

Biosceptre International Limited

ABN 38 104 060 166

Annual report for the financial year ended
30 June 2010

Biosceptre International Limited

Annual report for the financial year ended 30 June 2010

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Biosceptre International Limited

Directors' report (continued)

The directors of Biosceptre International Limited submit herewith the annual financial report of the company and its subsidiaries ("Group") for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors and senior management

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Particulars
Alan Brian Bootes	Mr Alan Brian Bootes recently retired after a 37 year career as a global manager with Pfizer Inc. the world's leading Pharmaceutical and Animal Health products company. Having built a reputation as an organisation development and turnaround specialist through roles in Asia and Africa/Middle East, he subsequently led Pfizer country businesses in Taiwan, Canada (where he lifted annual sales from \$50 million to over \$500 million and industry leader in 9 years) and lastly Japan, where in 5 years he took Pfizer from number 10 to number 1 rank in sales. Alan also served as Chairman of the pharmaceutical industry associations in Taiwan, Canada and Japan, where he played a leading role in health policy development together with government officials and other stakeholders. He brings to the Board valuable experience in leadership, organisation development and international marketing, especially in the Asian region.
Angus Gidley-Baird	Dr. Angus Gidley-Baird is the Chief Executive Officer of the company. He is also Biosceptre's Director of Research & Development. He was a Research Director and public company director of three listed biomedical companies. He has authored/co-authored 5 patent applications. He has been a fulltime Research Director in a biotechnology company since 1994 and has managed the Biosceptre research and development projects since October 1999.
Terrence Joseph Caplice	Mr Terry Caplice is a retired solicitor with extensive experience in corporate and takeover law. He has been a foundation investor and a guiding influence in the formation of private and public companies. He has considerable experience as a public company director, and has in-depth knowledge of current corporate governance issues.
Peter John Newton	Mr. Peter Newton worked for 26 years as a stockbroker, and has a record of accomplishment in public company directorships, notably in the resource sector. He is a former director of County Natwest. He has enjoyed success in guiding investment and growth, and has substantial experience in corporate governance issues.
Paul James Kelly	Dr. Paul James Kelly is an Australian physician, serial entrepreneur and experienced biotechnology and life sciences executive. Dr. Kelly has over 15 years experience in commercialising life science related technologies in Australia, Europe and North America. He is General Partner and Executive Director at Andover Venture Partners, an investment management firm focused on investing in globally scalable technology businesses in the Clean Tech, New Media, IT&T and Life Sciences sectors. He has enjoyed a distinguished career as a biotechnology executive, co-founding a number of companies in the health sciences and technology arena and is a published and respected physician specialising in endocrinology. Dr Kelly has served on national governmental advisory bodies, as well as on the boards of public and private companies.
Peter Gavin Currie (Appointed 31 March 2010)	Mr Gavin Currie is the General Manager of Crea Ventures. His role oversees the investment activities of the Crea group of companies. Prior to Crea, Gavin co-founded Arbitrage Partners, a boutique transaction services business along with SAF Capital, a private equity business. He has a background of commercial success, wide industry knowledge, and distinguishing ability to challenge the status quo while working within a participative framework. Gavin has developed a reputation for delivering value by converting synergies from previously unseen opportunities and has been employed internationally in Australia, New Zealand, England, USA and Hong Kong, with experience in cross-border transactions and investments. Gavin holds a

Biosceptre International Limited

Directors' report (continued)

Bachelor of Business degree, Master of Business and Technology from the University of NSW and is a qualified CPA.

The above named directors held office during the whole of the financial year and since the end of the financial year, except where noted.

Company secretary

Nick Geddes Mr Nick Geddes is the principal of Australian Company Secretaries, a company secretarial practice that he formed in 1993. Nick is immediate past President of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia. Nick is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Institute of Chartered Secretaries in Australia.

Principal activities

The principal activities of the Group during the financial year were:

- cancer research and treatment development
- manufacturing and supply of antibody materials

Review of operations

The consolidated loss for the Group after providing for income tax amounted to \$7,077,470 (2009: \$3,508,063).

A review of the operations of the Group during the financial year and the results of those operations found that, during the year, the Group continued to engage its principal activities and the result of which are set out in the attached financial statements.

Changes in state of affairs

There was no significant change in the state of affairs of the consolidated entity during the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Dividends

No dividends have been paid or declared since the start of the financial year, and the directors do not recommend the payment of a dividend in respect of the financial year.

Biosceptre International Limited

Directors' report (continued)

Indemnification of officers and auditors

During the year the company has paid a premium in respect of a contract of insurance, insuring officers (and any persons who are officers in the future and employees of the company or its subsidiaries) against certain liabilities incurred in that capacity to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 10 board meetings were held.

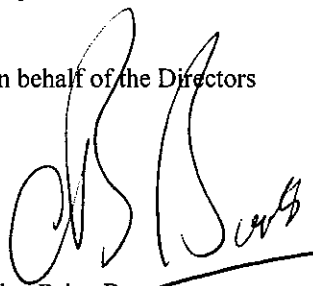
Directors	Eligible to attend	Attended
Alan Brian Bootes	10	9
Angus Gidley-Baird	10	10
Terrence Joseph Caplice	10	8
Peter John Newton	10	10
Paul John Kelly	10	9
Peter Gavin Currie (appointed 31 March 2010)	3	2

Auditor's independence declaration

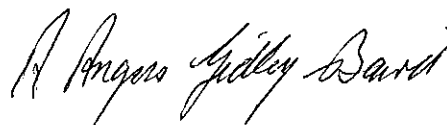
The auditor's independence declaration is included on page 4 of the annual report.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors



Alan Brian Bootes
Director



Angus Gidley Baird
Director

Sydney, 29th September 2010

The Board of Directors
Biosceptre International Limited
Suite 3.08, 56 Delhi Road
North Ryde NSW 2113

29 September 2010

Dear Board Members

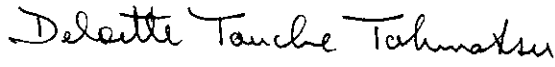
Biosceptre International Limited

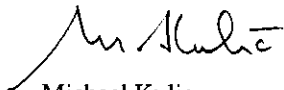
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Biosceptre International Limited.

As lead audit partner for the audit of the financial statements of Biosceptre International Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely


DELOITTE TOUCHE TOHMATSU


Michael Kulic
Partner
Chartered Accountants

Independent Auditor's Report to the members of Biosceptre International Limited

We have audited the accompanying financial report of Biosceptre International Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 7 to 28

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

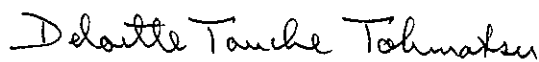
Auditor's Opinion

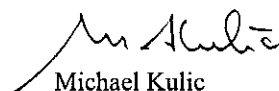
In our opinion,

- (a) the financial report of Biosceptre International Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that the consolidated entity incurred a loss of \$7,077,470 (2009: \$3,508,063) and had net operating cash outflows for the year of \$2,558,075 (2009: \$3,984,597). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the company and the consolidated entity to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.


DELOITTE TOUCHE TOHMATSU


Michael Kulic
Partner
Chartered Accountants
Sydney, 29 September 2010

Biosceptre International Limited

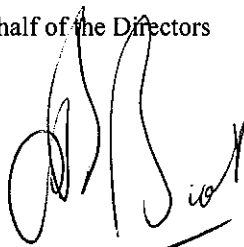
Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reports Standards, as stated in note 2 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors



Alan Brian Bootes
Director



Angus Gidley-Baird
Director

Sydney, 29th September 2010

Biosceptre International Limited

Consolidated statement of comprehensive income for the financial year ended 30 June 2010

	<u>Note</u>	<u>2010</u> \$	<u>2009</u> \$
Continuing operations			
Revenue	3	68,424	147,389
Other income	3	102,193	264,103
Employee benefits expense		(2,040,300)	(2,377,784)
Depreciation and amortisation expense		(194,981)	(270,266)
Research and development		(710,524)	(1,782,392)
Travel expenses		(32,209)	(210,716)
Occupancy expense		(76,629)	(182,993)
General and administration expense		(517,826)	(709,068)
Other expenses		(131,005)	(84,984)
Finance costs	4	-	(2,907)
Loss before tax	5	(3,532,857)	(5,209,618)
Income tax(expense)/ income	6	(3,544,613)	1,701,555
Loss for the year		(7,077,470)	(3,508,063)
Other comprehensive income		-	-
Total comprehensive income for the year		(7,077,470)	(3,508,063)

Notes to the financial statements are included on pages 12 to 28.

Biosceptre International Limited

Consolidated statement of financial position as at 30 June 2010

	Note	2010 \$	2009 \$
Current assets			
Cash and cash equivalents	7	1,624,905	3,313,572
Trade and other receivables	8	71,029	113,513
Prepayments	9	13,556	15,889
Total current assets		1,709,490	3,442,974
Non-current assets			
Property, plant and equipment	10	261,275	319,104
Deferred tax assets	11	-	3,911,203
Intangible assets	12	3,776,060	3,662,736
Total non-current assets		4,037,335	7,893,043
Total assets		5,746,825	11,336,017
Current liabilities			
Trade and other payables	13	210,374	239,456
Employee benefits— annual leave		157,500	189,389
Other liabilities	14	71,338	102,555
Total current liabilities		439,212	531,400
Non-current liabilities			
Employee benefits – long service leave		28,979	32,735
Total non-current liabilities		28,979	32,735
Total liabilities		468,191	564,135
Net assets		5,278,634	10,771,882
Equity			
Issued capital	15	20,276,336	19,246,280
Share option reserve	16	629,721	75,555
Accumulated losses		(15,627,423)	(8,549,953)
Total equity		5,278,634	10,771,882

Notes to the financial statements are included on pages 12 to 28.

Biosceptre International Limited

Consolidated statement of changes in equity for the financial year ended 30 June 2010

	Issued capital \$	Share option reserves \$	Retained earnings \$	Total \$
Balance at 1 July 2008	16,120,210	-	(5,041,890)	11,078,320
Loss for the period	-	-	(3,508,063)	(3,508,063)
Total recognised income and expense	-	-	(3,508,063)	(3,508,063)
Recognition of share based payments	-	75,555	-	75,555
Shares issued during the year	3,246,120	-	-	3,246,120
Share issue expenses	(120,050)	-	-	(120,050)
Balance at 30 June 2009	19,246,280	75,555	(8,549,953)	10,771,882
Balance at 1 July 2009	19,246,280	75,555	(8,549,953)	10,771,882
Loss for the period	-	-	(7,077,470)	(7,077,470)
Total recognised income and expense	19,246,280	75,555	(15,627,423)	3,694,412
Recognition of share based payments	-	554,166	-	554,166
Shares issued during the year	1,130,056	-	-	1,130,056
Share issue expenses	(100,000)	-	-	(100,000)
Balance at 30 June 2010	20,276,336	629,721	(15,627,423)	5,278,634

Notes to the financial statements are included on pages 12 to 28.

Biosceptre International Limited

Consolidated statement of cash flows for the financial year ended 30 June 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
Receipts from customers		127,313	262,398
Payments to suppliers and employees		(3,051,978)	(4,584,827)
Interest and other costs of finance paid		-	(2,907)
R&D tax concession offset		366,590	340,739
Net cash used in operating activities	19(b)	(2,558,075)	(3,984,597)
Cash flows from investing activities			
Payments for property, plant and equipment		(18,408)	(22,532)
Interest received		92,630	184,031
Payments for intangible assets		(234,870)	(351,047)
Loan advance repayment		-	215,000
Net cash (used in)/provided by investing activities		(160,648)	25,452
Cash flows from financing activities			
Proceeds from issues of equity securities		1,030,056	3,126,070
Net cash provided in financing activities		1,030,056	3,126,070
Net decrease in cash and cash equivalents		(1,688,667)	(833,075)
Cash and cash equivalents at the beginning of the financial year		3,313,572	4,146,647
Cash and cash equivalents at the end of the financial year	19(a)	1,624,905	3,313,572

Notes to the financial statements are included on pages 12 to 28.

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

1. General information

Biosceptre International Limited (the company) is an unlisted public company incorporated in Australia and operating in Australia.

Biosceptre International Limited registered office and its principal place of business is as follows:

Registered office and principal place of business

Suite 3.08, 56 Delhi Road
North Ryde, NSW 2113

The principal activities of the Group during the financial year were:

- cancer research and treatment development
- manufacturing and supply of antibody materials

2. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 29th September 2010.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, 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 other factors that are considered to be relevant. 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. Refer to note 3 for a discussion of critical judgements in applying the entity's accounting policies, and key sources of estimation un-certainty.

Adoption of new and revised Accounting Standards

In the current year, the company and the Group have adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

- AASB 101 'Presentation of Financial Statements'

The Company has adopted the revised AASB 101 (2007) Presentation of Financial Statements from 1 January 2009. The revised Standard separates owner and non-owner changes in equity. As a result, all non-owner changes in equity are presented in a statement of comprehensive income and all owner changes in equity are presented in a statement of changes in equity.

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

2. Significant accounting policies (continued)

Adoption of new and revised Accounting Standards (continued)

- AASB 8 'Segment Reporting'

Because the Company does not have on issue any debt or equity securities that are traded in a public market and is not in the process of issuing any class or instruments in a public market, the company is not required to present segment reporting information under AASB 8, and accordingly none has been provided in this financial report.

Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a loss of \$7,077,470 (2009: \$3,508,063) and had net operating cash outflows for the year of \$2,558,075 (2009: \$3,984,597). Further, as disclosed in note 26, the company incurred a loss of \$6,941,442 (2009: \$3,321,560).

The ability of the company and the consolidated entity to continue as going concerns is dependent on their ability to;

- obtain additional funding to meet working capital requirements; and/or
- secure contracts for the sale of its products.

The consolidated entity has historically been able to raise equity funding by way of private placements to meet its ongoing working capital requirements. During the year ended 30 June 2010 the company raised \$1,030,056 (net of share issue costs) in equity. In the prior year ended 30 June 2009, the company raised \$3,126,070 in equity. The directors are confident that the consolidated entity will be able to raise the necessary funding to meet future working capital requirements during the year ending 30 June 2011 and/or that it will be able to secure contracts for the sale of its products in the near term.

At the date of this report, and having considered the above factors, the directors are confident that the company and the consolidated entity will be able to continue as going concerns. Notwithstanding this, if additional funding to meet working capital requirements is not obtained and if contracts for the sale of their products are not secured, there is significant uncertainty whether the company and the consolidated entity will continue as going concerns and, therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

No adjustments have been made relating to the recoverability and classification of recorded asset values and the amount and classification of liabilities that might be necessary should the company and the consolidated entity be unable to continue as going concerns.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), (referred to as "the Group" in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All controlled entities have a June financial year-end. A list of controlled entities is shown below:

	2010	2009
Biosceptre Pty Ltd	100%	100%
Intreat Pty Ltd	100%	100%
Bioquest Pty Ltd	100%	100%
Biopep Pty Ltd	100%	100%

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

2. Significant accounting policies (continued)

(b) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flow 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 within operating cash flows.

(d) Revenue

Revenue is measured at the fair value of the consideration received or receivable and is recognised upon the delivery of the goods to customers.

(e) Government grants

Government grants are assistance by the government in form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

(f) Share based payments

Equity-settled share-based payments with employees and others providing similar services are measured at fair value of the equity instrument at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled share option reserve.

Equity-settled share-based payment transactions with other party are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service

(g) Income tax

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 substantially enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

2. Significant accounting policies (continued)

(g) Income tax (continued)

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 or accounting profit. Further, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Tax Consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Biosceptre International Limited is the head entity in the tax-consolidated group. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2003. The tax-consolidated group has entered into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax-consolidated group.

(h) Cash and cash equivalents

Cash comprises cash on hand and deposits held at call and other short-term highly liquid investments with an original maturity of three months or less.

(i) Property, plant and equipment

Each class of property, plant and equipment are stated at cost less accumulated depreciation and impairment.

The useful lives used in the calculation of depreciation are as follows:

Plant and equipment	3 – 5 years
Computer equipment	3 – 6 years
Research equipment	5 – 10 years
Office furniture	6 – 14 years

(j) Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Impairment

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

2. Significant accounting policies (continued)

(k) Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Patents and Trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less accumulated amortisation and any impairment losses. Patents are tested for impairment annually and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss. Patents are amortised over 20 years.

(l) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised 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.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months, are measured as 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.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(n) Finance costs

All finance costs are recognised in profit or loss in the period in which they are incurred.

(o) Operating leases

Payments made under operating leases are expensed when due over the term of the lease.

(p) Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the company's financial report.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010	30 June 2011
• AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'	1 January 2010	30 June 2011

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

2. Significant accounting policies (continued)

(p) Standards and Interpretations issued not yet effective (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 124 'Related Party Disclosures (2009)', AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
• AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
• AASB 2009-9 'Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters'	1 January 2010	30 June 2011
• AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'	1 February 2010	30 June 2011
• AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
• AASB Interpretation 19 'Extinguishing Liabilities with Equity Instruments'	1 July 2010	30 June 2011
• AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters	1 July 2010	30 June 2011

3. Revenue

An analysis of the Group's revenue for the year, from both continuing and discontinued operations, is as follows:

	Consolidated	
	2010 \$	2009 \$
Continuing operations		
Revenue from the sale of goods	68,424	147,389
	68,424	147,389
Other Income		
<i>Interest revenue breakdown:</i>		
- Bank term deposits	101,652	148,422
- Australian Taxation Office	541	11,127
Government grants and other income	-	104,554
	102,193	264,103

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

4. Finance costs

	Consolidated	
	2010	2009
	\$	\$
Other interest expense	-	2,907
	-	2,907

5. Loss for the year

Loss for the year includes the following expenses:

Depreciation of non-current assets – plant and equipment	73,435	115,229
Loss on disposal of intangibles	20,100	63,546
Amortisation of non-current assets - intangibles	101,446	91,489
	194,981	270,266
Research and development costs immediately expensed	710,524	1,782,392
Operating lease rental expenses: Minimum lease payments	76,629	182,993
Employee benefits expense: Post employment benefits: Defined contribution plans	88,932	189,142
	88,932	189,142
Share-based payments: Equity-settled share-based payment	554,166	75,555
	643,098	264,697
Other employee benefits	1,397,202	2,113,087
	2,040,300	2,377,784

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

6. Income taxes

Income tax recognised in profit or loss

	Consolidated	
	2010	2009
	\$	\$
Tax expense/(income) comprises:		
Current tax expense in respect of the current year	(366,590)	(1,626,223)
Deferred tax expense relating to the origination and reversal of temporary differences	-	(75,332)
Reversal of previously recognised tax losses as deferred tax assets now derecognised	3,911,203	-
	3,544,613	(1,701,555)

Total tax expense/(income)

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

	Consolidated	
	2010	2009
	\$	\$
Loss from operations	(3,532,857)	(5,209,618)
Income tax expense calculated at 30%	(1,059,857)	(1,562,885)
Effect of income that is not assessable in determining taxable profit	(8,236)	(5,367)
Effect of expenses that are not deductible in determining taxable profit	180,154	55,055
Effect of expenditure that are allowable for tax	(28,225)	(2,882)
Effect of tax concessions – R&D expenditure	(104,361)	(74,129)
Effect of share issue expense credited to equity	(6,000)	(36,015)
R&D tax concession received	(366,590)	-
Effect of current tax losses not recognised as deferred tax assets	1,026,525	-
Effect of previously recognised tax losses and temporary difference no longer recognised as deferred tax assets	3,911,203	-
	3,544,613	(1,626,223)
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	13,019,158	-
Potential tax benefit @ 30%	3,905,945	-
Tax effect of temporary differences not recognised	58,733	-

7. Cash and cash equivalents

	Consolidated	
	2010	2009
	\$	\$
Cash on hand	900	900
Cash at bank	508,930	612,462
Short-term bank deposits	1,113,658	2,698,642
Other cash and cash equivalents	1,417	1,568
	1,624,905	3,313,572

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

8. Trade and other receivables

	Consolidated	
	2010	2009
	\$	\$
Current		
Trade receivables	6,091	20,252
Goods and services tax recoverable	35,959	58,930
Other receivables	28,979	34,331
	71,029	113,513

9. Prepayments

	Consolidated	
	2010	2009
	\$	\$
Prepayments	13,556	15,889

10. Property, plant and equipment

	Consolidated				Total
	Plant and equipment at cost \$	Computer equipment at cost \$	Research equipment at cost \$	Office furniture at cost \$	
Gross carrying amount					
Balance at 1 July 2008	343,000	102,057	370,296	157,187	972,540
Additions	-	7,948	8,135	3,681	19,764
Disposals	-	(14,474)	(112,761)		(127,235)
Balance at 30 June 2009	343,000	95,531	265,670	160,868	865,069
Additions	-	13,685	4,292	431	18,408
Disposals	-	(10,542)	-	(4,716)	(15,258)
Balance at 30 June 2010	343,000	98,674	269,962	156,583	868,219
Accumulated depreciation					
Balance at 1 July 2008	(343,000)	(40,739)	(111,007)	(22,702)	(517,448)
Disposals	-	12,966	73,746	-	86,712
Depreciation expense	-	(42,344)	(49,569)	(23,316)	(115,229)
Balance at 30 June 2009	(343,000)	(70,117)	(86,830)	(46,018)	(545,965)
Disposals	-	10,005	-	2,451	12,456
Depreciation expense	-	(17,748)	(36,610)	(19,077)	(73,435)
Balance at 30 June 2010	(343,000)	(77,860)	(123,440)	(62,644)	(606,944)
Net book value					
As at 30 June 2009	-	25,414	178,840	114,850	319,104
As at 30 June 2010	-	20,814	146,522	93,939	261,275

11. Deferred tax assets

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

	Consolidated	
	2010	2009
	\$	\$
Deferred tax assets comprise:		
Tax losses – revenue	-	3,839,519
Temporary differences	-	71,684
	-	3,911,203

12. Intangibles

	Consolidated			
	Goodwill	Patents	Development costs	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance at 1 July 2008	2,219,031	1,560,320	1,130	3,780,481
Disposals	-	(66,892)	-	(66,892)
Additions from patent applications	-	351,047	-	351,047
Balance at 30 June 2009	2,219,031	1,844,475	1,130	4,064,636
Disposals	-	(26,799)	-	(26,799)
Additions from patent applications	-	234,870	-	234,870
Balance at 30 June 2010	2,219,031	2,052,546	1,130	4,272,707
Accumulated amortisation and impairment				
Balance at 1 July 2008	(28,321)	(284,305)	(1,130)	(313,756)
Amortisation expense	-	(91,489)	-	(91,489)
Disposals	-	3,345	-	3,345
Balance at 30 June 2009	(28,321)	(372,449)	(1,130)	(401,900)
Amortisation expense	-	(101,446)	-	(101,446)
Disposals	-	6,699	-	6,699
Balance at 30 June 2010	(28,321)	(467,196)	(1,130)	(496,647)
Net book value				
As at 30 June 2009	2,190,710	1,472,026	-	3,662,736
As at 30 June 2010	2,190,710	1,585,350	-	3,776,060

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

13. Trade and other payables

	Consolidated	
	2010	2009
	\$	\$
Trade payables	166,127	204,456
Sundry payables and accrued expenses	44,247	35,000
	210,374	239,456

Trade and other payables are generally payable on a 30 day term. Given the short-term nature of most payables, the recoverable amount approximates fair value.

14. Other liabilities

	Consolidated	
	2010	2009
	\$	\$
Payroll liabilities	21,338	32,499
Other liabilities	50,000	70,056
	71,338	102,555

15. Issued capital

	Consolidated	
	2010	2009
	\$	\$
23,103,254 fully paid ordinary shares (2009: 22,538,226)	20,276,336	19,246,280

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2010		2009	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	22,538,226	19,246,280	20,915,166	16,120,210
Issue of shares during the period	569,653	1,130,056	1,623,060	3,246,120
Share issue costs	-	(100,000)	-	(120,050)
	23,107,879	20,276,336	22,538,226	19,246,280

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

As at 30 June 2010, there is an uncalled capital of \$1,900,000 due and payable by 31 December 2010.

As at 30 June 2010, the company has 1,957,500 share options on issue (2009: 947,500), exercisable on a 1:1 basis for 1,957,500 ordinary shares of the company (2009: 947,500) at an exercise price of \$2.00. The options expire between 18 March 2010 and 24 December 2010, and carry no rights to dividends and no voting rights.

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

16. Share option reserve

	Consolidated	
	2010	2009
	\$	\$
Share based payment reserve		
Balance at beginning of financial year	75,555	-
Options granted during the period	554,166	75,555
Balance at end of financial year	629,721	75,555

The Group has executed a confidential information memorandum with the view of providing a limited number of executives, being professional and sophisticated investors with a personal offering of shares to be issued in the company. The plan is an offer of 3 options for each \$2 value of remuneration foregone. The options have no exercise price and are non-transferrable. During the year 270,000 options were issued (2009: 680,000). There are currently 950,000 options on issue to these people. The options expire between 30 April 2010 and 1 January 2020.

The options have a term of 10 years and vest three years from the date of approval of the plan. The options are only exercisable on the exercise date being a date determined by the board and notified at least 10 business days before the closure of an initial public offering of shares on the stock exchange or immediately prior to a sale of the business assets of the company, or such earlier date as the directors might determine in their absolute discretion.

Further information about the share based payments to employees is set out in note 22.

17. Contingent liabilities

Under a Research and License Agreement between, a UK company, and Biosceptre International Limited, Biosceptre is required to pay a one-off license fee of GBP £400,000 in the event of Biosceptre commercialising any of the lead antibodies produced under the research program.

18. Leases

Non-cancellable operating lease commitments

	Consolidated	
	2010	2009
	\$	\$
Not longer than 1 year	108,423	144,838
Longer than 1 year and not longer than 5 years	38,683	14,194
Longer than 5 years	-	-
	147,106	159,032

Operating leases relate to the office premises and laboratory facility with terms of three years.

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

19. Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of changes in equity, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of changes in equity is reconciled to the related items in the statement of financial position as follows:

	Consolidated	
	2010	2009
	\$	\$
Cash and cash equivalents	1,624,905	3,313,572

(b) Reconciliation of loss for the year to net cash flows from operating activities

	Consolidated	
	2010	2009
	\$	\$
Loss for the year	(7,077,470)	(3,508,063)
Loss on sale or disposal of non-current assets	2,802	40,523
Depreciation and amortisation	194,981	270,266
Share based payments expense	554,166	75,555
(Increase)/decrease in deferred tax asset	3,911,203	(1,360,816)
Interest received	(92,630)	(184,031)
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	42,484	23,370
Prepayments	2,333	670,585
Increase/(decrease) in liabilities:		
Trade and other payables	(60,299)	(73,928)
Provisions	(35,645)	61,942
Net cash outflows from operating activities	(2,558,075)	(3,984,597)

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

20. Financial instruments

(a) Capital risk management

The Group manages its capital to provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 7, 15 and 16 respectively.

There are no externally imposed capital requirements

Operating cash flows are used to fund research and development activities and to make routine outflows of tax and other operating expenses.

There have been no changes in the strategy adopted by management in managing the capital of the Group since the prior year.

(b) Market risk

The Group's activities are not materially exposed to the financial risks of changes in foreign currency exchange rates.

(c) Interest rate risk management

The company and the Group are not exposed to interest rate risk as entities in the Group have no borrowed funds. The company and the Group's financial assets of cash are placed on term deposits with our major banker, the National Australia Bank, with terms ranging from 60 to 90 days and with interest ranging from 5% to 6%. The Group does not hold any derivative financial instruments (2009: nil)

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of no more than 3 customers in the biotechnology sector within Australia.

(e) Fair value of financial instruments

The carrying values of financial instruments approximate their fair value at balance date.

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

22. Share-based payments

Employee and Director share option plan

The Group has put in place an Employee and Director Share Option Plan ('the Plan') as a strategy to preserving capital. The objective will be to use a significant proportion of the options as a partial alternative to the payment of base salary and directors' fees, hence preserving capital. The Plan was approved by the board in April 2009.

The outline of the Plan is as follows:

- (a) Participation will be subject to the discretion of the board of directors of Biosceptre International Limited ('the Company'). Initially, participation will only be available to senior employees of the company (including executive directors of the company). Non-executive directors will also be eligible in the Plan.
- (b) Options will be granted over unissued shares in the Company. Under the Plan currently, the Board will grant 3 options for each \$2.00 of annual remuneration which the employee or director agrees to forego.
- (c) Options will vest on the third anniversary from the grant date and options must be exercised within 10 years from the date of grant and an option which is not exercised within this period will lapse.
- (d) There is no exercise price payable in respect of exercise of the options.

23. Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the company and the Group is set out below:

	Consolidated	
	2010	2009
	\$	\$
Short-term employee benefits	352,500	686,198
Post-employment benefits	9,000	34,004
Share-based payment	463,332	67,221
	<u>824,332</u>	<u>787,423</u>

Details of key management personnel

The directors and other members of key management personnel of the Group during the year were:

- Alan Brian Bootes Chairman of the Board and Director
- Dr. Angus Gidley-Baird Chief Executive Officer and Director
- Peter John Newton Non-executive Director
- Terrence Joseph Caplice Non-executive Director
- Dr. Paul John Kelly Non-executive Director
- Peter Gavin Currie Non-executive Director

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

24. Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 2(a) to the financial statements.

(b) Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 23 to the financial statements.

(c) Share option transactions

During the year, share options were issued to key management personnel in accordance with provisions of the employee and director share option plan as follows:

	2010	2009
	No. of options	No. of options
Alan Brian Bootes	90,000	190,000
Angus Gidley-Baird	75,000	225,000
Terrence Joseph Caplice	30,000	30,000
Peter John Newton	-	30,000
Paul John Kelly	-	130,000

25. Remuneration of auditors

	Consolidated	
	2010	2009
	\$	\$
Auditor of the parent entity		
Audit or review of the financial report	36,750	35,000
Other non-audit services – R&D consultancy	73,300	68,100
	110,050	103,100

The auditor of Biosceptre International Limited is Deloitte Touche Tohmatsu.

26. Parent entity disclosures

The following financial information disclosures are in respect of the parent entity only:

	2010	2009
	\$	\$
Financial position		
Assets		
Current assets	1,697,879	3,386,428
Non-current assets	4,265,083	8,027,778
Total assets	5,962,962	11,414,206
Liabilities		
Current liabilities	438,659	528,926
Non-current liabilities	28,979	32,735
Total liabilities	467,638	561,661

Biosceptre International Limited

Notes to the financial statements for the financial year ended 30 June 2010

	2010 \$	2009 \$
Equity		
Issued capital	20,276,336	19,246,280
Retained earnings	(15,410,733)	(8,469,290)
Reserves		
Share option	629,721	75,555
	<hr/>	<hr/>
Total equity	<u>5,495,324</u>	<u>10,852,545</u>
<i>Financial performance</i>		
Loss for the year	(6,941,442)	(3,321,560)
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income	<u>(6,941,442)</u>	<u>(3,321,560)</u>