

Operations Report and Financial Statements

For the six months to 30 September 2012



RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting Period: 6 months to 30 September 2012
 Previous Reporting Period: 6 months to 30 September 2011

Consolidated	Amount \$000s)	Percentage Change
Revenue	580	Increased 69%
Net surplus / (deficit) before tax & finance costs (interest & preference share costs)	-780	Deficit decreased 6%
Finance Costs	0	No change
Amortisation of Convertible Preference share issue costs	-16	Decreased 74%
Dividend on Convertible Preference Shares accrued	-43	Decreased 79%
Net deficit	-839	Decreased 23%
Interim Dividend- Ordinary shares	NIL	
Please read Operations Report for explanation of the above disclosure summary		

OVERVIEW

BLIS Technologies Ltd reports an operating loss of \$780K for the six months to September 30. This result reflects the fact that major advances in overcoming regulatory hurdles and in product development have yet to be reflected in commercial success. However there are encouraging signs. The relationship with our new global distributor, Stratum Nutrition, is opening up new sales channels in Europe and Asia, although these are being supplied out of product purchased in the previous financial year. Guidance for the March 2013 financial year remains an expected operating deficit of \$1.3m.

FINANCIAL

The absence of a meaningful volume of branded ingredient sales resulted in the Company reporting a consolidated net deficit of \$780k (Sept 2011: \$828k) before tax and finance costs. It is a disappointing financial result for the six months to 30 September but was a consequence of the December 2011 change in our global distributor; such a change represents a significant commitment involving transfer of knowledge of the science and the business of BLIS Technologies, along with the need for the distributor to implement new marketing strategies.

The Group's consolidated revenue for the six months to 30 September was \$580k (Sept 2011: \$343k). Whilst sales to the United States were low at \$10k (Sept 2011: \$8k), sales to Asia and Australia have seen a significant lift in comparison to the previous year. Sales in New Zealand have also increased as a result of a full six months of trading by BLIS Functional Foods Limited in comparison to two months of trading in the previous year.

During the six months to 30 September 2012, the Company incurred costs associated with the Cumulative Preference Share conversion and dividend, and the assessment of future funding and strategic options. However, due to cost saving measures implemented a number of months ago, total operating expenses of BLIS Technologies Limited (the Parent Company) reduced from the comparable six month period to 30 September 2011. Consolidated expenses increased due to the full six months trading by BLIS Functional Foods Limited.

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

Cash flows

Net consolidated cash inflow from operating activities was \$20k (Sept 2011: \$971k cash outflow). The improvement was mainly due to cash received early in the current financial year for large sales at the end of the previous financial year, and the issue of shares in settlement of the final dividend on Cumulative Convertible Preference shares. Investment in the period totalled \$226k (Sept 2011: \$460k), mainly capitalisation of development and patent costs of \$211k. In the previous year, \$225k was spent to purchase the assets and operations of Gourmet Ice Cream.

CAPITAL RAISING

The Share Purchase Plan and Placement initiated during the half-year was concluded post the 30 September balance date. The Company raised \$1,314k, issuing 187,714,267 fully paid ordinary shares at \$0.007 per share on 25 October. These funds will enable the Company to maintain its core competencies, support the launch of BLIS K12™ ice cream and BLIS M18™ dietary supplements in New Zealand and continue with the execution of its branded ingredients strategy for advanced probiotics internationally. However, as noted in the letter to shareholders accompanying the Share Purchase Plan offer documentation, unless supplemented by additional

funds raised pursuant to the Murray & Co mandate, a capital raising in the form of a pro-rata issue to shareholders in conjunction with a further review of the Company's operations would likely be required in the 2014 financial year.

STRATEGY

BLIS Technologies Ltd is a biotechnology Company focused on the execution of a global branded oral probiotic ingredient strategy, supported by exemplar in-market consumer products and food applications. The Company has a large portfolio of beneficial strains of oral bacteria known to be active against bacteria harmful to humans. For several years now, the Company has focused primarily on the health benefits of two *Streptococcus salivarius* strains, BLIS K12™ and BLIS M18™, within the mouth and oral cavity. The major brand position for the BLIS probiotic range is in "protecting the gateway to the body's health", and today, the importance of the health of the mouth and throat to the body's overall wellbeing is being increasingly recognised.

The business development strategy of the Company is based on three primary platforms:

1. Building branded ingredient sales in the dietary and food supplement sectors in North America, Asia, and Europe through our distributor, Stratum Nutrition;
2. Gaining market access in target markets by obtaining regulatory approval for BLIS branded ingredients;
3. Development of long-term strategic partnerships with companies with significant regional and global reach in retail and nutritional product formulations; the Company is also exploring strategic opportunities such as personal care and animal health applications through development of long-term strategic partnerships.

The Company has continued to pursue a strategy of promoting retail product sales, while concurrently building its branded ingredient strategy internationally. Despite the absence of meaningful branded ingredient sales of BLIS K12™ and BLIS M18™ over the last 12 months, the Company believes it has the appropriate business strategy. The strategy seeks to build and sustain a vertically-integrated business structure for its ingredient brands through partnership agreements with companies that have excellent sales and distribution capability and can collaborate in regulatory matters, while also providing technical and scientific support.

The Company considers that its global business strategy is sound and will lead to profitability now that many of the necessary market access issues have been or are being resolved. In this respect, recent years have seen major changes in the nature of the regulatory hurdles that the Company must meet when marketing new strains of probiotic bacteria. BLIS Technologies remains dedicated to growing the brand and driving innovation through clearly defined and targeted strategies and is confident of its ability to achieve its objectives.

COMMERCIALISATION

Progress

Overall the continued financial performance of the Company is disappointing but, as the relationship with Stratum Nutrition develops, it is expected to improve. Stratum Nutrition (www.stratumnutrition.com), a subsidiary of Novus Nutrition Brands, was appointed as the global distributor (except China and New Zealand) for BLIS probiotic ingredients in December 2011. Stratum is now implementing its marketing plans for branded ingredient products into the nutraceutical sector.

Personnel from BLIS Technologies and from Stratum Nutrition have spent a significant period of time in Europe, North America, Asia and New Zealand since December 2011 working on product and sales training for both the

BLIS K12™ and the BLIS M18™ ingredients. While regulatory barriers remain, the achievement of self-affirmed GRAS in the United States, the approval of BLIS K12™ as a food ingredient in the Peoples Republic of China and the legal opinion in Europe enabling the sale of BLIS K12™ and BLIS M18™ as branded ingredients stand out as major milestones for the Company that can be expected to have a profound impact on the future of the Company.

In terms of commercialisation, BLIS Technologies has made, and continues to make, significant progress in several areas including regulatory, Intellectual Property protection, market development and product support documentation. The Company has also made major progress in 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 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.

The successful commercialisation of the Company's technology is fundamental to financial success. The strategy requires a focus on five key areas as below.

Sales and Marketing

The Company continues to see good development of retail products based on its branded ingredients, particularly in Asia and the United States, and now in Europe. We anticipate more end-customer product launches based on our proprietary ingredients in the nutraceuticals sector in coming months but do not expect meaningful sales into the food ingredient sector in the current financial year.

The Company remains committed to its New Zealand retail strategy for nutritional products based on its flagship product, BLIS K12™ (targeted at upper respiratory and oral immune applications) and has now launched a companion product in BLIS M18™ (targeted at anti-caries applications).

The establishment of the BLIS Technologies online shopping website has generated sales and has also allowed the Company to develop connections with end-consumers in many markets. The Company believes that, while probiotics are a growing market, there are still significant gaps in consumer awareness and understanding of probiotics and the benefits they provide. Consequently, the Company is currently building a new web site as a tool for consumer education and to serve as an e-commerce platform (www.blis.co.nz).

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.

Regulatory and Market Access

Significant progress has been made in the regulatory sector, which is a major focus of activities for the Company. A legal opinion, obtained with the assistance of Stratum Nutrition, now enables the company to sell its BLIS branded probiotic ingredients in Europe. This legal opinion confirms the safety of BLIS K12™ and BLIS M18™ branded probiotic ingredients.

While Functional Food approval is still required in the Peoples Republic of China in order to make label claims, BLIS K12™ is approved for sale in foods. This major milestone was achieved through a long-term relationship with the NZPR Group Ltd, a New Zealand-based company that operates in China.

The project involving access in Europe has been ongoing now for more than 3 years and illustrates the amount of commitment required by the Company to achieve these milestones. With the completion of the self-affirmed GRAS process in 2011, the Company is now focused on achieving full GRAS notification for BLIS K12™ and achieving self-affirmed status for BLIS M18™.

Recently, through collaborative work, the genome sequences for both BLIS K12™ and BLIS M18™ have been published; this is very important for regulatory issues surrounding the safety of these bacteria, and represents a significant milestone for the Company.

Intellectual Property Protection

The Company has established a robust intellectual property portfolio and continues to undertake a substantial amount of work to underpin its technology and its scientific platform to support commercial development. The Company has now been granted a total of 48 patents and several trademarks.

In recent months, the M18 Dental caries patent (BLIS M18™) has received a notice of allowance in Canada while the Skin Treatment Compositions patent (Q24) has been granted in the US and we have received notification of the intention to grant in Europe.

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.

Product Development

The Company continues to make progress in key areas of development, such as new product formulations and ongoing studies on oral colonisation and stability of BLIS K12™ (and BLIS M18™) in a range of end-user formats, particularly food systems. The Company continues to work with several end-users and manufacturers in the evaluation and development of technologies for the delivery of probiotics. In this respect, there are increasing numbers of manufacturers in North America, Europe and Asia with interesting and novel delivery formats, particularly gums, stick packs, lozenges and chewable soft gels. Some of these are highly-desirable delivery formats for dietary supplements and some food products.

BLIS recognises the importance of maintaining strong scientific links, which helps to differentiate its products in the market place. Maintaining links with the global scientific community through its staff, and in conjunction with Professor John Tagg, is of significant importance to the Company as it enables BLIS to leverage its limited research capability, which is focused on activities leading to profitability. The benefit of these scientific linkages is being demonstrated by the increasing numbers of peer-reviewed scientific articles that are strengthening the literature surrounding the benefits of our *S. salivarius* strains BLIS K12™ and BLIS M18™; importantly much of the scientific activity is not directly driven by, or is in fact independent of, BLIS Technologies Ltd. Countries where ongoing international collaborations are now active include Canada, Italy, Australia, Russia and Japan.

The future product portfolio of BLIS is reliant on the pipeline of products that result from continuing to foster the development of the science and also the innovative development of new products. One of the future product opportunities includes the topical skin applications for Q24, a strain of *Micrococcus luteus*. BLIS Technologies has

continued to publish articles this year with several more currently being submitted boosting the already impressive information on efficacy and safety.

Confidence in our foundation science enables BLIS Technologies to be differentiated from our competitors. While the Company's scientific resources are targeted at projects with a commercial emphasis, linkages that BLIS scientists have developed have allowed strategic research to continue with minimal investment. BLIS K12™ is becoming recognized as the prototype probiotic strain for the mouth and throat. The numerous publications on BLIS K12™ (and now BLIS M18™) and huge growth in the probiotics market have further sparked the interest of independent researchers to undertake studies of the strains (see BLIS K12™ papers published in the 6 months¹).

However in the future, the Company will need to undertake strategic research to advance its commercialization pipeline, protecting its IP and scientifically supporting developments before full commercialization.

BLIS Functional Foods (BFF) and Development of Food Applications

Our experience is that practical in-market knowledge and an understanding of production and marketplace issues is invaluable in showing prospective customers, especially those in the food industry, the potential of BLIS products. The ability to demonstrate products in-market is an important component of the BLIS strategy as it reduces time taken by prospective customers to consider potential applications. This was, and remains, the underlying rationale for the acquisition of Gourmet Ice Cream Co. (in August 2011). This acquisition has given the Company "real world" experience in this sector although the challenges associated with the retail business sector have imposed additional resourcing pressure on the Company, both from a financial and a human resource standpoint.

The primary focus with BFF has been on rebuilding the business and on introducing BLIS K12™ probiotic ice cream in the New Zealand market through selected retail outlets. New Zealand provides an ideal test market as the Company promotes food opportunities to potential partners off-shore. Although BFF is not operating profitably, the involvement in BFF has provided BLIS with invaluable experience and the Company will continue to develop other formats that provide new market opportunities and which provide new niche formats for probiotics.

Yogurt producers in the US are expected to be early adopters of the BLIS K12™ ingredient and significant work has been undertaken to ensure survival of the organism 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.

Operations

Protection of supply lines is fundamental to the success of BLIS products in the market. This involves both management of the core organism resources and oversight of the manufacturing process. In this respect, the

¹ John D.F. Hale, John R. Tagg, and Philip A. Wescombe. BLIS-producing probiotics targeting the oral cavity. *Microbiology Australia, Official Journal of the Australian Society for Microbiology Inc.* Volume 33 Number 3 September 2012 pg. 103-105;

Barretto C, Alvarez-Martin P, Foata F, Renault P, Berger B. Genome Sequence of the Lantibiotic Bacteriocin Producer *Streptococcus salivarius* Strain K12. *J Bacteriol.* 2012 Nov;194(21):5959-60;

Lee HJ, Zhang H, Orlovich DA, Fawcett JP. The influence of probiotic treatment on sulfasalazine metabolism in rat. *Xenobiotica.* 2012 Aug; 42(8):791-7;

Masdea L, Kulik EM, Hauser-Gerspach I, Ramseier AM, Filippi A, Waltimo T. Antimicrobial activity of *Streptococcus salivarius* K12 on bacteria involved in oral malodour. *Arch Oral Biol.* 2012 Aug; 57(8):1041-7. Epub 2012 Mar 10;

Ishijima SA, Hayama K, Burton JP, Reid G, Okada M, Matsushita Y, Abe S. Effect of *Streptococcus salivarius* K12 on the *in vitro* growth of *Candida albicans* and its protective effect in an oral candidiasis model. *Appl Environ Microbiol.* 2012 Apr; 78(7):2190-9;

Philip A. Wescombe, John D. F. Hale, Nicholas C.K. Heng and John R. Tagg. Developing oral probiotics from *Streptococcus salivarius* *Future Microbiology*, 2012, 7 (12) pg.1-17 – accepted

Company continually reviews its operational activities for BLIS probiotic ingredients and the finished products. The Company will continue its strategy of subcontracting most of its manufacturing operations, and while *S. salivarius* K12™ and M18™ continue to be produced in New Zealand, the Company has completed production trials in other countries. This important strategic initiative is to ensure the Company has sufficient production capacity in the future from multiple production facilities as it is essential for BLIS Technologies Ltd to ultimately have more than one supplier for BLIS K12™ and BLIS M18™.

OUTLOOK

Guidance for the March 2013 financial year remains an expected operating deficit of \$1.3m. The priority for the Company remains a commitment to reaching profitability through building its international branded ingredient sales in conjunction with Stratum Nutrition, through growth in domestic and global sales of retail products both in partnership and through our online shopping website, coupled with the careful management of costs.

The receipt of the 2010 Global Probiotics Entrepreneurial Company of the Year award from Frost and Sullivan was an independent validation of the Company and its strategy. That endorsement has yet to be reflected in commercial success. The business of BLIS Technologies is extremely complex and Stratum Nutrition is making excellent progress in putting the proposition for use of our branded ingredients to participants in the global market and, although not yet reflected ingredient sales, BLIS Technologies is positioned for growth.

BLIS TECHNOLOGIES LIMITED

CONSOLIDATED INCOME STATEMENT

For the 6 Months Ended 30 September, 2012

	Notes	6 mths 30 Sep 12 (Unaudited) \$'000s	6 mths 30 Sep 11 (Unaudited) \$'000s	12 mths 31 Mar 12 (Audited) \$'000s
REVENUES				
Trading revenue		563	317	1,467
Interest Received		9	12	27
Other Income		8	14	16
		<u>580</u>	<u>343</u>	<u>1,510</u>
LESS				
Distribution expenses		6	-	20
Marketing expenses		12	10	26
Occupancy expenses		76	39	115
Operating expenses		1,067	976	2,243
Other expenses		199	146	344
		<u>1,360</u>	<u>1,171</u>	<u>2,748</u>
NET SURPLUS/ (DEFICIT) BEFORE TAX & FINANCE COSTS		(780)	(828)	(1,238)
LESS:				
Amortisation of transaction cost Convertible Preference Shares 3b		16	61	121
Dividend on Convertible Preference Shares		43	200	400
		<u>(839)</u>	<u>(1,089)</u>	<u>(1,759)</u>
NET SURPLUS/(DEFICIT) BEFORE TAX		(839)	(1,089)	(1,759)
Taxation expense		-	-	-
		<u>(839)</u>	<u>(1,089)</u>	<u>(1,759)</u>
NET SURPLUS/(DEFICIT) FOR THE PERIOD		<u>(839)</u>	<u>(1,089)</u>	<u>(1,759)</u>
Total net surplus/(deficit) for the period is attributed to:				
Equity holders of the parent		(823)	(1,086)	(1,734)
Minority Interest		(16)	(3)	(25)
		<u>(839)</u>	<u>(1,089)</u>	<u>(1,759)</u>
Earnings/ (Loss) per Share:				
Basic (cents per ordinary share)		(0.20)	(0.7)	(1.1)
Diluted (cents per ordinary share)		(0.20)	(0.7)	(0.38)

BLIS TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 6 Months Ended 30 September, 2012

	Notes	6 mths 30 Sep 12 (Unaudited) \$'000s	6 mths 30 Sep 11 (Unaudited) \$'000s	12 mths 31 Mar 12 (Audited) \$'000s
Surplus/(deficit) for the year		(839)	(1,089)	(1,759)
Other Comprehensive Income		-	-	-
		<u> </u>	<u> </u>	<u> </u>
Total comprehensive income/(deficit) for the year, net of tax		<u><u>(839)</u></u>	<u><u>(1,089)</u></u>	<u><u>(1,759)</u></u>
 Total comprehensive income (deficit) is attributed to:				
Equity Holders of Parent		(823)	(1,086)	(1,734)
Minority Interest		(16)	(3)	(25)
		<u> </u>	<u> </u>	<u> </u>
		<u><u>(839)</u></u>	<u><u>(1,089)</u></u>	<u><u>(1,759)</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 6 months Ended 30 September, 2012

EQUITY AT BEGINNING OF THE PERIOD		(140)	52	52
Total Comprehensive Income (Deficit) for the Period		(823)	(1,086)	(1,734)
Increase in Share Capital	3a	4,174	1,514	1,551
Non-controlling Interest		(16)	13	(9)
		<u> </u>	<u> </u>	<u> </u>
		3,195	493	(140)
 EQUITY AT END OF PERIOD		<u><u>3,195</u></u>	<u><u>493</u></u>	<u><u>(140)</u></u>

BLIS TECHNOLOGIES LIMITED

CONSOLIDATED BALANCE SHEET

As at 30 September, 2012

	Notes	30 Sep 12 (Unaudited) \$'000s	30 Sep 11 (Unaudited) \$'000s	31 Mar 12 (Audited) \$'000s
CURRENT ASSETS				
Cash and short term deposits		359	1,603	565
Accounts receivable		127	102	733
Prepayments		24	18	45
Inventory		266	420	276
		<u>776</u>	<u>2,143</u>	<u>1,619</u>
LESS CURRENT LIABILITIES				
Accounts Payable		330	269	373
Convertible preference share dividend payable		-	159	158
Convertible preference shares		-	-	3,983
		<u>330</u>	<u>428</u>	<u>4,514</u>
WORKING CAPITAL		446	1,715	(2,895)
NON CURRENT ASSETS				
Property, plant and equipment		276	322	296
Intangible assets		2,389	2,380	2,375
Goodwill		84	-	84
		<u>2,749</u>	<u>2,702</u>	<u>2,755</u>
		<u>3,195</u>	<u>4,417</u>	<u>(140)</u>
NON CURRENT LIABILITIES				
Convertible Preference Shares	3b	-	3,924	-
		<u>-</u>	<u>3,924</u>	<u>-</u>
OWNERS' EQUITY				
Share Capital (Ordinary)	3	31,759	27,548	27,585
Reserves		(28,539)	(27,068)	(27,716)
Non controlling interest		(25)	13	(9)
TOTAL EQUITY		<u>3,195</u>	<u>493</u>	<u>(140)</u>
TOTAL INVESTORS INTERESTS INCLUDING PREFERNCE SHARES		<u>3,195</u>	<u>4,417</u>	<u>3,843</u>

BLIS TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF CASHFLOWS

For the 6 Months Ended 30 September, 2012

	Note	6 mths 30 Sep 12 (Unaudited) \$'000s	6 mths 30 Sep 11 (Unaudited) \$'000s	12 mths 31 Mar 12 (Audited) \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from (applied to):				
Trading revenue & Other Income		1,177	381	974
Interest received		9	14	27
Payments to suppliers and employees		(1,140)	(1,166)	(2,359)
<i>Net cash inflow (outflow) from operations before payments relating to Convertible Preference Shares (CPS)</i>		<u>46</u>	<u>(771)</u>	<u>(1,358)</u>
Payment of dividend (CPS)		(26)	(200)	(400)
Net cash inflow/ (outflow) from operating activities	2	<u>20</u>	<u>(971)</u>	<u>(1,758)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from (applied to):				
Sale of Property Plant and Equipment		-	9	9
Acquisition of business		-	(225)	(225)
Capitalised development costs		(184)	(192)	(408)
Capitalised patent costs		(27)	(44)	(107)
Capitalised website development		(6)	(8)	(11)
Purchase of Property, plant and equipment		(9)	-	(5)
Net cash inflow (outflow) from investing activities		<u>(226)</u>	<u>(460)</u>	<u>(747)</u>
CASH FLOWS FINANCING ACTIVITIES				
Cash was provided from (applied to):				
Issue of Ordinary Shares		-	1,514	1,551
Net cash inflow (outflow) from financing activities		<u>-</u>	<u>1,514</u>	<u>1,551</u>
Net increase/ (decrease) in cash held		(206)	83	(954)
Add cash and short term deposits at start of period		565	1,520	1,519
Balance at end of period		<u>359</u>	<u>1,603</u>	<u>565</u>
COMPRISED OF:				
Cash and short term deposits		359	1,603	565
Bank Overdraft		-	-	-
Total		<u>359</u>	<u>1,603</u>	<u>565</u>

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September, 2012

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The unaudited interim consolidated financial statements presented are those of BLIS Technologies Limited and its subsidiary BLIS Functional Foods Limited (the Group). The principle activity of BLIS Technologies Limited (BLIS or the Company) is developing branded ingredients and healthcare products based on strain of bacteria that produce Bacteriocin-Like Inhibitory Substance (BLIS). The Company is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Company is an issuer for the purposes of the Financial Reporting Act 1993 and its annual financial statements comply with that Act.

The unaudited interim financial statements are prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for interim financial statements (NZ IAS 34). The interim financial statements should be read in conjunction with the Group annual report for the year ended 31 March 2012

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 New Zealand dollars.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Company's financial statements for the year ended 31 March 2012.

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September, 2012

2. RECONCILIATION OF NET DEFICIT AFTER TAXATION WITH NET CASHFLOWS FROM OPERATING ACTIVITIES

	6 mths 30 Sep 12 (Unaudited) \$'000s	6 mths 30 Sep 11 (Unaudited) \$'000s	12 mths 31 Mar 12 (Audited) \$'000s
NET SURPLUS (DEFICIT) FOR THE PERIOD	(839)	(1,089)	(1,759)
Adjustments for non-cash items:			
Depreciation	28	28	58
Amortisation of capitalised development costs	179	128	306
Amortisation of patents	20	17	38
Amortisation of website	6	6	12
Amortisation of transaction costs for Convertible Preference Shares	16	61	121
Loss on sale of fixed assets	-	(7)	(6)
Dividend on Convertible Preference Shares	174	-	-
	<u>423</u>	<u>233</u>	<u>529</u>
Movement in working capital			
Accounts receivable	606	122	(509)
Prepayments	21	19	(8)
Accounts payable	(43)	(167)	(65)
Inventories (net)	10	(89)	54
Convertible Preference Shares Dividend Payable	(158)	-	-
	<u>436</u>	<u>(115)</u>	<u>(528)</u>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<u>20</u>	<u>(971)</u>	<u>(1,758)</u>

3 a) SHARE CAPITAL- ORDINARY SHARES

Balance at beginning of period	27,585	26,034	26,034
Issue of shares	4,174	1,514	1,551
Balance at end of period	<u>31,759</u>	<u>27,548</u>	<u>27,585</u>
NUMBER OF SHARES ON ISSUE	No, '000	No, '000	No, '000
Balance at beginning of period	175,827	143,847	143,847
Issue of shares	311,053	31,217	31,980
Less: Shares held as treasury stock cancelled	(5,000)	-	-
Balance at end of period	<u>481,880</u>	<u>175,064</u>	<u>175,827</u>

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September, 2012

In May 2012 the company converted \$4,000,000 of cumulative preference shares which it had on issue. The \$1 cumulative preference shares converted to 298,062,787 ordinary shares representing 74.52 ordinary shares for each cumulative preference share (or 0.01342 cumulative preference shares for each ordinary share). Prior to the conversion, the company satisfied the final distribution of \$200,000 (gross) payable in respect of the cumulative preference shares by issuing 12,990,194 ordinary shares at an equivalent value. The 311,052,981 ordinary shares issued under the conversion and dividend rank equal with all other ordinary shares on issue in the company.

The Board also resolved on 9 May 2012 to cancel 5,000,000 ordinary shares which it was holding as Treasury Stock. All the 481,879,636 fully paid ordinary shares carry equal voting rights and participate equally in any dividend distribution or any surplus on winding up of the company.

3 b) CONVERTIBLE PREFERENCE SHARES

	6 mths 30 Sep 12 (Unaudited) \$'000s	6 mths 30 Sep 11 (Unaudited) \$'000s	12 mths 31 Mar 12 (Audited) \$'000s
Balance at beginning of period	4,000	4,000	4,000
<i>Cost of Raising CPS:</i>			
Opening Balance	(16)	(137)	(137)
Cost of raising CPS	-	-	-
Amortisation of transaction cost for CPS	16	61	121
	<u>-</u>	<u>(76)</u>	<u>(16)</u>
Dividend Payable	-	159	158
CPS converted to ordinary shares	(4,000)	-	-
Balance at end of period	<u>-</u>	<u>4,083</u>	<u>4,141</u>
Disclosed as:			
Current Liability	-	159	4,141
Non Current Liability	-	3,924	-
Closing Balance	<u>-</u>	<u>4,083</u>	<u>4,141</u>
NUMBER OF SHARES ON ISSUE	No, '000	No, '000	No, '000
Balance at beginning of period	4,000	4,000	4,000
Convertible Preference Shares converted to ordinary shares	(4,000)	-	-
Balance at end of period	<u>-</u>	<u>4,000</u>	<u>4,000</u>

BLIS TECHNOLOGIES LIMITED

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September, 2012

4. CAPITAL COMMITMENTS, CONTINGENT LIABILITIES

The budgeted capital commitments as at 30 September 2012 were \$10,000 (September 2011: \$nil)

5. INVESTMENT IN SUBSIDIARY

Subsidiary	Percentage Held		Balance Date	Principal Activity
	2013	2012		
BLIS Functional Foods Limited	90%	90%	31 March	Production, distribution and sale of ice cream, yoghurt, and roulades.
The Gourmet Ice Cream Co Limited	100%	100%	31 March	Dormant

6. SEGMENTAL REPORTING

6.1 Adoption of NZ IFRS 8 Operating Segments

The Group is internally reported as a single operating segment to the chief operating decision-maker.

6.2 Revenue from major products and services

The Group's revenues from its major products and services were as follows:

	6 mths 30 Sep 12 (Unaudited) \$'000s	6 mths 30 Sep 11 (Unaudited) \$'000s	12 mths 31 Mar 12 (Audited) \$'000s
BLIS and BFF products	563	317	1,467
Other	17	26	43
Total revenue	<u>580</u>	<u>343</u>	<u>1,510</u>

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September, 2012

6.3 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:

	Revenue from external customers			Non-current assets		
	6 mths 30 Sept 2012 (Unaudited) \$'000	6 mths 30 Sept 2011 (Unaudited) \$'000	12 mths 2012 31 Mar 12 (Audited) \$'000	30 Sept 2012 (Unaudited) \$'000	30 Sept 2011 (Unaudited) \$'000	12 mths 2012 31 Mar 11 (Audited)
Trading Revenue						
New Zealand	310	218	546	2,749	2,701	2,754
United States of America	10	8	676	-	-	-
Asia	112	17	52	-	-	-
Australia	102	50	129	-	-	-
Other	29	24	64	-	-	-
Total Trading Revenue	563	317	1,467			
Other						
Other	17	26	43	-	-	-
Total Revenue	580	343	1,510	2,749	2,701	2,754

Included in revenue are revenues of \$130k, \$92k and \$70k (September 2011: \$165k, \$50k and \$28k) which arose from sales to Group's three largest customers. Revenues for year ended 31 March 2012, \$621k, \$265k and \$129k arose from sales to Groups three largest customers.

7. SUBSEQUENT EVENTS

On 25th October 2012 the company advised that pursuant to its Share Purchase Plan and Placement it had raised \$1,314,000 issuing 187,714,267 fully paid ordinary shares at \$0.007 per ordinary share.

Shareholders participated in the Share Purchase Plan subscribing to \$709,000 for the purchase of 101,285,696 ordinary shares, inclusive of subscriptions from Directors and Officers and their related entities of \$68,000. Placement participants subscribed to \$605,000 for the purchase of 86,428,571 ordinary shares, inclusive of \$150,000 from Sinclair Long Term Holdings Limited, a company associated with BLIS director Alan McKenzie. The new shares allotted rank equally with the existing ordinary fully paid shares on issue.

ADDITIONAL STOCK EXCHANGE INFORMATION

For the 6 Months Ended 30 September, 2012

The Company undertook both a private placement and share purchase plan at the same time and at the same price per share in September/October 2012. Due to fluctuations in price at the time and the discount that was applied by the Board to encourage shareholders to participate, the issue of these shares was at a price which was less than 85% of the Average Market Price at the relevant time. Accordingly the Company sought and obtained approval to the issue from NZX under Listing Rule 8.1.3 and provided the relevant certificates required under that Rule.

The Company has previously invited both NZX and the Financial Markets Authority to confirm that certain share dealings immediately prior to the conversion of the Convertible Notes of the Company in May 2012 were conducted without breaching any securities laws. The Company has been advised that the FMA are investigating the relevant trades and will advise in due course if they have any concerns.