction with Stratum Nutrition).
2. Dealing with regulatory issues – the Company, in conjunction with its regulatory consultant, has successfully completed the process for regulatory approval by the US Food and Drug Administration (self-affirmed GRAS status) in the United States. It has also been approved as a dietary supplement by regulatory authorities in both Russia and China, and there is a continuing evaluation of the regulatory status for BLIS K12™ in the European Union.
3. Continuing development of long-term strategic partnerships with companies with significant regional and global reach; the Company is exploring additional strategic opportunities such as personal care and animal health applications by developing long-term strategic partnerships.

Strategy 1: Building Ingredient Sales

The appointment of Stratum Nutrition, a human nutrition company based in St Louis, Missouri (USA), was the key strategic decision taken to reinstate ingredient sales following disappointing performance from our previous distributor through much of 2011. Stratum Nutrition is a subsidiary of a major international animal health company called Novus International. Stratum has a small but well-defined number of products, which are backed by the extensive scientific resources and support infrastructure of Novus international.

As noted above, Stratum Nutrition has chosen to keep a narrow focus on the ingredients that it will offer to the market, preferring instead to represent the best examples within an ingredient category. This is a strategy that demands a premium ingredient with the highest standards of scientific validation and it's a strategy that appears to be working for Stratum Nutrition and the ingredient manufacturers that it represents if recent awards are any indication. Stratum Nutrition picked up the award for its cardiovascular ingredient at Nutracon (March 2011) for best in class as voted by its peers. They were acknowledged by Frost & Sullivan with the New Product Innovation of the Year Award for Joint Health and most recently the company won the "Investment in the Future" at the industry's showcase event; the 14th Annual NBJ Summit held in July 2011.

The partnership agreement with Stratum Nutrition is to market the entire BLIS range of probiotic ingredients on a global basis, with the exception of China and New Zealand. The probiotic ingredients, which are to be marketed by Stratum Nutrition, include BLIS K12™ and BLIS M18™ with options on future probiotics developed by the Company. It is anticipated that marketing developments for all probiotic products could later be extended to include relevant products for companion animals such as cats and dogs because this represents a signification component of the business for Stratum's parent company, Novus International.

Beyond the changes in the global distribution relationship, the business strategy is based on working closely with the top 50 dietary supplement manufacturers and a number of key consumer product manufacturers in the US, while concurrently getting closer to the end consumer through education and a consumer-focused website that is dedicated entirely to the branded ingredient, BLIS K12™ (www.blisk12.com). The Company also acknowledges the work and assistance of its BLIS Technologies representative in North America, Jack Klein and Associates.

Strategy 2: Obtaining Regulatory Approval for Food and Food Supplement Applications

As a result of its regulatory initiatives the Company is currently able to sell its probiotics as dietary supplements in NZ, USA, Canada, Japan, Taiwan, India, and some South East Asian, non EU and Middle Eastern markets. As a food ingredient, BLIS K12™ can be sold in NZ, Australia, USA, China, Japan, Taiwan, India and in some South East Asian markets. In some markets there are additional restraints because of the need to seek approval of health claims.

In July 2011, the Company confirmed that BLIS K12™ has obtained self-affirmed GRAS status, which now enables this probiotic to be included as an ingredient in food products within the United States. Until that date, the Company's BLIS K12™ probiotic could only be sold as a dietary supplement, but self-affirmed GRAS status expands the market opportunities for BLIS K12™ probiotic by allowing it to be marketed and sold to all food manufacturers within the United States. This project, which was managed by the Company's regulatory consultant, Intertek Cantox in Mississauga, Canada, took more than two years to achieve and follows an FDA-approved process that allows a company to obtain GRAS status by consulting with an independent panel of world leading experts in disciplines such as microbiology and toxicology to determine that the BLIS K12™ probiotic meets the FDA's stringent criteria for safety.

The approval of BLIS K12™ by the Ministry of Health and Welfare in the Peoples Republic of China in late-2011 represented the end of a regulatory approval process that

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

started in 2008. This Chinese regulatory approval now enables newly-introduced specific Chinese import licences to be obtained for BLIS K12™, at which time they be sold through our partner's distribution networks within the country. BLIS Technologies is extremely pleased with this achievement. This milestone has been achieved through a long term relationship with the NZPR Group Ltd who is the commercialisation partner of BLIS Technologies in China. NZPR Group is a New Zealand-based organization that operates extensively throughout China.

In addition, BLIS Technologies has signed a letter of intent to enter into an agreement with Integra Medical Inc., headquartered in Ontario Canada. Integra Medical will produce and sell retail products in the Eastern European market. Integra Medical has already successfully achieved regulatory approval for its first BLIS K12™ based product as a dietary supplement within the Russian market and is now embarking upon several clinical trials to support its application for BLIS K12™ based products as an approved medicine in Russia.

The toughening regulatory and economic environment in Europe over the past 18 months, has delayed progress on the regulatory approval in the European market. However the company is still actively engaged in this process and expects to report on progress in the coming financial year.

Strategy 3: Key Relationship Development

The long-term strategy involves strategic relationships such as those with Nestlé Nutrition and other leading global consumer product and technology companies.

Despite completion of the infant nutrition research programme in early 2011, the relationship with Nestlé Nutrition remains strong and both parties are still engaged in on-going research and development of the BLIS K12™ probiotic in other areas of human health.

The relationships with Integra Medical Inc. and NZPR Group have been outlined above.

MARKETING

BLIS Technologies Ltd has placed a high priority on marketing within its New Zealand, Asian and North American markets. The Company continues to build sales with its branded ingredient strategy internationally and has also assisted customer finished product marketing strategies, particularly in Asia and the United States as well as introducing its own e-commerce offering.

In New Zealand, the Company continues a dual strategy of marketing its NZ retail pharmacy products and its branded ingredients to product manufacturers and marketing companies.

In the last year the Company has continued to introduce products into new territories; this includes both BLIS M18™, targeted at anti-caries applications and its flagship product, BLIS K12™, targeted at oral health and oral immune applications.

Recently published BLIS K12™ research has expanded interest in the product and provided new marketing opportunities. An international research group investigated the effectiveness of BLIS K12™ in laboratory testing against the yeast organism responsible for the common and painful oral infection, candidiasis or oral thrush, a condition, which is more frequent in children and older individuals. The researchers reported that they were surprised to find that BLIS K12™ did not work in the typical way that BLIS K12™ normally protects the mouth and throat against bacterial infection. Instead, they found that BLIS K12™ prevented the candidiasis-causing yeast from sticking to the throat and mouth and therefore preventing the organism from colonising and causing a subsequent infection.

BLIS K12™ has already been shown in laboratory testing to be more potent against bacteria that cause throat infection and bad-breath than other over-the-counter throat lozenges and now it adds the prevention of yeast infection to that list.

New Zealand

Working closely with its NZ retail distributor (Pharmabroker Sales (NZ) Ltd), the Company has continued its progress in the NZ market with a further increase in sales of 23% over the past 12 months. This builds on growth of 13% in the previous 12 months. Current forecasts indicate that this market will continue to grow by 15-20% over the next 12 month period.

Introduction of the new peppermint flavour to the once a day range helped see it grow by 25% over the previous 12-month period. The **Boost** range, after quiet growth last year produced a lift of 35% despite the continued growth in sales of the **Daily** range. The **Fresh Breath Kit** rebounded, up 12% after being down 31% last year.

Encouraged by the positive introduction of the peppermint-flavoured **Daily**, the Company plans to roll out more product lines in readiness for winter sales season next year.

Australia

Sales in Australia, primarily through our business with Breezecare have continued to stabilise, with modest growth of 2.4% in the period compared to the previous year; sales now stand at $129k. This past year has seen the **KForce** range expand to 4 products including the introduction of a BLIS M18™ Mouthwash product.

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

Further developments in this market are anticipated in the coming year while recognising that Australia is a difficult market to enter without Therapeutic Goods Administration (TGA) approval.

E-Commerce and Web site

The past year has seen considerable re-development of the website (www.blis.co.nz), including the introduction of internet sales. Since launching in July 2011, internet sales have built well and this now provides a solid platform for growth as the company continues to roll out its web-based marketing strategy.

On top of sales, the website along with the US consumer website (www.blisk12.com) provides a valuable education resource for current and prospective consumers. Rights to the www.blisk12.com website were retained by BLIS Technologies as part of the winding up of our relationship with Frutarom.

International

North America – United States

The focus on the North American market with the branded ingredients of BLIS K12™ and BLIS M18™ continues. After the transfer of distribution relationship from Frutarom USA to Stratum Nutrition in the second half of the financial year, there have been significant improvements in the rebuilding of the quality of the customer relationships within this market. Despite having only been appointed on 1st December 2011, Stratum Nutrition has made good progress as the distributor managing ingredient sales and supporting the brand. As a result of taking quick action to address declining sales and appointing a new US and global distributor, sales for the second half of the year were significantly higher than the first half year.

In April 2011, Therabreath, who have been a customer of BLIS Technologies since 2004, launched new oral healthcare products containing BLIS K12™ and BLIS M18™. These products are positioned within the specialty oral hygiene category and were initially sold through Walgreens pharmacies, which have 7541 outlets throughout the United States. This is a positive development for the Company with the focus of this product release being oral health applications, rather than immune health, which is consistent with the business strategy of BLIS Technologies. It is anticipated that Therabreath will introduce the product to additional major retail outlets providing the potential for a further increase in ingredient sales.

Jarrow Formulas, a major brand manufacturer in the health retail channel, launched two combination products using both BLIS K12™ and BLIS M18™ in late 2011. One, a chewable tablet and the other a chewing gum, are sold through the major US health retailer Whole Foods Market. Jarrow Formulas were pleased with the consumer response they received from these products and are currently in the process of rolling them both out into their network of the health retail market in the United States.

North America – Canada

BLIS Technologies has been working closely with Tab Labs in Vancouver, who manufacture lozenges and gum products to develop an efficacious product based on chewing gum. This gum product is now commercially available and is the basis of the product marketed by Prairie Naturals in the Canadian market. Tab Labs has recently formed a joint venture with a major European gum company to market a range of products including oral probiotic gums.

China

BLIS Technologies achieved a major milestone with the approval for BLIS K12™ as a food ingredient in the Peoples Republic of China.

Achieved on behalf of the Company by the NZPR Group the approval of BLIS K12™ by the Chinese State Food and Drug Administration represents the end of a regulatory approval process that started in 2008 and now enables NZPR Group to secure the necessary import licences it will need to import and distribute BLIS K12™ within China. The NZPR group has commenced this licencing process and the Company has a manufacturing and marketing agreement with the NZPR Group (and associated Chinese interests) who are currently planning the marketing and distribution of BLIS K12™ products.

Korea

Approval is required from the Korean FDA for products launched in this market which incorporate probiotic bacteria. The Company is working with a well-established pharmaceutical company in Korea who is seeking Korean FDA approval for the Company's finished products. This project is taking longer than expected solely as a result of delays with the regulatory process but our partner has reaffirmed their commitment to obtain approval to market BLIS products.

Japan

There are more than twelve products in the Asian market based on BLIS K12™ with four of these in the Japanese market. Business development projects are underway with

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

two major companies in Japan with the anticipated launch of the first of these products by year end. Typically these projects take more than 3 years to complete.

Europe

The wider European market represents a significant opportunity for the Company with the introduction of the BLIS K12™ and BLIS M18™ ingredients into new products. The current focus is on certain markets outside the European Union until further progress is made with regulatory submissions. BLIS K12™ products are currently being launched in Israel.

Due to regulatory issues in Europe the Company is still in the early phases of business development in most markets but progress is now expected to accelerate as a result of market developments by Stratum Nutrition.

Other markets

In Russia BLIS Technologies is pleased to announce its intention to enter into an agreement with Integra Medical Inc. as previously noted.

In Taiwan and Singapore the first products have been launched in the market. The Company has business development projects in India and has supplied several shipments of part finished products to a pharmaceutical company in Pakistan who have launched a lozenge product in this market.

Competitors

The Company is aware of its potential competitors and regularly monitors their activity. The Company has seen some increased market activity from other oral probiotics companies but is confident that because of its use of naturally-occurring, as opposed to genetically-modified strains, and its continued emphasis on research into oral health applications and securing its intellectual property that it will retain its leadership position in the market.

Affiliations

The Company is a member of the International Probiotics Association, which has a membership comprising the key producers and end users of probiotics globally. While providing a forum for probiotic companies, the Association also works closely with the various regulatory organisations.

OPERATIONS

The Company continues its ongoing review of facilities for the manufacture of BLIS K12™ and BLIS M18™ ingredients and the finished products.

While BLIS K12™ continues to be produced to the highest-quality standards in New Zealand, the Company has continued work to evaluate options for the production of the BLIS K12™ and BLIS M18™ ingredients and finished products off-shore. A European company has been through a preliminary evaluation stage confirming its ability to come on stream to supplement New Zealand production of BLIS probiotics when required. Earlier introduction may be contemplated to provide security of supply, an important consideration for the Company's global partners.

While the Company has successfully sourced lozenges from India, it has begun supplementing lozenge supplies out of Canada. Progress has also been made in exploring options to secure other product delivery formats such as chewing gum, chewable soft gels and formats from companies with specialised manufacturing capabilities. These relationships will broaden the capabilities of the Company and its partners to provide a wider range of effective product delivery formats for oral probiotics that have the potential to significantly enhance the Company's current manufacturing capability for finished products.

The transfer of technology off-shore is necessary to ensure ongoing international supply as demand for ingredient and finished product increases.

INTELLECTUAL PROPERTY

The Company has a robust intellectual property portfolio and continues to underpin its technology and scientific platform to support the commercial development of the Company. In total 45 patents in 4 patent families have now been granted. There are several patent applications still under examination and the Company remains committed to its policy of filing patents surrounding its core technologies. BLIS Technologies considers this is an important strategy as it ensures that it has a strong intellectual property portfolio and is well positioned in discussing commercial opportunities with potential partners.

In the last 12 months, the Halitosis patent (BLIS K12™) was granted in the USA and the Mia anti-caries patent (BLIS M18™) approved in India. Our BLIS Q24 patent has been granted in Australia and China, and is under examination in a number of jurisdictions.

The Company continues to generate considerable intellectual property in the form of trade secrets. The commercial focus of the Company has resulted in more extensive use of Trademark applications to strengthen its position in the market.

REGULATORY

Regulatory considerations have been some of the most

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

important issues considered by the company in the period and it is pleasing to note the two very significant milestones over the past year: self-affirmed GRAS status in the United States and regulatory approval to our partner in China.

The next step for our United States strategy is to move from self-affirmed to full notification of GRAS status. In Europe the Company, in collaboration with its global distribution partner Stratum Nutrition and regulatory consultant, Intertek Cantox, continues to work through clarifying the regulatory status of BLIS K12™.

PRODUCT DEVELOPMENT

The Company has made considerable progress in the past 12 months in several key areas of product development. This has included further development work with a chewing gum base to provide an efficacious delivery system for BLIS probiotics. Options are being considered for introducing a gum product to the New Zealand market. The past twelve months has seen the first appearance of an BLIS M18™ retail product in Australasia with the introduction of Breezecare's **KForce** M18 Mouthwash.

Work has continued in developing additional products and formats for the New Zealand market and it is anticipated that new product lines will be in place for Autumn 2013. A number of these products are also seen as having potential in further expanding the company's semi-finished product sales, which are starting to gain momentum. Semi-finished product sales have the added benefit to the company of reducing the development time in offshore markets where manufacturers are not familiar with probiotics or BLIS K12™ & BLIS M18™ in particular.

BLIS Technologies continues to focus its scientific resources on projects which technically assist customer's needs and requirements, particularly in Asia and more recently in Europe and the Middle East. This work has involved staff assisting potential customers with projects in relation to the regulatory process, laboratory testing, production and quality assurance. The handling of probiotic bacteria and the production of probiotic products requires considerable experience and careful management and BLIS Technologies is able to assist many customers, making this an important step in the commercialisation process.

The change of distributor has been another major focus for the past twelve months with staff playing a significant role in transferring knowledge and assisting in the preparation of marketing material. An unexpected positive aspect of this has been the rigorous scrutiny of our systems and processes during the due diligence phase of developing the relationship with Stratum Nutrition.

The progress of BLIS K12™ to self-affirmed GRAS status has been supported on the product development side by work focused on food applications. To date, both ice cream and frozen yoghurt products have been through proof-of-concept manufacture at Gourmet Ice Cream, with the BLIS K12™ ice cream now released for sale under the Gourmet Ice Cream brand. Work continues on evaluation of other food formats for the delivery of BLIS K12™.

RESEARCH & DEVELOPMENT

The Company is founded on a strong research and development platform but in accordance with its strategic shift in direction four years ago continues to largely focus upon projects advancing commercial operations. Completion of the self-affirmed GRAS process was a major thrust in the early part of the year which required input from many of the staff[1]. Now that self-affirmed GRAS status is achieved, the sale of BLIS K12™ for use in food products in the United States is possible. With self-affirmed GRAS achieved, a lesser effort is required to pursue full GRAS status for BLIS K12™ since the majority of the work has already been done. The next challenge is to review the steps required to take BLIS M18™ through the GRAS process. This work will continue into the next twelve months.

Alongside the completion of the GRAS process, the company has been investigating cost-effective ways of building on our base set of clinical trials, to further demonstrate the benefits to consumers of taking BLIS K12™ and BLIS M18™. As part of this, an application to the Health Research Council of New Zealand has been submitted through the University of Otago for funding of a major study on the ability of BLIS K12™ to reduce the incidence of Group A Strep in school children. At the time of writing we are awaiting the outcome of the funding decision process.

Further supplementing our internal research activity has been a growing list of collaborations with institutions throughout the world. The reason for these opportunities has been the gaining of GRAS status for BLIS K12™ along with the strong research base and global research recognition of BLIS K12™ as the "gold standard" for oral probiotics against which other potential probiotics are compared[2,3,4,5,6]. This is an enviable position for the company to be in.

Countries where ongoing international collaborations are now active include Canada, Italy, Australia, Russia and Japan. Of special note is work from collaborators in Japan showing the efficacy of BLIS K12™ for the protection of mice from severe candidiasis (otherwise known as oral thrush)[7]. This has opened up a further arena of research around the application of BLIS K12™ in humans. Further collaborative work has involved the complete sequencing of the BLIS M18™ genome which is a requirement for safety evaluation of the strain to achieve GRAS status[8].

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

While the current science team is smaller than in the past, the last 12 months have focused on a number of areas, one of which has been the publication of studies carried out in earlier years with the aim of further building the reputation of the company's probiotic ingredients. These publications have included the isolation and characterisation of other *S. salivarius* bacteriocins (BLIS molecules) which serves to prevent patent opportunities for competitors. Work has been published on salivaricin G32 [10] and salivaricin 9.[9] Future work will continue into moving forward publication of other clinical data supporting the efficacy of current products, including a trial demonstrating the effectiveness of BLIS M18™ for dental plaque reduction.

Food development projects in the area of ice cream and yogurt have been underway for some time, and in the case of ice cream this development work has now led to the sale of product in the New Zealand market. New Zealand provides an ideal test market as the company promotes food opportunities to potential partners off-shore. The knowledge gained from the New Zealand experience will be used to more quickly develop products for other major markets. Yogurt producers in the US are expected to be early adopters of the BLIS K12 ™ ingredient and significant work has been undertaken to ensure that it will survive during the shelf life of the product. Research work continues to assess other food applications for their suitability to deliver BLIS K12 ™ to the oral cavity.

Considerable interest continues in the pipeline products from BLIS Technologies, attributable to the confidence in our foundation science, which is also how we are differentiated from our competitors. While the Company's scientific resources of late have mostly been targeted at projects with a commercial emphasis, linkages such as those through Professor John Tagg have allowed strategic research to continue with minimal investment. BLIS K12™ is becoming recognised as the prototype probiotic strain for the mouth and throat. The numerous publications on BLIS K12™ and huge growth in the probiotics market have further sparked the interest of independent researchers to undertake studies of the strain. Papers have been published on various aspects of strains BLIS K12™ and BLIS M18™ in the past year.[1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13,]

In the future, the Company will need to continue to undertake strategic research to further advance its commercialisation pipeline, protecting its IP and scientifically supporting these developments before full commercialisation. The importance of the Company's intellectual property assets also warrants the on-going investment in patent protection.

BLIS FUNCTIONAL FOODS

August 2011 saw the establishment of subsidiary BLIS FUNCTIONAL FOODS (BFF). The focus of this entity is twofold. Firstly, BFF is to play a role as a test-bed for the development of food products containing BLIS K12™ to speed up the development of food markets offshore for the Food applications of BLIS K12™ and later BLIS M18™. Secondly, BFF seeks to build its own business in New Zealand as a premium ice cream supplier into retail and service food outlets and to build on this with the introduction of new functional food products based on the BLIS ingredients.

The initial focus of BFF has been the purchase and integration of the assets of the GOURMET ICE CREAM

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4. Guglielmetti S, Taverniti V, Minuzzo M, et al. A dairy bacterium displays in vitro probiotic properties for the pharyngeal mucosa by antagonizing group A streptococci and modulating the immune response. Infect Immun 2011;78:4734-43.
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13. Lee HJ, Zhang H, Orlovich DA, Fawcett JP. The influence of probiotic treatment on sulfasalazine metabolism in rat. Xenobiotica; the fate of foreign compounds in biological systems 2012.

OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

Company into the business. This required the integrating of systems and processes in administration and production with those at BLIS Technologies. Pre-Christmas the focus was on building stock for the summer sales season. Post summer, attention has turned to the development of a functional product and a review of the Food Safety program which forms the core of the quality system in the ice cream plant.

STAFF

Directors and the Chief Executive wish to acknowledge the significant contribution by staff and consultants during the past twelve months. It has been a year of solid achievement and, without their dedication and support, the Company would have been unable to make the progress that it has.

Full-time staff numbers have decreased from 9 to 8. Dr Jeremy Burton, Business Development Manager left the Company late last year to take up a position within a world-renowned Probiotics Research Institute in Canada. Jeremy was at BLIS Technologies for more than 8 years and during this time made a significant contribution to the developments within the Company. In his new role Jeremy continues to have a close working relationship with the Company.

CONCLUDING OBSERVATIONS

Despite setbacks and delays in the implementation of its strategy and the adverse financial consequences, the Company remains confident that it is on the right path to commercialisation of its proprietary probiotic strains. The market for probiotics is well established as is the efficacy of our patented strains. Our partners have invested considerable funds in developing and marketing products based on our branded ingredients and share our expectation for achieving commercial sales volumes in the near future.

Due to revenues from nutraceutical sales taking longer to build than anticipated and the adverse consequences for both our financial performance and position the directors appointed Murray + Co to conduct a strategic and financial review in January. This was reported to the Board in late March whereupon the Board mandated them to raise further capital for the Company. Murray + Co produced and released under confidentiality an information memorandum in late April. Directors anticipate being able to report on the status of the capital-raising process at the Annual General Meeting. Any funds raised pursuant to the process will be applied to working capital and will enable a more timely investment in the strategic opportunities that would be provided from GRAS and the clearer pathway now open to the Company through the EU regulatory process.

Peter Fennessy
Chairman
11th day of May 2012

Barry Richardson
Chief Executive Officer

BLIS K12 and BLIS M18 are trade marks of BLIS Technologies Limited.

TAKEOVERS CODE (BLIS TECHNOLOGIES LIMITED) EXEMPTION NOTICE 2009

In March 2009, the Company conducted a renounceable, underwritten rights issue ("**Rights Issue**") for the issue of up to 3,000,000 mandatory convertible cumulative preference shares ("**Preference Shares**") to the holders of its existing ordinary shares. Preference Shares were offered to holders of the Company's existing ordinary shares on a pro-rata basis in the ratio of 1 Preference Share for every 45 ordinary shares held at an issue price of $1.00.

The Rights Issue was underwritten by Edinburgh Equity Nominee Limited ("**Edinburgh**") pursuant to an underwriting agreement executed between the Company and Edinburgh on 5 February 2009. The underwriting agreement was subject to all necessary approvals required by the Listing Rules, Companies Act 1993 and the Takeovers Code. Under the underwriting agreement Edinburgh was granted an option to purchase an additional 1,000,000 Preference Shares in addition to any shortfall under the Rights Issue ("**Option**"). On 29 March 2010, Edinburgh exercised the Option and acquired a further 1,000,000 Preference Shares. Consequently, as at 31 March 2012 there were 4,000,000 Preference Shares on issue.

The Takeovers Panel granted an exemption from certain requirements of the Takeovers Code in the Takeovers Code (BLIS Technologies Limited) Exemption Notice 2009 ("**Exemption Notice**"). In accordance with the conditions of the Exemption Notice the Company's Annual Reports published in 2010 and 2011 included certain specified information. The Exemption Notice expires on 31 May 2012.

On 8 May 2012 the 4,000,000 Preference Shares on issue were automatically converted to Ordinary Shares pursuant to their terms of issue at a ratio of 74.52 Ordinary Shares per Preference Share held. Quotation of the preference Shares on the NZSX ceased on that date. A total of 298,062,787 Ordinary Shares were issued by the Company pursuant to the conversion of the Preference Shares.

A further term of the Preference Shares was that a dividend be paid on the Preference Shares of 10% per annum gross paid semi-annually. Any unpaid dividends would accrue until the conversion date, where they would be satisfied by the issue of Ordinary Shares on the same conversion terms. On 8 May 2012, the Company issued 12,990,194 Ordinary Shares to the holders of the Preference Shares in satisfaction of the final dividend accrued on the Preference Shares equating to a gross value of $200,000 (less tax).

As a result of the conversion of the Preference Shares and the issue of Ordinary Shares in lieu of the final cash dividend by the Company, 163,334,699 Ordinary Shares in total were issued to Edinburgh by the Company. As at 9 May 2012, Edinburgh and its associates hold 177,931,743 of the Ordinary Shares in the Company (being 36.92% of the voting rights). The ordinary resolution of shareholders passed on 30 March 2009 gave approval to Edinburgh acquiring up to 44.8% pursuant to the conversion of the Preference Shares (including any shares issued in lieu of dividend).

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2012

STATEMENT of AFFAIRS of THE COMPANY and GROUP

The results of operations for the year and the financial position of the Company and Group are detailed in the accompanying financial statements.

PRINCIPAL ACTIVITY

The principal activity of the Company is developing healthcare products based on strains of bacteria that produce Bacteriocin-Like Inhibitory Substances (BLIS).

DIVIDEND

The Directors recommend that no dividend be paid in relation to ordinary shares on issue.

AUDITORS

It is proposed that the auditors, Deloitte, continue in office in accordance with Section 200(1) of the Companies Act 1993.

PARTICULARS OF NOTICES or STATEMENTS GIVEN to or APPROVED BY THE BOARD

Interests Register

Directors have declared interest in the following transactions with the Group during the year:

– Mr C E Dawson disclosed his interests through his role as Chief Executive of Otago Innovation Limited, a wholly owned subsidiary of the University of Otago. University of Otago has been involved in commercial transactions with the Company, the terms of which the other directors considered fair and reasonable to the Company and its existing shareholders.

Directors' Remuneration

	Year Ended 31 March 2012
Directors' remuneration is as follows:	$
C E Dawson	15,000
P F Fennessy	7,500
A P Offen	7,500
M G Shepherd	7,500
B H Wallace	7,500

The Company announced to the market in March 2012 that the Directors agreed to forgo fees in light of the current performance. The Directors' fees paid are from April 2011 to 31 December 2011.

DIRECTORS' LOANS

There were no loans from the Company to Directors.

USE of COMPANY INFORMATION

The Board received no notices during the year from directors requesting to use the Company and Group information received in their capacity as directors which would not have been otherwise available to them.

DIRECTORS' REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2012

EMPLOYEES' REMUNERATION

The number of employees whose income was within the specified bands are as follows:

$	Year Ended 31 March 2012	Year Ended 31 March 2011
100,000 – 110,000	0	1
110,000 – 120,000	1	0
240,000 – 250,000	1	1

DONATIONS

Donations made by the Group during the year ended 31 March 2012 totalled $nil (2011: $23).

SHARE DEALING

During the year the following Directors (or the relevant associated entity in which the Director has a relevant interest) acquired or disposed of equity securities in the Group:

ASSOCIATED ENTITY	DIRECTOR	CLASS of SHARE*	ACQUIRED/ (SOLD)	CONSIDERATION $
CE & AC Dawson	C E Dawson	F.P.O	309,285	15,000
PF&M Fennessy Trust	P F Fennessy	F.P.O	309,285	15,000
Edinburgh Equity Nominee Ltd	A P Offen	F.P.O	10,309,500	500,000
M G Shepherd	M G Shepherd	F.P.O	309,285	15,000
Morgan Wallace Ltd	B H Wallace	F.P.O	20,619	1,000
Lee & Wallace Holdings Ltd	B H Wallace	F.P.O	41,238	2,000
B H Wallace	B H Wallace	F.P.O	309,285	15,000

*F.P.O: Fully Paid Ordinary

DIRECTORS' RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 31 MARCH 2012

The Directors of BLIS Technologies Limited ("the Company") are pleased to present to shareholders the financial statements for BLIS Technologies Limited and Group for the year ended 31 March 2012.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Company and Group as at 31 March 2012 and the results of its operations and cash flows for the year ended on that date.

The Directors consider the financial statements of the Company and Group have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Company and Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The Financial Statements are signed on behalf of the Board by:

Anthony Offen
Director
11th day of May 2012

Peter Fennessy
Director

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2012

		Group		Company	
	Notes	**2012 $'000**	**2011 $'000**	**2012 $'000**	**2011 $'000**
REVENUES					
Trading revenue	2a	1,467	1,351	1,188	1,351
Interest Received		27	81	35	81
Other Income	2b	16	391	82	391
		1,510	1,823	1,305	1,823
LESS					
Distribution expenses		20	10	3	10
Marketing expenses		26	42	21	42
Occupancy expenses		115	76	69	76
Operating expenses		2,243	2,288	1,855	2,288
Other expenses		344	271	344	271
		2,748	2,687	2,292	2,687
NET SURPLUS/(DEFICIT) BEFORE TAX AND FINANCE COST	2c	(1,238)	(864)	(987)	(864)
Amortisation of transaction cost for Convertible Preference Shares	14	121	121	121	121
Dividend on Convertible Preference Shares	14	400	400	400	400
Impairment of investment in subsidiary	18	–	–	225	–
NET SURPLUS/(DEFICIT) BEFORE TAX		(1,759)	(1,385)	(1,733)	(1,385)
Taxation	3	–	–	–	–
NET SURPLUS/(DEFICIT) FOR THE YEAR		(1,759)	(1,385)	(1,733)	(1,385)
Net surplus/(deficit) for the year is attributable to:					
Equity holders of the parent		(1,734)	(1,385)		
Non-controlling Interest		(25)	–		
		(1,759)	(1,385)		
Earnings per Share:					
Basic (cents per share)	19	(1.1)	(1.00)		
Diluted (cents per share)	19	(0.38)	(1.00)		

The accompanying notes form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2012

		Group		Company	
	Notes	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Surplus/(deficit) for the year		(1,759)	(1,385)	(1,733)	(1,385)
TOTAL COMPREHENSIVE INCOME/ (DEFICIT) FOR THE YEAR, NET OF TAX		(1,759)	(1,385)	(1,733)	(1,385)
Total Comprehensive Income/(Deficit) is attributed to:					
Equity holders of the parent		(1,734)	(1,385)	(1,733)	(1,385)
Non-controlling Interest	15	(25)	–		–
		(1,759)	(1,385)	(1,733)	(1,385)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

EQUITY AT THE BEGINNING OF THE YEAR		52	1,437	52	1,437
Surplus/(Deficit) and total comprehensive income/ (deficit)		(1,734)	(1,385)	(1,733)	(1,385)
Increase in share capital	19	1,551	–	1,551	–
Non-controlling Interest	15	(9)	–		–
		(140)	52	(130)	52
EQUITY (DEFICIT) AT THE END OF THE YEAR		(140)	52	(130)	52

The accompanying notes form part of these financial statements.

BALANCE SHEET

AS AT 31 MARCH 2012

		Group		Company	
	Notes	2012 $'000	2011 $'000	2012 $'000	2011 $'000
ASSETS					
CURRENT ASSETS					
Cash and short term deposits	6	565	1,520	537	1,520
Accounts receivable	7	733	224	666	224
Prepayments		45	37	43	37
Inventory	8	276	292	218	292
		1,619	2,073	1,464	2,073
LESS CURRENT LIABILITIES					
Accounts Payable	12	373	436	309	436
Bank Overdraft	13	–	–	–	–
Convertible Preference Shares	14	3,983	–	3,983	–
Convertible preference share dividend payable	14	158	159	158	159
		4,514	595	4,450	595
WORKING CAPITAL		(2,895)	1,478	(2,986)	1,478
NON CURRENT ASSETS					
Advances to Subsidiary	9	–	–	294	–
Property, plant and equipment	10	296	232	187	232
Intangible assets	11	2,375	2,205	2,375	2,205
Goodwill	16	84	–	–	–
Investment in Subsidiary	17, 18	–	–	–	–
		2,755	2,437	2,856	2,437
NON CURRENT LIABILITIES					
Convertible Preference Shares	14	–	3,863	–	3,863
NET ASSETS		(140)	52	(130)	52
OWNERS EQUITY					
Share Capital	19	27,585	26,034	27,585	26,034
Retained earnings/(deficit)	20	(27,716)	(25,982)	(27,715)	(25,982)
Equity attributable to equity holders of parent		(131)	52	(130)	52
Non-controlling Interest	15	(9)	–	–	–
TOTAL EQUITY		(140)	52	(130)	52
TOTAL INVESTORS INTERESTS INCLUDING PREFERENCE SHARES		3,843	3,915	3,853	3,915

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

		Group		Company	
	Notes	2012 '000	2011 $'000	2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from (applied to):					
Trading revenue & other income		974	1,855	819	1,855
Interest received		27	91	35	91
Interest Paid		–	–	–	–
Payments to suppliers and employees		(2,359)	(2,273)	(1,947)	(2,272)
Net cash inflow/(outflow) from operations before payments relating to Convertible preference shares (CPS)		(1,358)	(327)	(1,093)	(326)
Payment of dividend (CPS)		(400)	(361)	(400)	(361)
Net cash inflow (outflow) from operating activities	27	(1,758)	(688)	(1,493)	(687)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from (applied to):					
Sale of Property, plant & equipment		9	–	9	–
Investment in subsidiaries		–	–	(225)	–
Funding of subsidiaries		–	–	(294)	–
Acquisition of business		(225)	–	–	–
Capitalised development costs		(408)	(573)	(408)	(573)
Capitalised patent costs		(107)	(130)	(107)	(130)
Capitalised website development		(11)	(35)	(11)	(35)
Purchase of Property, plant and equipment		(5)	(12)	(4)	(12)
Net cash inflow (outflow) from investing activities		(747)	(750)	(1,040)	(750)
CASH FLOWS FINANCING ACTIVITIES					
Cash was provided from (applied to):					
Issue of Ordinary Shares		1,551	–	1,551	–
Issue expenses: Convertible preference shares		–	(4)	–	(4)
Net cash inflow (outflow) from financing activities		1,551	(4)	1,551	(4)
Net increase/(decrease) in cash held		(954)	(1,442)	(982)	(1,441)
Add cash and short term deposits at start of period		1,519	2,961	1,519	2,961
Balance at end of period		565	1,519	537	1,520
COMPRISED OF:					
Cash and short term deposits		565	1,519	537	1,520
Bank overdraft		–	–	–	–
		565	1,519	537	1,520

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

1. SUMMARY OF ACCOUNTING POLICIES

REPORTING ENTITY

BLIS Technologies Limited ("the Company") is a profit-oriented entity incorporated and domiciled in New Zealand. The principal activity of the Company is developing healthcare products based on strains of bacteria that produce Bacteriocin-Like Inhibitory Substances (BLIS).

The financial statements represented are those for Blis Technologies Limited and Group ("the Group").

BLIS Technologies Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and the Companies Act 1993.

STATEMENT of COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements comply with International Financial Reporting Standards ("IFRS").

BASIS of PREPARATION

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in thousands of New Zealand dollars.

CRITICAL JUDGEMENTS in APPLYING ACCOUNTING POLICIES

In the application of NZ IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES of ESTIMATION UNCERTAINTY and KEY JUDGEMENTS

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Key Sources of Estimation Uncertainty and Key Judgements include:

- Estimating the remaining useful life of various items of property, plant and equipment and intangible assets. If the useful life does not reflect the actual consumption of the benefits of the assets, the Directors could be over or under estimating the depreciation or amortisation charge required as an expense in the income statement. Refer Note 10 and 11.
- If the product groupings to which the development expenditure relate are not economically viable in the future the development expenditure asset could be overstated. Refer Note 11.
- The group determines whether goodwill and finite life intangibles are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which goodwill and indefinite life intangibles are allocated. Determining the recoverable amounts of goodwill and intangible assets requires judgement in relation to the effects of uncertain future events at balance date. Assumptions are required with respect to future cashflows and discount rates used. Refer Note 11 for sensitivities of assumptions used.
- Capitalisation of development expenditure. The company uses an allocation methodology to capitalise certain costs, including payroll expenditure, to the intangible assets. Various assumptions relating to the applicability of individual costs and group of costs to the development activities are recognised as part of this methodology.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be measurable under the circumstances.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

1. SUMMARY OF ACCOUNTING POLICIES continued …

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

BASIS of CONSOLIDATION

The Group financial statements incorporate the financial statements of the Company and all entities controlled by the Company (its subsidiary) that comprise the Group, being Blis Technologies Limited (the parent entity) and its subsidiary Blis Functional Foods Limited. Subsidiaries are entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. Consistent accounting policies are employed in the preparation and presentation of the group financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the Group Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquistion, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interests share of changes in equity since the date of combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Investments in subsidiaries are recorded at cost in the parent company's financial statements.

BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Acquisition related costs are included directly in the income statement.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NZ IFRS-3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with NZ IFRS-5 *Assets held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised.

If after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously-held eqiuty interest (if any) in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets in the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

1. SUMMARY OF ACCOUNTING POLICIES continued …

The interest of the non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

PROPERTY, PLANT and EQUIPMENT

All items of Property, Plant and Equipment are stated at cost less accumulated depreciation, and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of a purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The following estimates of useful lives are used in the calculation of depreciation:

Leasehold improvements	12 - 33 years
Furniture and fittings	5 - 10 years
Plant and equipment	5 - 10 years

INTANGIBLE ASSETS

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisations are charged on a straight-line basis over their estimated useful lives. The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intellectual Property

The cost of intellectual property is written off until such time as it becomes clear that future economic benefits attributable to that expenditure will flow to the company and there is sufficient evidence to support the probability of the expenditure generating sufficient future economic benefits.

Intellectual property including patents, trademarks and licenses are considered finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the intangible asset being 8 to 18 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Website

The cost of website development is capitalised and is depreciated over 3 years.

Internally-generated Intangible Assets – Capitalised Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately. The useful life of internally-generated intangible assets is 8 years.

IMPAIRMENT OF ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

1. SUMMARY OF ACCOUNTING POLICIES continued …

estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately unless the asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received.

Sale of Goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest Revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other Income

Grant income is recognised when the Group has met all of the requirements established by the grant. Grant income that is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future required costs are recognised as income of the period in which it becomes receivable.

License income is recognised by reference to the stage of completion of the transaction at balance date.

Foreign Exchange

In the course of normal trading activities, the Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Accounts receivable, Accounts payable and the United States Dollar (USD) denominated bank account balances are translated at closing rate for the month as sourced from the Reserve Bank of New Zealand.

For transactions in USD, the Group forecasts all its cash inflow and matches to known outflows that will be transacted in USD. The USD denominated bank account is used as a means to hedge these outflows.

TAXATION

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

1. SUMMARY of ACCOUNTING POLICIES continued …

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

GOODS and SERVICES TAX (GST)

All items in the balance sheet are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the income statement are stated exclusive of GST.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Cash & Short Term Deposits

Cash and short term deposits comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(b) Accounts Receivable

Accounts receivable are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(c) Equity Instruments

Equity instruments issued by the Group are recorded at the proceeds received.

(d) Other Financial Liabilities

Other financial liabilities, including borrowings, and convertible preference shares are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest/dividend expense recognised on an effective interest basis.

(e) Accounts Payable

Accounts payable are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

EMPLOYEE BENEFITS

Provision is made for benefits accruing to employees in respects of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

STATEMENT of CASH FLOW

For the purpose of the cashflow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts.

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the income statement.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

1. SUMMARY of ACCOUNTING POLICIES continued …

Definition of terms used in the cash flow statement:

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity.

ADOPTION of NEW REVISED STANDARDS and INTERPRETATIONS

No standards have been adopted during the year which have had a material impact on the financial statements. There are no standards in issue but not yet effective which would materially impact the amounts recognised in the financial statements.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

2. SURPLUS / (DEFICIT) FROM OPERATIONS

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
(a) Trading Revenue				
Trading revenue consisted of the following items:				
Sale of goods – domestic sales	564	217	285	217
Sale of goods – export sales	903	1,134	903	1,134
	1,467	1,351	1,188	1,351
(b) Other Income				
Other income from operations consisted of the following items:				
Licensing Fees (i)	–	173	–	173
Foreign exchange gains / (losses)	–	1	–	1
Other Income (ii)	16	217	82	217
	16	391	82	391

(i) License income represents income from a license agreement denominated in a foreign currency.

(ii) Other income principally represents grants and recoveries by the Company for shared services provided to the subsidiary.

(c) Surplus / (Deficit) Before Tax & Finance Cost

This includes the following specific expenses:

	Group 2012	Group 2011	Company 2012	Company 2011
Other employee benefits (net of capitalised development) (i)	700	621	606	621
Directors' fees	50	60	45	60
Cost of goods sold	602	597	461	597
Research and development costs immediately expensed	662	462	555	462
Amortisation of finite life intangible assets (Note 11)	356	278	356	278
Patent and trademark costs immediately expensed	11	7	11	7
Operating leases - minimum lease payments (ii)	109	72	74	72
Depreciation of property, plant and equipment (note 10)	57	52	46	52
Costs associated with GRAS (Safety Study)	56	416	56	416

(i) During the year the Company capitalised as development $192,088 (2011: $331,166) of other employee benefits.

(ii) Operating lease rentals include rental streams associated with the laboratory utilised by the development team and administration.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

3. INCOME TAXES

(a) Income tax recognised in profit or loss

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Deficit before tax	(1,759)	(1,385)	(1,508)	(1,385)
Income tax expense (benefit) calculated at 28%/(2011: 30%)	(493)	(415)	(422)	(415)
Dividend on CPS	112	120	112	120
Non-deductible items	139	38	139	38
Temporary differences excluding tax losses not recognised	(42)	20	(45)	20
Tax losses not recognised	284	237	216	237
Tax Expense	–	–	–	–

(b) Income Tax Recognised Directly In Equity

There was no current or deferred tax charged / (credited) directly to equity during the period.

(c) Current tax assets and liabilities

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Current tax assets:				
Current tax refundable	3	–	3	–
	3	–	3	–
Current tax payables:				
Current tax payable	–	–	–	–
	Nil	Nil	Nil	Nil

(d) Deferred tax balances

The Group has an unrecognised deferred tax asset in relation to temporary differences of $454,943 (2011: $497,255). In addition the Group has an unrecognised deferred tax asset arising from tax losses of $3,820,210 measured at 28% as discussed below (2011: $3,534.285)

The Group has estimated tax losses of $13,643,607 at balance date (2011: $12,622,448). These are subject to confirmation by the Inland Revenue Department and subject to meeting the requirements of the 2007 Income Tax Act.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

3. INCOME TAXES continued …

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
(e) Imputation credit account balances				
Balance at beginning of the year	–	–	–	–
Income tax paid	3	–	3	–
R & D tax credit	–	–	–	–
Taxation refund (net)	–	–	–	–
Prior period adjustment	–	–	–	–
Balance at March 31, 2012	3	Nil	3	Nil

4. REMUNERATION of AUDITORS

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Audit of the financial statements	39	31	39	31
Financial reporting services	4	6	4	6
Tax services	8	22	8	22
	51	59	51	59

The auditor of BLIS Technologies Limited is Deloitte.

5. KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation of the Chief Executive Officer, Directors and other senior management, being the key management personnel of the entity, is set out below:

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Short-term employee benefits	390	577	390	577
	390	577	390	577

6. CASH and SHORT TERM DEPOSITS

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Cash	150	158	122	158
Short term deposits	415	1,362	415	1,362
	565	1,520	537	1,520

Short Term Deposits

Short term deposits include $75,000 held in a bank account as a bond for the New Zealand Stock Exchange.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

7. ACCOUNTS RECEIVABLE

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Accounts receivable	720	204	666	204
Goods and services tax (GST) receivable	13	18	–	18
Interest receivable	–	2	–	2
	733	224	666	224

8. INVENTORIES

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Raw Materials	158	150	116	150
Work in Progress	9	–	9	–
Finished Goods	109	142	93	142
Total inventories at cost	276	292	218	292

9. ADVANCES to SUBSIDIARY

Advances to subsidiary have been made to Blis Functional Foods Limited under the revolving credit facility for $450,000. An annual interest rate of 10% applies. The loan is secured under the General Security Agreement over the subsidiary's property.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

10. PROPERTY, PLANT & EQUIPMENT

Group
2012

	Cost 1 April 2011 $'000	Acquisitions through business combinations $'000	Additions $'000	Disposals $'000	Cost 31 March 2012 $'000	Accumulated depreciation 1 April 2011 $'000	Depreciation expense $'000	Accumulated depreciation reversed on disposal $'000	Accumulated depreciation 31 March 2012 $'000	Book Value 31 March 2012 $'000
Leasehold Improvements	219	27	–	–	246	(63)	(10)	–	(73)	173
Furniture and Fittings	67	–	4	–	71	(62)	(2)	–	(64	7
Plant and Equipment	467	91	1	49	510	(396)	(45)	47	(394)	116
Total Property, Plant and Equipment	753	118	5	49	827	(521)	(57)	47	(531)	296

2011

	Cost 1 April 2011 $'000	Acquisitions through business combinations $'000	Additions $'000	Disposals $'000	Cost 31 March 2011 $'000	Accumulated depreciation 1 April 2011 $'000	Depreciation expense $'000	Accumulated depreciation reversed on disposal $'000	Accumulated depreciation 31 March 2011 $'000	Book Value 31 March 2011 $'000
Leasehold Improvements	219	_	_	_	219	(55)	(8)	_	(63)	156
Furniture and Fittings	64	_	3	_	67	(60)	(2)	_	(62)	5
Plant and Equipment	458	_	9	_	467	(354)	(42)	_	(396)	71
Total Property, Plant and Equipment	741	_	12	_	753	(469)	(52)	_	(521)	232

No impairment losses were recorded in 2012 or 2011.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

10. PROPERTY, PLANT & EQUIPMENT *continued*

Company
2012

	Cost 1 April 2011 $'000	Additions $'000	Disposals $'000	Cost 31 March 2012 $'000	Accumulated depreciation 1 April 2011 $'000	Depreciation expense $'000	Accumulated depreciation reversed on disposal $'000	Accumulated depreciation 31 March 2012 $'000	Book Value 31 March 2012 $'000
Leasehold Improvements	219	–	–	219	(63)	(8)	–	(71)	148
Furniture and Fittings	67	3	–	70	(62)	(2)	–	(64)	6
Plant and Equipment	467	–	(49)	418	(396)	(36)	47	(385)	33
Total Property, Plant and Equipment	753	3	(49)	707	(521)	(46)	47	(520)	187

2011

	Cost 1 April 2010 $'000	Additions $'000	Disposals $'000	Cost 31 March 2011 $'000	Accumulated depreciation 1 April 2010 $'000	Depreciation expense $'000	Accumulated depreciation reversed on disposal $'000	Accumulated depreciation 31 March 2011 $'000	Book Value 31 March 2011 $'000
Leasehold Improvements	219	–	–	219	(55)	(8)	–	(63)	156
Furniture and Fittings	64	3	–	67	(60)	(2)	–	(62)	5
Plant and Equipment	458	9	–	467	(354)	(42)	–	(396)	71
Total Property, Plant and Equipment	741	12	–	753	(469)	(52)	–	(521)	232

No impairment losses were recorded in 2012 or 2011.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

11. FINITE LIFE INTANGIBLE ASSETS

Group and Company

	Patents $'000	Capitalised Development $'000	Website Development $'000	Total $'000
Gross Carrying Amount				
Balance at 1 April 2011	429	2,347	35	2,811
Additions from patent acquisition costs	107	–	–	107
Additions from internal developments	–	408	–	408
Additions from website development	–	–	11	11
Balance at 31 March 2012	536	2,755	46	3,337
Accumulated amortisation and impairment				
Balance at 1 April 2011	76	524	6	606
Amortisation expense	38	306	12	356
Balance at 31 March 2012	114	830	18	962
Net Book Value at 31 March 2012	422	1,925	28	2,375
Gross Carrying Amount				
Balance at 1 April 2010	299	1,774	–	2,073
Additions from patent acquisition costs	130	–	–	130
Additions from internal developments	–	573	–	573
Additions from website development	–	–	35	35
Balance at 31 March 2011	429	2,347	35	2,811
Accumulated amortisation and impairment				
Balance at 1 April 2010	46	282	–	328
Amortisation expense	30	242	6	278
Balance at 31 March 2011	76	524	6	606
Net Book Value at 31 March 2011	353	1,823	29	2,205

No impairment losses have been recorded in the current period (2011: Nil).

The capitalised development expenditure relates to the continued development of ingredient, intermediate and food products containing BLIS, and the associated regulatory approval processes.

During the year ended 31 March, 2012, the Board reviewed the intangible assets and have determined that there is no evidence of impairment of any intangible assets.

The calculation of the recoverable amounts has been determined based on a value in use calculation that uses cash flow projections based on financial forecast approved by management covering a five-year period.

Management has determined that the recoverable amount calculations are most sensitive to change in the following assumptions. Annual sales growth rates of between 11% to 104% (2011: 42% to 79%) and pre-tax discount rates of 20% (2011: 20%) have been applied in these projections. Cashflows beyond the five year period have been extrapolated using a steady 2% (2011: 2%) growth rate. The recoverable amount is very sensitive to the assumptions being achieved. If these assumptions are not achieved, it is likely that the recoverable amount of the capitalised development expenditure will be less than carrying value.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

12. ACCOUNTS PAYABLE

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Accounts payable	201	342	170	342
Employee entitlements	72	24	61	24
Directors' Fees	7	2	7	2
Other	92	68	71	68
	373	436	309	436

13. BANK OVERDRAFT

The Company does not have any bank overdraft arrangement.

14. CONVERTIBLE PREFERENCE SHARES (CPS)

Group and Company	**2012 No. of Shares**	**2012 $'000**	**2011 No. of Shares**	**2011 $'000**
Balance at the beginning of the year (i) (ii)	4,000,000	4,000	4,000,000	4,000
Balance at the end of the year	4,000,000	4,000	4,000,000	4,000
Less cost of raising CPS				
Balance at the beginning of the year		137		255
Cost of raising CPS		–		3
Amortisation of transaction cost for Convertible Preference Shares		(121)		(121)
Balance at the end of the year		16		137
Add Dividend payable		158		159
NET BALANCE		4,141		4,022
Disclosed as:				
Current liability		4,141		159
Non current liability		–		3,863
Balance at the end of the year		4,141		4,022

(i) On 8th May, 2009, the Company issued 3,000,000 $1 mandatory convertible cumulative preference shares (CPS). The CPS carry rights to a 10% gross dividend payable semi-annually. The CPS converted to ordinary shares on 8 May, 2012. On the basis the conversion to ordinary shares is not at a fixed ratio, the CPS are recognised as a liability for financial reporting purposes. The directors consider the CPS to be part of the Company's capital base and that they represent part of investors' interests in the Company. Refer note 24.

(ii) Edinburgh Equity Nominee Limited, a related party, was the underwriter with respect to the CPS issue and pursuant to the underwriting agreement was issued an option to subscribe for 1,000,000 preference shares at $1.00 each by 31 March 2010. Edinburgh Equity Nominee Limited exercised this option on 29 March 2010. The 1,000,000 preference shares issued pursuant to the exercise of this option rank equally with the existing preference shares on issue excluding entitlement to the May 2010 dividend.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

15. NON-CONTROLLING INTEREST

Group		**2012**	**2011**
	$'000	**$'000**	
Balance at the beginning of the year		–	–
Acquired on acquisition of subsidiary		16	–
Share of net surplus/deficit for the year		(25)	–
Share of other comprehensive income		–	–
Balance at the end of the year		(9)	–

16. GOODWILL

Group	**2012** **$'000**	**2011** **$'000**
Gross carrying amount		
Balance at the beginning of the year	–	–
Amounts recognised from business combinations occurring during the period	84	–
Balance at the end of the year	84	–

Allocation of Goodwill to Cash-generating Units

Goodwill has been allocated for impairment testing purposes to one cash-generating units representing the lowest level at which management monitor goodwill – Blis Technologies Limited. During the year ended 31 March, 2012, management have determined that there is no evidence of impairment of any cash-generating units containing goodwill.

17. INVESTMENT in SUBSIDIARY

Subsidiary	**Percentage Held**		**Balance Date**	**Principal Activity**
	2012	**2011**		
Blis Functional Foods Limited	90%	-%	31 March	Production, distribution and sale of ice cream and yoghurt.

18. ACQUISITION of BUSINESS

On 2 August 2011, Blis Functional Foods Limited (the 90% owned subsidiary of Blis Technologies Limited) acquired the business of Gourmet Ice Cream Co. Limited for $225,000. Blis Functional Foods Limited was incorporated on 18 July 2011. Blis Functional Foods Limited commenced trading on 2 August 2011.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

18. ACQUISITION of BUSINESS continued …

Financial information in respect of the net assets recognised on acquisition of the business of Gourmet Ice Cream Co. Limited is set out below:

	Gourmet Ice Cream Co. Limited		
	Book value $'000	Fair value Adjustment $'000	Total fair value on acquisition $'000
Current assets:			
Inventories	38	–	38
Non-current assets:			
Property, plant and equipment	119	–	119
Net assets	157	–	157
Non-controlling Interest			(16)
Net assets acquired			141
Goodwill on acquisition of business			84
Cost of acquisition			$225

The contribution to net surplus/(deficit) for the year attributable to the purchase of Gourmet Ice Cream Co business was a deficit of $251,452. The assessment of the deficit had the acquisition been made at the start of the year is impractical. .

Goodwill represents the expected synergies from combining the business of Gourmet Ice Cream Co Limited with BLIS and more particularly the opportunity to enhance the saleability of BLIS Technology Limited product.

The investment in subsidiary within the Company at 31 March 2012 has been impaired by $225,000 to reflect the estimated recoverable amount.

19. SHARE CAPITAL

Group & Company	2012 No. of Shares	2012 $'000	2011 No. of Shares	2011 $'000
Balance at the beginning of the year	143,846,586	26,034	143,846,586	26,034
Shares issued during the year	31,980,069	1,551	–	–
Balance at the end of the year	175,826,655	27,585	143,846,586	26,034

Of 175,826,655 ordinary shares, 170,826,655 are issued fully paid ordinary shares and carry equal voting rights. All issued shares participate equally in any dividend distribution or any surplus on winding up of the company.
Changes to the Companies Act in 1993 abolished the authorised capital and par value concept in relation to share capital from 1 July 1994. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

14,000,301 shares were issued on 27 September 2011 pursuant to a share purchase plan offered to eligible shareholders. 17,216,865 shares were issued on 27 September 2011 pursuant to a share placement offer. 350,523 shares were issued on 4 October 2011 pursuant to a share purchase plan offered to eligible shareholders. 412,380 shares were issued on 26 October 2011 pursuant to a private placement offer.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

19. SHARE CAPITAL continued …

	Group	
	2012 Cents per Share	**2011 Cents per Share**
Basic earnings per share	(1.1)	(1.00)
The earnings and weighted average number of ordinary issued shares used in the calculation of basic earnings per share are as follows:		
	$'000	**$'000**
Net deficit	(1,734)	(1,385)
Weighted average number of ordinary shares for the purpose of basic earnings per share	154,417,490	138,846,586
	2012 Cents per Share	**2011 Cents per Share**
Diluted earnings per share	(0.38)	(1.00)
The earnings and weighted average number of issued ordinary shares used in the calculation of diluted earnings per share are as follows:		
	$'000	**$'000**
Net deficit	(1,734)	(1,385)
	No.	**No.**
Weighted average number of ordinary shares for the purpose of diluted earnings per share(1)	455,480,277	138,846,586

(1) No provision was made for the dilution effect of the Convertible Preference Shares issued during the 2011 financial year as the Group experienced a net deficit and the number of ordinary shares to be issued on conversion was not certain in 2011.

20. RETAINED EARNINGS (DEFICIT)

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Balance at the beginning of year	(25,982)	(24,597)	(25,982)	(24,597)
Net surplus/(deficit) for the year	(1,734)	(1,385)	(1,733)	(1,386)
Balance at the end of the year	(27,716)	(25,982)	(27,715)	(25,982)

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

21. RELATED PARTY TRANSACTIONS

During the period the following transactions were entered into with related parties:
Mr C E Dawson is Chief Executive Officer of Otago Innovation Limited, a wholly owned subsidiary of the University of Otago. During the period the University of Otago provided rental space, goods and services to BLIS Technologies Limited. The total value of these services was $83,279 (2011: $167,090). $1,786 was owing at 31 March 2012 (2011: $34,228).

22. COMMITMENTS for EXPENDITURE

(a) Capital Expenditure Commitments
As at 31 March 2012 there were no capital expenditure commitments (2011: $8,050).

(b) Lease Commitments
Non-cancellable operating lease commitments are as follows:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Less than 1 year	115	71	65	71
1 - 2 years	51	13	2	13
3 years and greater	96	2	–	2

23. CONTINGENT ASSETS and CONTINGENT LIABILITIES

There were no material contingent assets or contingent liabilities at 31 March 2012 (2011: $Nil).

24. SUBSEQUENT EVENTS

On 22 March 2012, the Company advised the market that the Board had made a decision to appoint Murray + Co to solicit further capital for the Company. This process is underway and Murray + Co in late April issued subject to confidentiality an Information Memorandum to parties that had registered interest.

On 8 May 2012 the 4,000,000 Convertible Preference Shares on issue were automatically converted to Ordinary Shares pursuant to their terms of issue at a ratio of 74.52 Ordinary Shares per Convertible Preference Share held. Quotation of the Convertible Preference Shares on the NZSX ceased on that date. A total of 298,062,787 Ordinary Shares were issued by the Company pursuant to the conversion of the Convertible Preference Shares.

A further term of the Convertible Preference Shares was that a dividend be paid on the Convertible Preference Shares of 10% per annum gross paid semi-annually. Any unpaid dividends would accrue until the conversion date, where they would be satisfied by the issue of Ordinary Shares on the same conversion terms. On 8 May 2012, the Company issued 12,990,194 Ordinary Shares to the holders of the Convertible Preference Shares in satisfaction of the final dividend accrued on the Convertible Preference Shares equating to a gross value of $200,000 (less tax).

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

24. SUBSEQUENT EVENTS continued …

On 11 May 2012 the Independent Directors of the Company advised that they have written to the NZX and the Financial Markets Authority seeking an assurance that the trading of ordinary shares in the Company during the period in which the terms of conversion of the preference shares were determined did not breech NZX rules and/or relevant securities legislation.

The Company advised the market on 9th of May, 2012 that the Board had resolved to cancel 5,000,000 Ordinary Shares which it was currently holding as Treasury Stock with immediate effect.

25. GOING CONCERN

The financial statements have been prepared using the going concern assumption.

The Group and the Company have recorded a net deficit of $1,759,000 (2011: $1,385,000), $1,733,000 (2011: $1,385,000), respectively, for the year ended 31 March 2012, and have an equity deficit of $140,000 (2011: surplus of $52,000) and equity deficit of $130,000 (2011: surplus of $52,000) respectively.

The going concern assumption is dependent on the planned share issue raising sufficient cash to enable the Group and the Company to meet its working capital requirements . The Group and Company have prepared forecasts which indicate that cash generated as a result of operations and issuance of the share capital will enable the Company and Group to continue operating for the foreseeable future, which is not less than 12 months from the date these financial statements are approved.

Even in the event the planned share issue raises sufficient cash to enable the Company and Group to operate for the next financial year, there remains uncertainty as to whether the Company and Group can achieve the sales and cashflow predicted within the timeframe set out in the Board of Directors' plans prior to utilisation of current and any future available cash resources.

The Directors believe the going concern assumption is valid and have reached this conclusion having regard to the circumstances which they consider likely to affect the Company and Group during the period of one year from the date of these financials are approved, and to circumstances which they believe will occur after that date which could affect the validity of the going concern assumption. The cashflow forecasts prepared by the Directors support the carrying value of the Property, Plant and Equipment, Goodwill and Intangible assets.

While the Directors believe in the Company and Group's ability to continue as a going concern, there is material uncertainty as to whether the Company and Group will be able to raise additional cash by way of new capital and achieve future profitability within the timeframe set out in the Board of Directors' plan. In the event it cannot raise additional cash or fails to achieve future profitability as planned, it is likely the Company and Group will not be able to continue as a going concern .

If the Company and Group were unable to continue in operational existence, and pay debts as and when they become due and payable, adjustments would have to be made to reflect the situation that assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. This situation would likely impact in particular on the carrying value of Property, Plant and Equipment, Goodwill and Intangible assets.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company and Group be unable to continue as a going concern.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

26. SEGMENTAL REPORTING

26.1 Adoption of NZ IFRS 8 Operating Segments
The Group is internally reported as a single operating segment to the chief operating decision-maker.

	Group 2012 $'000	Group 2011 $'000
26.2 Revenue from major products and services		
The Group's revenues from its major products and services were as follows:		
BLIS products	1,467	1,351
Licensing	-	173
Grant for Safety Study (GRAS)	-	168
Research and development income	-	-
Foreign exchange gains/ (losses)	-	-
Other	43	50
Total Revenue	1,510	1,742

26.3 Information about geographical areas
The Group operates in 4 principal geographical areas; New Zealand (country of domicile), United States of America, Asia and Australia.

The Group's revenue from external customers and information about its assets by geographical location (of the customer) are detailed below:

	Group		Group	
Trading Revenue	2012 $'000	2011 $'000	2012 $'000	2011 $'000
	Revenue from External Customers		Non-current Assets	
New Zealand	546	217	2,754	2,437
United States of America (USA)	676	976		-
Asia	52	26		-
Australia	129	125		-
Other	64	7		-
Total Trading Revenue	1,467	1,351	2,754	2,437
Other				
Research & development income	-	173		-
Grant for Safety Study (GRAS)	-	168		-
Other	43	50		-
Foreign exchange gains/ (losses)		-		-
Total Revenue	1,510	1,742	2,754	2,437

Included in revenue are revenues of $128,632, $264,968 and $621,074 (2011: $205,158, $218,460 and $945,124) which arose from sales to company's three largest customers.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

27. RECONCILIATION of NET DEFICIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Net Surplus /(Deficit) for the year	(1,759)	(1,385)	(1,733)	(1,385)
Adjustments for non-cash items				
Amortisation of capitalised development costs	306	242	306	242
Amortisation of patents	38	30	38	30
Amortisation of website development	12	6	12	6
Amortisation of transaction costs for Convertible				
Preference Shares (CPS)	121	121	121	121
Depreciation	58	52	46	52
Gain on sale of fixed asset	(6)	–	(6)	–
Impairment of investment in subsidiary	–	–	225	–
	(1,230)	(934)	(991)	(934)
Movements in working capital				
Accounts receivable	(509)	124	(442)	124
Prepayments	(8)	(2)	(6)	(2)
Inventories	54	(121)	74	(121)
Accounts payable	(65)	206	(128)	206
Convertible preference share dividend payable	–	39	–	39
	(528)	246	(502)	246
Net cash inflow (outflow) from operating activities	(1,758)	(688)	(1,493)	(688)

28. FINANCIAL INSTRUMENTS

All of the Group's financial assets are recognised as loans and receivables measured at amortised cost. The Group does not have any financial assets recognised as held to maturity, designated at fair value or available for sale. All of the Group's financial liabilities are measured at amortised cost.

(a) Financial Risk Management Objectives

Exposure to credit, interest rate, foreign currency and liquidity risks arises in the normal course of the Group's business.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Specific risk management objectives and policies are set out below:

(b) Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity.

The capital structure of the Group consists of convertible preference shares and equity, comprising issued capital and retained earnings as disclosed in Notes 14, 19 and 20 respectively. As set out in note 14, the convertible preference shares will convert to ordinary shares in 2012.

The Group's Board of Directors reviews the capital structure on a regular basis.

The Group is not subject to externally imposed capital requirements.

The Group's overall strategy remains unchanged from 2011.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

28. FINANCIAL INSTRUMENTS continued …

(c) Market Risk

Market risk is the potential for change in the value of financial instruments caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities. The Group's activities expose it primarily to market risk associated with changes in foreign currency rates and interest rates as set out below. These risks are measured using sensitivity analysis. The mechanisms for managing these risks are set out below. There have been no changes during the year to the Group's exposure to such risks or the manner in which the risks are measured and managed.

(d) Interest Rate Risk

The Group is exposed to interest rate risk as from time to time it borrows funds at floating interest rates and also invests cash in short term deposits at fixed interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Investments at fixed interest rates expose the Group to fair value interest rate risk. The Group does not hedge this risk. Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. The Group does not hedge this risk. The Group's exposure to interest rates on financial liabilities including the convertible preference shares which have a fixed gross distribution of 10% per annum is detailed in the liquidity risk management section of this note.

(e) Foreign Exchange Risk

In the course of normal trading activities, the Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group does not hedge this risk.

The carrying amount of the Group's foreign currency denominated monetary assets are as follows:

	Group and Company	
	2012 $'000	**2011 $'000**
Australian Dollar	17	–
United States Dollar	501	109

The table expresses foreign currency amounts in New Zealand dollar equivalents using the average exchange rate at 31 March, 2012 and 31 March 2011. The rates applied at 31 March, 2012 were:

NZ$1: A$0.7779 (2011: A$ n/a), and
NZ$1: US$0.8208 (2011: US$0.7408)

(f) Other Price Risk

The Group is not exposed to substantial other price risk arising from financial instruments.

(g) Credit Risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. Financial instruments which potentially subject the Group to credit risk, principally consist of bank balances and Accounts receivable. The Board monitors and manages the exposure to credit risk.

The maximum exposures to credit risk at balance date are:

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Cash and short term deposits	565	1,520	537	1,520
Accounts receivable	733	224	666	224
	1,298	1,744	1,203	1,744

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

28. FINANCIAL INSTRUMENTS continued …

At March 31, 2012, Accounts receivable include an amount of $567,694 (2011:$125,075) due from one customer (all paid subsequent to year end), and all of the Group's bank accounts are held with Bank of New Zealand and Westpac Banking Corporation Limited. Otherwise the Group does not have any other concentrations of credit risk. The Group does not require any collateral or security to support financial instruments.

(h) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities (if required) by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profiles of the Company and Group's interest bearing investments and borrowings are disclosed later in this note.

Liquidity and Interest Risk Tables

The following tables detail the Group and Company's remaining contractual maturity for non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will accrue to those assets or liabilities except where the Group/Company is entitled and intends to repay a liability before its maturity.

	Weighted Average Effective Interest Rate %	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	5+ years $'000	Interest	Total $'000
Group – 31 March 2012									
Financial assets:									
Cash and short term deposits	3.35	565	–	–	–	–	–	–	565
Accounts receivable		733	–	–	–	–	–	–	733
Total	–	1,298	–	–	–	–	–	–	1,298
Financial liabilities:									
Convertible Pref Shares – 10%	–	25	–	–	–	–	–	–	25
Accounts payable	–	373	–	–	–	–	–	–	373
Total	–	398	–	–	–	–	–	–	398
Group – 31 March 2011									
Financial assets:									
Cash and short term deposits	4.4	1,520	–	–	–	–	–	–	1,520
Accounts receivable	–	224	–	–	–	–	–	–	224
Total		1,744							1,744
Financial liabilities:									
Convertible Pref Shares – 10%(i)	–	400	42	–	–	–	–	–	442
Accounts payable	–	436	–	–	–	–	–	–	436
Total		836	42	–	–	–	–	–	878

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

28. FINANCIAL INSTRUMENTS continued …

	Weighted Average Effective Interest Rate %	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	5+ years $'000	Interest	Total $'000
Company – 31 March 2012									
Financial assets:									
Cash and short term deposits	3.35	537	–	–	–	–	–	–	537
Advances to subsidiary	10	–	287	–	–	–	–	7	294
Accounts receivable	–	666	–	–	–	–	–	–	666
Total	–	1,203	287	–	–	–	–	7	1,497
Financial liabilities:									
Convertible Pref Shares – 10%	–	25	–	–	–	–	–	–	25
Accounts payable	–	309	–	–	–	–	–	–	309
Total	–	334	–	–	–	–	–	–	334
Company – 31 March 2011									
Financial assets:									
Cash and short term deposits	4.4	1,520	–	–	–	–	–	–	1,520
Accounts receivable	–	224	–	–	–	–	–	–	224
Total	–	1,744	–	–	–	–	–	–	1,744
Financial liabilities:									
Convertible Pref Shares- 10%(i)	–	400	42	–	–	–	–	–	442
Accounts payable	–	436	–	–	–	–	–	–	436
Total	–	836	42	–	–	–	–	–	878

(i) As set out in note 14 the convertible preference shares converted into ordinary shares in May 2012. The 2012 tables above include the contractual obligation for the withholding tax on the dividend payment, paid semi-annually, pursuant to the terms of the instrument.

(i) Sensitivity Analysis

The Group is exposed to foreign currency risk arising from license revenue and sales denominated in currencies other than the Group's functional currency, arising from normal trading activities.

The majority of foreign currency related exposures relate to accounts receivable. The Group is mainly exposed to the Australian Dollar, and the United States Dollar.

Exposures to movements in these foreign currency rates are not considered material at balance date. However the year end exposure (and sensitivity to foreign currency rate movements at this time) does not reflect the risk and exposure during the course of the year. The Group's sensitivity to foreign currency rate movements has not changed during the year.

Exposure to movement in floating interest rates in respect of cash on deposit a1nd the overdraft facility is also not considered material at balance date.

NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2012

28. FINANCIAL INSTRUMENTS continued …

(j) Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values, including the convertible preference shares. The convertible preference shares were traded on the NZX and at 31 March 2012, have been ascribed a fair value of $1.00 per share. The last trade prior to 31 March 2012 was on 26 March 2012 at $0.70. The Group issued a trading update to the NZX on 22 March 2012 with the first post guidance trade being on 23 March 2012 at $0.70 per share and subsequent trades between $0.60 and $0.70. The value of $1.00 per share was ascribed as the convertible preference shares were converted post balance date by the issue of 298,062,787 ordinary shares being at 95% of the volume weighted average ordinary share price over the period 5 April 2012 to 8 May 2012. The value of $1.00 equates to a fair value of $4,000,000 and compares to a carrying value, excluding issue costs and accrued dividends of $4,000,000. On 8 May the convertible preference shares were converted to ordinary shares refer note 24.

STATEMENT OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 MARCH 2012

Board and Management are committed to ensuring that the Company maintains Corporate Governance structures which ensure that the Company operates efficiently and effectively in the best interests of the Company, but at the same time recognises that certain elements of international "best practice" corporate governance are not appropriate for a small company.

This statement of Corporate Governance provides a summary of the Company's Corporate Governance processes, and the Code of Conduct contained in the Board of Directors Operations Manual.

The Company's Corporate Governance policies meet the nine principles of corporate governance issued by the Securities Commission. The nine principles are:

- Ethical standards
- Board composition and performance
- Use of Board Committees where this would enhance effectiveness
- Reporting and disclosure
- Remuneration of Directors and Executives
- Risk management
- Quality and independence of the external audit process
- Shareholder relations
- Shareholder interest

FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the Company's financial statements give a true and fair view of the financial position of the company and its financial performance and cash flows for the year. The external auditors are responsible for expressing an opinion on the financial statements, based on their review and assessment of the conclusions drawn from evidence obtained in the course of the audit.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

After reviewing internal management financial reports and budgets, the Directors believe that provided additional capital is raised pursuant to Murray + Co mandate the company will continue to be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

ROLE of THE BOARD of DIRECTORS

Directors are elected by the shareholders to govern the Company in the Company's best interests. The Board is the overall and final body of responsibility for all decision making within the Company.

The Directors have a diverse range of expertise and experience, and are committed to use this to benefit the company. The Board is responsible to shareholders for charting the direction of the company by participating in the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the company to the Chief Executive Officer within this framework.

The primary responsibilities of the Board include:

- establishing the long-term goals of the company and strategic plans to achieve those goals;
- succession planning for the Chief Executive Officer and the Board;
- risk management in order to protect its employees, assets, earnings and reputation;
- reviewing and adopting a plan and operating budget produced annually;
- monitoring environmental, social and financial performance;
- ensuring that the company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities;

STATEMENT OF CORPORATE GOVERNANCE *continued*

FOR THE YEAR ENDED 31 MARCH 2012

- appointing and monitoring the Chief Executive Officer and other executive managers and determining their remunerations;
- communicating with shareholders and other stakeholders; and
- approving the annual and half-year financial statements.

The directors appoint a chair from amongst their members. The Board supports separation of the role of Chairman and Chief Executive Officer. The chairman's role is to provide leadership and to manage the Board effectively. The Chief Executive Officer is not a director, and where necessary, the Board will meet without the Chief Executive Officer being present.

The Board receives reports from management and has access to all of the information necessary for it to effectively discharge its duties.

BOARD MEMBERSHIP & INDEPENDENCE

The Constitution currently sets the size of the Board at a minimum of three and at least two Directors must be resident in New Zealand. The Board currently comprises five Directors, comprising a Chairman and four Directors appointed for their mix of commercial and technical skills. The Board aims to meet on at least six occasions in the financial year. Under the Company's constitution, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible.

All five directors are non-executive members and four are independent members. The independent directors are Mr P F Fennessy, Mr M G Shepherd, Mr C E Dawson, and Mr B H Wallace. A director is "independent" when he or she does not have any direct or indirect interest or relationship with the Company which could reasonably influence, in a material way, that Director's decisions relating to the company. The Board will consider all relevant circumstances when determining independence, but is of the view that a Director cannot be independent where the Director, or an associated person of the Director:

- is a substantial security holder in the Company; or
- has a relationship with the Company (other than being a Director of the Company) under which the Director or associated person is likely to derive a substantial portion (generally 10% or more) of their annual revenue or income from the Company.

The Company has no requirement for Directors to hold shares in the Company but actively encourages them to do so.

The Board as a whole is involved with recommending candidates to act as Directors to shareholders. When considering candidates for nomination, the Board will consider, amongst other things, the individual's experience, qualifications and skills in comparison to the experience, qualifications and skills of other Directors, whether that individual is "independent" and whether that individual would be able to work effectively with other Directors. The Board has the ability to appoint an individual to fill a casual vacancy on the Board until the Company's next Annual General Meeting.

The procedures for the appointment and removal of Directors are governed by the Company's constitution. The constitution provides for one third of the Company's Directors (rounded, if necessary, to the nearest number) to retire and stand for re-election at every Annual General Meeting, with those Directors to retire being those who have been in office longest since they were elected or deemed to be elected.

Total Directors' remuneration is fixed by shareholders at the Company's Annual General Meeting, upon the recommendation of the Board as a whole. Within that cap, the Board is responsible for determining the remuneration paid to each Director.

CODE of CONDUCT

As part of the Board's commitment to the highest standard of conduct, the company adopts a code of conduct as part of a Directors' Operations Manual to guide Directors and management in carrying out their duties and responsibilities. The Directors' Operations Manual covers such matters as:

- Corporate governance matters;
- Role of the Board and composition of the Board;
- Director responsibilities;
- Appointment of, responsibilities of and remuneration of a Chief Executive Officer;
- Confidentiality and the safeguarding of company information;

STATEMENT OF CORPORATE GOVERNANCE *continued*

FOR THE YEAR ENDED 31 MARCH 2012

- Compliance with laws and regulations;
- Shareholder participation.

Newly-elected Directors are required to familiarise themselves with and comply with the Directors' Operations Manual. Training is also provided to new and existing Directors where this is required to enable Directors to fulfil their responsibilities.

CONFLICTS of INTEREST

The Board Operations Manual sets out a procedure to be followed where Directors are faced with a conflict of interest. At all times a Director must be able to act in the interests of the organisation as a whole and in accordance with all relevant laws, including the NZX Listing Rules. The interests and associates, individual shareholders and the personal interests of the Director and his family must not be allowed to prevail over those of the Company and its shareholders generally.

AUDIT, RISK MANAGEMENT and INTERNAL FINANCIAL CONTROL

The Board has overall responsibility for risk management and the Company's system of internal financial control, for liaising with the Company's external auditors, and for ensuring the integrity of the Company's financial reporting. The Board constantly monitors the operational and financial aspects of the Company's activities and has established procedures and policies that are designed to provide effective internal financial control. Annual budgets and business plans are prepared, and agreed by the Board. Monthly management accounts are prepared and reviewed by the Board throughout the year to monitor performance against budget.

The Board considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the company. The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, action is taken to ensure that the company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

Given the size of the company an internal audit function is not considered necessary.

NZX CORPORATE BEST PRACTICE CODE

Given the size and composition of the Board, there are no significant benefits in delegating matters in relation to the Board nomination process and liaison with external auditors to committees. A Finance Committee, comprising three Board members and a management representative, is responsible for monitoring financial forecasting and performance and making recommendations to the full Board on related matters.

The Board convenes as the Audit Committee for the purposes of meeting with the auditors and considering the reports of the auditors. Other than on this point, the Company's Corporate Governance processes do not materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

ADDITIONAL STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 MARCH 2012

The Company's ordinary shares and convertible preference shares are listed on the New Zealand Exchange (NZX). Details in regard to such securities are as follows.

As at 27 April 2012 the total number of issued ordinary shares in the Company was 170,826,655.

As at 27 April 2012 the total number of issued convertible preference shares in the Company was 4,000,000.

1. SUBSTANTIAL SECURITY HOLDERS

The company's register of the disclosure by substantial security holders, kept in accordance with section 35C of the Securities Markets Act 1988 recorded the following information as at 27 April 2012.

Name	Number of Voting Securities Ordinary Shares
Edinburgh Equity Nominee Limited	17,327,044
New Zealand Central Securities Depository Limited	7,566,837

Name	Number of Convertible Preference Shares
Edinburgh Equity Nominee Limited	2,087,573

2. SPREAD OF SECURITY HOLDERS AT 27 APRIL 2012 – ORDINARY SHARES

	Number of Security Holders	
1 – 999	102	4.04%
1,000 – 4,999	772	30.56%
5,000 – 9,999	398	15.76%
10,000 – 99,999	1005	39.79%
100,000 – 499,999	188	7.74%
500,000 – 999,999	35	1.39%
1,000,000 – 5,999,999	21	0.82%
6,000,000 and above	5	0.20%
Total number of holders	2,526	100.00%

SPREAD OF SECURITY HOLDERS AT 27 APRIL 2012 – CONVERTIBLE PREFERENCE SHARES

	Number of Security Holders	
1 – 999	315	63.39%
1,000 – 4,999	119	23.94%
5,000 – 9,999	28	5.63%
10,000 – 99,999	30	6.04%
100,000 – 499,999	4	0.80%
500,000 – 999,999	0	0.0%
1,000,000- 2,999,999	1	0.20%
Total number of holders	497	100.00%

ADDITIONAL STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 MARCH 2012

3. TWENTY LARGEST EQUITY SECURITY HOLDERS

The names of the 20 largest holders of each class of quoted equity security as at 27 April 2012 are listed below.

TOP 20 SHAREHOLDERS	Number of Issued Ordinary Shares	Percentage Issued
Edinburgh Equity Nominee Limited	17,327,044	10.14%
New Zealand Central Securities Depository Limited	7,566,837	4.43%
Michael H Bird	7,000,000	4.10%
University of Otago	6,700,000	3.92%
Custodial Services Limited	6,012,981	3.52%
Southern Capital Limited	2,976,091	1.74%
John R Tagg	2,797,878	1.64%
Mingchun Qiu	2,231,911	1.31%
Louis M Crimp	2,185,055	1.28%
Stephen P Ward & Julie P Ward, Elisabeth P Welson	2,061,900	1.21%
Nicholas Robin White	1,929,513	1.13%
J B Were (NZ) Nominee Limited	1,700,000	1.00%
Larry B Wheeler	1,651,269	0.97%
Vivienne L Cowan	1,437,285	0.84%
Lee Paterson Family Trust	1,415,958	0.83%
Bevan H Wallace	1,380,285	0.81%
Mark A Stevens & Wendy J Stevens	1,237,140	0.72%
Investment Custodial Services Limited	1,218,150	0.71%
Henry Robert Wilson	1,200,000	0.70%
Graeme A Hoy	1,059,285	0.62%
	71,088,582	**41.61%**

CONVERTIBLE PREFERENCE SHARES

TOP 20 SHAREHOLDERS	Number of Convertible Preference Shares	Percentage Issue
Edinburgh Equity Nominee Limited	2,087,573	52.19%
New Zealand Central Securities Depository Ltd	261,507	6.54%
Mark A and Wendy J Stevens	200,000	5.00%
Michael H Bird	155,555	3.89%
Custodial Services Limited	109,377	2.73%
Bevan H Wallace	60,000	1.50%
Nicholas R White	57,072	1.43%
Graeme A Hoy	53,400	1.34%
JB Were (NZ) Nominees Limited	37,777	0.94%
John W Smith	35,000	0.88%
Southern Capital Limited	30,043	0.75%
Bevan H Wallace (Wallace Family)	30,000	0.75%
Bevan H Wallace (Bevan Wallace Family)	30,000	0.75%
Investment Custodial Services Limited	25,753	0.64%
Ross M Brown	25,000	0.63%
Matthew P Hanley	25,000	0.63%
Maarten A Janssen	24,500	0.61%
Peter F Fennessy, Mary E Fennessy	20,000	0.50%
Colin J Wilson, Glenys A Wilson	20,000	0.50%
John R Tagg	18,500	0.46%
	3,306,057	**82.65%**

ADDITIONAL STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 MARCH 2012

4. DIRECTORS' SHAREHOLDINGS

The following table sets out, for the purposes of the disclosures required under rule 10.5.3(c) of the New Zealand Stock Exchange Listing Rules, the relevant interests of Directors and associated persons of the Directors in equity securities of the company as at 31 March 2012.

Name of Director		Number of Equity Securities in which a relevant interest is held by the Director		Number of Equity Securities in which a relevant interest is held by an associated person (and not included in the previous column)
C E Dawson	Ordinary	744,985	(1)	–
	CPS[14]	9,682	(1)	–
P F Fennessy	Ordinary	615,085	(2)	–
	CPS	20,000	(2)	–
A P Offen	Ordinary	17,327,044	(3)	–
	CPS	2,087,573	(3)	
M G Shepherd	Ordinary	1,978,221	(4)	–
	CPS	32,643	(4)	–
B H Wallace	Ordinary	2,652,142	(5)	–
	CPS	130,000	(5)	–
B C Richardson (Chief Executive)	Ordinary	5,909,285	(6)	–
	CPS	108,444	(6)	–

Note that particular shareholdings can appear under more than one director.

1. The number of equity securities in which Mr C E Dawson holds a beneficial interest includes 744,985 ordinary shares and 9,682 convertible preference shares, owned jointly with Mrs A C Dawson.
2. The number of equity securities in which Mr P F Fennessy holds a relevant interest includes 615,085 ordinary shares and 20,000 convertible preference shares, in which the PF & ME Fennessy Family Trust has a relevant interest.
3. The number of equity securities in which Mr A P Offen holds a relevant interest includes 17,327,044 ordinary shares and 2,087,573 convertible preference shares, in which Edinburgh Equity Nominee Limited has a relevant interest. Mr Offen is a director of Edinburgh Equity Nominee Limited and has a relevant interest in shares in the company.
4. The number of equity securities in which Mr M G Shepherd holds a relevant interest includes 1,337,850 ordinary shares and 25,286 convertible preference shares, in which the MG & LA Shepherd Family Trust (held on account at Forsyth Barr Custodians) has a relevant interest. Mr M G Shepherd also has a beneficial interest in 640,371 ordinary shares and 7,357 convertible preference shares owned personally.
5. The number of equity securities in which Mr B H Wallace holds a relevant interest includes: 500,000 ordinary shares and 30,000 convertible preference shares, in which the Bevan Wallace Family Trust has a relevant interest,
   - 500,000 ordinary shares and 30,000 convertible preference shares, in which the Wallace Family Trust has a relevant interest,
   - 120,619 ordinary shares and 5,000 convertible preference shares, in which Morgan Wallace Limited has a relevant interest,
   - 151,238 ordinary shares and 5,000 convertible preference shares, in which Lee & Wallace Holdings Limited has a relevant interest.

   Mr B H Wallace also has a beneficial interest in 1,380,285 ordinary shares and 60,000 convertible preference shares owned personally.
6. The number of equity securities in which Mr B C Richardson holds a relevant interest includes 5,909,285 ordinary shares and 108,444 convertible preference shares, owned jointly with Mrs J V Richardson (held on account at Custodial Services).

[14] Convertible Preference Share

ADDITIONAL STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 MARCH 2012

In September 2011 NZX Market Supervision granted the Company a waiver from Listing Rule 9.2.1 so that it was not required to obtain shareholder approval by ordinary resolution for the participation by Edinburgh Equity Nominee Limited ("Edinburgh") in the placement of ordinary shares under a Private Placement conducted in September 2011. That waiver was granted on the following conditions: (a) the Independent Directors of the Company certifying in writing to NZX that: (i) Mr Tony Offen was not involved in the formulation of the terms of the Placement to Edinburgh; (ii) the Directors' decision to enter into the Placement with Edinburgh was not influenced by Mr Offen's relationship with Edinburgh; (iii) it was the Independent Directors' opinion that the Placement to Edinburgh was in the best interests of the Company and was fair to all existing shareholders; (b) the terms and conditions on which the shares were to be offered to Edinburgh under the Placement were to be identical to those offered to other investors participating in the Placement; and (c) the waiver, its conditions and its effect were required to be disclosed in the half year and annual reports for the year in which the Placement (Transaction) took place. The conditions in (a) and (b) were both satisfied prior to or on allocation of the above shares. As a consequence of the NZX waiver Edinburgh subsequently subscribed $500,000 pursuant to the Placement and was allotted and issued 10,309,500 fully paid ordinary shares by the Company. The effect of the waiver was that these shares were issued without reference to the other shareholders of the Company.

TWENTY LARGEST EQUITY SECURITY HOLDERS

The names of the 20 largest holders of each class of quoted equity security as at 15 May 2012 are listed below.

TOP 20 SHAREHOLDERS	Number of Issued Ordinary Shares	Percentage Issued
Edinburgh Equity Nominee Limited	177,931,743	36.92%
New Zealand Central Securities Depository Limited	25,594,516	5.31%
Michael H Bird	18,979,590	3.94%
Mark A Stevens & Wendy J Stevens	16,639,525	3.45%
Custodial Services Limited	14,436,316	3.00%
University of Otago	6,700,000	1.39%
Bevan H Wallace	6,001,001	1.25%
Graeme A Hoy	5,171,723	1.07%
Nicholas R White	5,085,129	1.06%
J B Were (NZ) Nominees Limited	4,655,727	0.97%
Southern Capital Limited	4,479,788	0.93%
John R Tagg	4,222,600	0.88%
John W Smith	3,695,418	0.77%
Investment Custodial Services Limited	3,233,103	0.67%
Bevan H Wallace (Wallace Family a/c)	2,810,359	0.58%
Bevan H Wallace (Bevan Wallace Family a/c)	2,810,359	0.58%
Colin C & Glenys A Wilson, Mark R Wadham	2,499,739	0.52%
Alan J & Helen M Phillips	2,340,307	0.49%
Maarten A Janssen	2,263,535	0.47%
Mingchun Qiu	2,231,911	0.46%
	311,782,389	**64.72%**

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BLIS TECHNOLOGIES LIMITED

Report on the Financial Statements

We have audited the financial statements of BLIS Technologies Limited and group on pages 18 to 46, which comprise the consolidated and separate balance sheet of BLIS Technologies Limited, as at 31 March 2012, the consolidated and separate income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor, the provision of taxation advice and financial reporting services, we have no relationship with or interests in BLIS Technologies Limited or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages 18 to 46:

comply with generally accepted accounting practice in New Zealand;

comply with International Financial Reporting Standards; and

give a true and fair view of the financial position of BLIS Technologies Limited and group as at 31 March 2012, and their financial performance and cash flows for the year then ended.

INDEPENDENT AUDITOR'S REPORT continued ...

Emphasis of Matter – Going Concern

Without qualifying our opinion, we draw your attention to Note 25 in the financial statements which confirms the reliance on raising additional cash by way of new capital and achieving future profitability within the timeframe set out in the Board of Directors' plan and indicates that BLIS Technologies Limited and the group incurred a net loss of $1,733,000, and $1,759,000, respectively during the year ended 31 March 2012 and, as of that date, BLIS Technologies Limited have an equity deficit of $130,000 and the group has an equity deficit of $140,000. These conditions, along with other matters as set out in Note 25, indicate the existence of a material uncertainty that may cast significant doubt about BLIS Technologies Limited and the group's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2012:

we have obtained all the information and explanations we have required; and

in our opinion proper accounting records have been kept by BLIS Technologies Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
11 May 2012
Dunedin, New Zealand