



REPRODUCTIVE HEALTH SCIENCE PTY LTD

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF REPRODUCTIVE HEALTH SCIENCE PTY LTD**

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of Reproductive Health Science Pty Ltd (the company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, are appropriate to meet the requirements of the company's constitution and are appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report, ensuring that is free from material misstatement, whether due to fraud or error.

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. Those 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 company's preparation 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 company'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.



Edwards Marshall

Level 3 153 Flinders Street
Adelaide SA 5000
GPO Box 2163 Adelaide SA 5001
Telephone 08 8139 1111
Facsimile 08 8139 1100
info@edwardsmarshall.com.au
edwardsmarshall.com.au

REPRODUCTIVE HEALTH SCIENCE PTY LTD

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF REPRODUCTIVE HEALTH SCIENCE PTY LTD (CONT)**

Independence

In conducting our audit, we have complied with the independence requirements of the Australian ethical pronouncements.

Opinion

In our opinion, the financial report presents fairly, in all material respects the financial position of Reproductive Health Science Pty Ltd as at 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in Note 1 to the financial report.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to the Directors' Report and Note 1(j) in the financial report which indicates that the company incurred a net loss of \$942,450 for the year ended 30 June 2011 and, that the company is reliant on future funding from investors to continue in the normal course of business. These conditions, along with other matters as set forth in Note 1(j), indicate the existence of a material uncertainty that casts significant doubt on the ability of the company to continue as a going concern and, therefore, whether the company will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting requirements under the company's constitution. As a result, the financial report may not be suitable for another purpose.

Edwards Marshall

Edwards Marshall
Chartered Accountants

B Morkunas

Brett Morkunas
(Partner)

Adelaide
South Australia

Dated *18 October 2011*

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

DIRECTORS' REPORT

Your directors present their report on the company for the year ended 30 June 2011.

Directors

The names of the directors in office at any time during or since the end of the year are:

Dr Andrew W Bollen

Prof. Colin D Matthews

Dr Roger B Voyle

Dr Stephen J Rodda (appointed 6 April 2011 and resigned 30 September 2011)

Mr Charlie Latham (appointed 30 September 2011)

Dr Robert G Harris was an alternate director for Professor Matthews until 23 September 2011, when he was replaced as alternate by Johnathon Matthews

Directors have been in office from the start of the financial year to the date of this report unless otherwise stated.

Activities

The principal activity of the company during the financial year was the development of early testing for aneuploidy.

No significant change in the nature of those activities occurred during the year.

Results

The loss of the company for the year after providing for income tax benefit was \$942,450 (2010 - loss of \$581,328).

Income from Government Grants towards operating expenditure was \$138,341 (2010 - \$325,547), equal to 85% (2010 - 94%) of total revenue.

The change in net assets was primarily due to operating loss for the year and the issue of Series B Preference Shares to existing Shareholders.

State of Affairs

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years other than as set out under "events after reporting date" below.

Likely developments in the operations of the company, and the expected results of those operations in future financial years, have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

Environmental Regulation

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

Dividends

There were no dividends paid or declared since the start of the financial year.

Events after Reporting Date

In late July 2011 a question arose concerning the eligibility of the company to claim R&D tax refunds that it has received in relation to the three year period to June 2010. Unbeknown to management and the Board, two of the shareholders are each exempt from income tax and together they held shares which on face value exceeded the 25% exempt shareholder limit for eligibility under the R&D tax refund rules. Consequently the R&D tax refunds received to date may need to be repaid to the ATO.

The first refund was received on 29 May 2009 and the last on 10 May 2011. Amounts received total \$537,601. Should these amounts become repayable, interest can be expected to be payable on the amounts received at the General Interest Charge (GIC) rates for the relevant periods. Interest at the GIC rates has been calculated up to 30 September 2011 as being \$61,657. Excluding any penalties that may be applied by the ATO the amount payable would be \$599,258.

Subsequent to balance date, the Company's shareholders have been in discussions regarding a capital restructuring arrangement that would support the ongoing business activities. At the time of signing the accounts the capital restructuring arrangement is in the process of being finalised.

Since the end of the financial year, there has been no other matter or circumstance occurring that has significantly affected, or may significantly affect, the operations of the company, the result of those operations, or the state of affairs of the company in future financial years.

Going Concern

As described in the results section of the Directors' Report the company has reported a loss for the year. Research and development activities of the company have been reliant to date on commercial ready grant government funding and equity funding from investors. Commercial ready grant funding expired at the end of 2010 and accordingly the future solvency of the company will be reliant on further contributions from investors, which, at the date of signing the financial report have not yet been secured.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

The directors are undertaking measures to secure additional funding from investors but in the absence of such funding have concluded that these circumstances represent a material uncertainty that casts significant doubt on the ability of the company to continue as a going concern and, therefore, whether the company will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Nevertheless after making enquiries and considering the uncertainties described above the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial report.

Indemnification of Directors

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the company.

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors


.....
Chairman


.....
Director

Dated at *Adelaide* this *18th* day of *October* 2011

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

DIRECTORS' DECLARATION

The directors have determined that the company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 18 present fairly the company's financial position as at 30 June 2011 and its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements; and
2. 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.

This declaration is made in accordance with a resolution of the Board of Directors


.....
Chairman


.....
Director

Dated at Adelaide this 18th day of October 2011

REPRODUCTIVE HEALTH SCIENCE PTY LTD
ABN 51 067 210 922

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 June 2011

| | Notes | 2011 \$ | 2010 \$ |
|--|-------|-------------------------|-------------------------|
| REVENUE | 2 | 162,866 | 346,503 |
| RESEARCH & DEVELOPMENT EXPENSES | | (478,569) | (794,510) |
| ADMINISTRATION EXPENSES | | (358,747) | (317,820) |
| OTHER EXPENSES | | (61,657) | - |
| | | <hr/> | <hr/> |
| LOSS FOR THE YEAR BEFORE INCOME TAX | | (736,107) | (765,827) |
| LESS INCOME TAX EXPENSE/(BENEFIT) | 5 | 206,343 | (184,499) |
| | | <hr/> | <hr/> |
| NET LOSS FOR THE YEAR | | <u>(942,450)</u> | <u>(581,328)</u> |
| OTHER COMPREHENSIVE INCOME | | - | - |
| | | <hr/> | <hr/> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | <u>(942,450)</u> | <u>(581,328)</u> |

The accompanying notes form part of these financial statements.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011**

| | Notes | 2011 | 2010 |
|--------------------------------------|--------------|-------------------------|-----------------------|
| | | \$ | \$ |
| Current assets | | | |
| Cash and cash equivalents | 6 | 844,436 | 522,410 |
| Trade and other receivables | 7 | 990 | 3,127 |
| Deposits | | 10,400 | 10,400 |
| Prepayments | | 3,779 | 3,363 |
| Total Current Assets | | <u>859,605</u> | <u>539,300</u> |
| Intangible assets | | | |
| Standard patent | | 104,720 | 84,074 |
| Total Intangible Assets | | <u>104,720</u> | <u>84,074</u> |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 231,569 | 281,218 |
| Total non-current assets | | <u>231,569</u> | <u>281,218</u> |
| Total assets | | <u>1,195,894</u> | <u>904,592</u> |
| Current liabilities | | | |
| Payables | 9 | 61,327 | 20,798 |
| Provisions for Employee Entitlements | 10 | 13,915 | 23,248 |
| Provision for R&D Refund | | 600,000 | - |
| | | <u>675,242</u> | <u>44,046</u> |
| Non-current liabilities | | | |
| Provisions for Employee Entitlements | 10 | 19,189 | 16,745 |
| | | <u>19,189</u> | <u>16,745</u> |
| Total liabilities | | <u>694,431</u> | <u>60,791</u> |
| Net assets | | <u>501,463</u> | <u>843,801</u> |
| Equity | | | |
| Issued capital | 11 | 3,262,494 | 2,662,382 |
| Accumulated losses | | (2,761,031) | (1,818,581) |
| Total equity | | <u>501,463</u> | <u>843,801</u> |

The accompanying notes form part of these financial statements.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011**

| | Notes | Issued Capital \$ | Accumulated Losses \$ | Total \$ |
|-----------------------------------|-------|-------------------------|-----------------------------|----------------|
| Balance as at 30 June 2009 | | 1,957,924 | (1,237,253) | 720,671 |
| Shares Issued | 11 | 704,458 | | 704,458 |
| Loss for Year | | | (581,328) | (581,328) |
| Balance as at 30 June 2010 | | <u>2,662,382</u> | <u>(1,818,581)</u> | <u>843,801</u> |
| Shares Issued | 11 | 600,112 | | 600,112 |
| Loss for Year | | | (942,450) | (942,450) |
| Balance as at 30 June 2011 | | <u>3,262,494</u> | <u>(2,761,031)</u> | <u>501,463</u> |

The accompanying notes form part of these financial statements.

REPRODUCTIVE HEALTH SCIENCE PTY LTD
ABN 51 067 210 922

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

| | Notes | 2011 \$ | 2010 \$ |
|--|-------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from approved grants | | 138,341 | 386,356 |
| R&D tax rebates received | | 332,000 | 184,499 |
| Other receipts | | - | 6,540 |
| Payments to suppliers and employees | | (758,921) | (1,087,253) |
| Interest received | | 23,625 | 14,416 |
| GST refunds | | 8,640 | 18,756 |
| Net cash used in operating activities | 14 | <u>(256,315)</u> | <u>(476,686)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 8 | (1,125) | (136,542) |
| Patent expenses | | (20,646) | (25,450) |
| Net cash used in investing activities | | <u>(21,771)</u> | <u>(161,992)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issues of equity | 11 | 600,112 | 704,458 |
| Net cash provided by financing activities | | <u>600,112</u> | <u>704,458</u> |
| Net Increase in Cash Held | | 322,026 | 65,780 |
| Cash and cash equivalents at beginning of Year | | 522,410 | 456,630 |
| Cash and cash equivalents at end of Year | | <u><u>844,436</u></u> | <u><u>522,410</u></u> |

The accompanying notes form part of these financial statements.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS YEAR ENDED 30 JUNE 2011

Note 1: Statement of Accounting Policies

The directors' have prepared the financial statements on the basis that the company is a non-reporting entity because there are no users dependent on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the needs of members.

The financial statements have been prepared in accordance with the significant accounting policies disclosed below, which the directors have determined are appropriate to meet the needs of members. Such accounting policies are consistent with the previous period unless stated otherwise.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. The accounting policies that have been adopted in the preparation of the statements are as follows:

a. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are subsequently enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

b. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011

Note 1: Statement of Accounting Policies (cont'd)

b. Property, Plant and Equipment (cont'd)

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employed and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets is depreciated over their useful lives to the company commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets in 2011 are:

| <u>Class of Fixed Asset</u> | <u>Depreciation rates</u> |
|-----------------------------|---------------------------|
| Laboratory Equipment | 15.00% |
| Computer Equipment | 40.00% to 50.00% |
| Furniture and Fittings | 13.33% to 20.00% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011**

Note 1: Statement of Accounting Policies (cont'd)

b. Property, Plant and Equipment (cont'd)

Impairment of Assets

At each reporting date, the company reviews that carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying base. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

c. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to settle within one year have been measured at the amounts expected to be settled plus related on costs. Employee benefits payable later than one year have been measured at the present value of estimated future cash outflows to be made for those benefits.

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred.

d. Provisions

Provisions are recognised when the company has a 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.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011**

Note 1: Statement of Accounting Policies (cont'd)

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities in the balance sheet.

f. Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Government Grants are brought to account as income during the year. To the extent that grant funds remain unspent at the end of the year, these have been carried forward to the following year.

All revenue is stated net of the amount of Goods and Services Tax (GST).

g. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a GST exclusive basis.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011**

Note 1: Statement of Accounting Policies (cont'd)

h. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical costs and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

i. Research and Development

Expenditure during the research phase of a project is recognised as an expense when it is incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

j. Going Concern

As described in the results section of the Directors' Report and the profit and loss statement, the loss of the company for the year after providing for income tax was \$942,450 (2010 – loss of \$581,328). Research and development activities of the company have been reliant to date on commercial ready grant government funding and equity funding from investors. Commercial ready grant funding expired at the end of 2010 and accordingly the future solvency of the company will be reliant on further contributions from investors, which, at the date of signing the financial report have not yet been secured.

The directors are undertaking measures to secure additional funding from investors but in the absence of such funding have concluded that these circumstances represent a material uncertainty that casts significant doubt on the ability of the company to continue as a going concern and, therefore, whether the company will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Nevertheless after making enquiries and considering the uncertainties described above the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial report.

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011**

| | 2011 | 2010 |
|---|----------------|------------------|
| | \$ | \$ |
| 2 Revenue | | |
| Operating activities | | |
| Government grant | 138,341 | 325,547 |
| Expense recoveries | 900 | 6,540 |
| | <u>139,241</u> | <u>332,087</u> |
| Interest revenue from Banking institutions | <u>23,625</u> | <u>14,416</u> |
| | <u>23,625</u> | <u>14,416</u> |
| Total revenue | <u>162,866</u> | <u>346,503</u> |
| 3 Key management personnel | | |
| Total compensation | | |
| Salaries & wages | 135,000 | 135,000 |
| Superannuation contributions | 12,150 | 12,150 |
| | <u>147,150</u> | <u>147,150</u> |
| 4 Auditor's remuneration | | |
| Remuneration of the auditor | | |
| Auditing or reviewing the financial report | 6,000 | 6,000 |
| | <u>6,000</u> | <u>6,000</u> |
| 5 Income tax benefit | | |
| R&D tax credits received | (332,000) | (184,499) |
| R&D refund tax expense | 538,343 | - |
| | <u>206,343</u> | <u>(184,499)</u> |
| <p>Included in Other Expenses is an amount of \$61,657 being an estimate of the expected General Interest Charge payable.</p> | | |
| 6 Cash and cash equivalents | | |
| Cash on hand | 2 | 2 |
| Cash at bank | 844,434 | 522,408 |
| | <u>844,436</u> | <u>522,410</u> |
| 7 Trade and other receivables | | |
| Current | | |
| Trade debtors | 990 | - |
| Other debtors | - | 443 |
| GST refundable | - | 2,684 |
| | <u>990</u> | <u>3,127</u> |

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011**

| | | |
|--|-----------------------|-----------------------|
| 8 Property, plant and equipment | 2011 | 2010 |
| Plant and equipment | \$ | \$ |
| At cost | 396,151 | 395,026 |
| Accumulated depreciation | <u>(164,582)</u> | <u>(113,808)</u> |
| | <u>231,569</u> | <u>281,218</u> |

Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year.

| | <u>Laboratory Equipment</u> | <u>Computer Software</u> | <u>Furniture & Fittings</u> | <u>Total</u> |
|----------------------|---------------------------------|------------------------------|-------------------------------------|-----------------------|
| | \$ | \$ | \$ | \$ |
| Balance 1 July 2009 | 136,381 | 48,062 | 17,051 | 201,494 |
| Additions | 136,542 | - | - | 136,542 |
| Depreciation | <u>(30,145)</u> | <u>(24,122)</u> | <u>(2,551)</u> | <u>(56,818)</u> |
| Balance 30 June 2010 | <u>242,778</u> | <u>23,940</u> | <u>14,500</u> | <u>281,218</u> |
| Additions | 1,125 | - | - | 1,125 |
| Depreciation | <u>(36,630)</u> | <u>(11,972)</u> | <u>(2,172)</u> | <u>(50,774)</u> |
| Balance 30 June 2011 | <u>207,273</u> | <u>11,968</u> | <u>12,328</u> | <u>231,569</u> |

| | | |
|--------------------------|----------------------|----------------------|
| 9 Payables | 2011 | 2010 |
| Current | \$ | \$ |
| Trade creditors | 16,179 | 5,248 |
| Accrued expenses | 30,090 | 1,041 |
| PAYG withholding payable | 10,759 | 8,625 |
| Superannuation payable | 465 | - |
| Credit card balances | 1,160 | 5,884 |
| GST payable | <u>2,674</u> | <u>-</u> |
| | <u>61,327</u> | <u>20,798</u> |

| | | |
|----------------------|----------------------|----------------------|
| 10 Provisions | | |
| Current | | |
| Employee benefits | | |
| Opening balance | 23,248 | 23,536 |
| Movement | <u>(9,333)</u> | <u>(288)</u> |
| Closing balance | <u>13,915</u> | <u>23,248</u> |
| Non-current | | |
| Employee benefits | | |
| Opening balance | 16,745 | 8,637 |
| Movement | <u>2,444</u> | <u>8,108</u> |
| Closing balance | <u>19,189</u> | <u>16,745</u> |

REPRODUCTIVE HEALTH SCIENCE PTY LTD

ABN 51 067 210 922

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011**

| | 2011 | 2010 |
|---|------------------|------------------|
| | \$ | \$ |
| 11 Issued Capital | | |
| 100,000 Fully Paid Ordinary Shares | 250,002 | 250,002 |
| 219,000 Fully Paid Series A Preference Shares | 1,707,922 | 1,707,922 |
| 448,770 Fully Paid Series B Preference Shares | 1,304,570 | 704,458 |
| | 3,262,494 | 2,662,382 |

| | 2011 | | 2010 | |
|---|---------|-----------|---------|-----------|
| | No | \$ | No | \$ |
| <u>Fully Paid Ordinary Shares</u> | | | | |
| On issue at the beginning and end of the year | 100,000 | 250,002 | 100,000 | 250,002 |
| <u>Fully Paid Series A Preference Shares</u> | | | | |
| On issue at beginning of year | 219,000 | 1,707,922 | 219,000 | 1,707,922 |
| Issued during the year | | | | |
| On issue at end of year | 219,000 | 1,707,922 | 219,000 | 1,707,922 |
| <u>Fully Paid Series B Preference Shares</u> | | | | |
| On issue at beginning of year | 448,770 | 704,458 | - | - |
| Issued during the year | 382,165 | 600,112 | 448,770 | 704,458 |
| On issue at end of year | 830,935 | 1,304,570 | 448,770 | 704,458 |

Following a recommendation by the Board at its meeting of 25 September 2008, the shareholders agreed to a share split of all issued shares, converting one existing share into one thousand new shares.

12 Employee Share Options

During the 2009-10 year, key executive and Board members were offered options in the company. These options fully vested as at 31 March 2010.

Exercise price of the options is \$1.57 per option.

Exercise of the options is conditional upon:

- (a) The Company providing the option holder with an Exit Event Notice; and
- (b) that Exit Event not lapsing

Options on issue are:

| | 2011 | 2010 |
|-------------|---------------|---------------|
| Dr M Fraser | 10,633 | 10,633 |
| Dr T Geimer | 3,544 | 3,544 |
| | 14,177 | 14,177 |

13 Related Party Transactions

Transactions between related parties are on normal terms and conditions that are no more favourable than those to other parties unless otherwise stated.

REPRODUCTIVE HEALTH SCIENCE PTY LTD
ABN 51 067 210 922

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011

14 Cash Flow Information

| Reconciliation of cash flows from operations with loss from ordinary activities after income tax: | 2011 | 2010 |
|--|------------------|------------------|
| | \$ | \$ |
| Loss after income tax | (942,450) | (581,328) |
| Non cash flows: | | |
| Depreciation | 50,774 | 56,818 |
| Movement in R&D Refund | 600,000 | - |
| Movement in annual leave | (9,333) | (288) |
| Movement in long service leave | 2,444 | 8,108 |
| Changes in assets and liabilities | | |
| Decrease in trade and other receivables | 2,137 | 61,627 |
| (Increase)/decrease in prepaid expenses | (416) | 799 |
| Increase/(decrease) in trade and other payables | 40,529 | (22,422) |
| Net cash used in operating activities | <u>(256,315)</u> | <u>(476,686)</u> |

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

| | | |
|-------------------------------|----------------|----------------|
| Cash on hand | 2 | 2 |
| Cash at bank - Cheque account | 986 | 759 |
| - Investment account | 843,448 | 521,649 |
| | <u>844,436</u> | <u>522,410</u> |

REPRODUCTIVE HEALTH SCIENCE PTY LTD
ABN 51 067 210 922

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2011

15 Events After Reporting Date and Contingent Liabilities

In late July 2011 a question arose concerning the eligibility of the company to claim R&D tax refunds that it received in relation to the three year period to June 2010. Unbeknown to management and the Board, two of the shareholders are each exempt from income tax, and together they held shares which on face value exceeded the 25% exempt shareholder limit for eligibility under the R&D tax refund rules. Consequently the R&D refunds received to date may need to be repaid to the ATO.

The first refund was received on 29 May 2009 and the last on 10 May 2011. Amounts received total \$537,601. Should these amounts become repayable, interest can be expected to be payable on the amounts received at the General Interest Charge (GIC) rates for the relevant periods. Interest at the GIC rates has been calculated up to 30 September 2011 as being \$61,657. Excluding any penalties that may be applied by the ATO the amount payable would be \$599,258.

A provision has been included in the financial report in respect of this amount.

Subsequent to balance date, the Company's shareholders have been in discussions regarding a capital restructuring arrangement that would support the ongoing business activities. At the time of signing the accounts the capital restructuring arrangement is in the process of being finalised.

16 Company details

The registered office of the company is:

Reproductive Health Science Pty Ltd
C/- Edwards Marshall
Level 3, 153 Flinders Street
Adelaide SA 5000

The principal place of business is:

Reproductive Health Science Pty Ltd
Level 1 BioSA Incubator
40-46 West Thebarton Road
Thebarton SA 5031



Edwards Marshall

REPRODUCTIVE HEALTH SCIENCE PTY LTD

AUDITOR DISCLAIMER

DISCLAIMER ON ADDITIONAL FINANCIAL INFORMATION

To the Members

Level 3 153 Flinders Street
Adelaide SA 5000
GPO Box 2163 Adelaide SA 5001
Telephone 08 8139 1111
Facsimile 08 8139 1100
info@edwardsmarshall.com.au
edwardsmarshall.com.au

Our examination of the financial statements of Reproductive Health Science Pty Ltd at 30 June 2011 and for the year then ended included tests of the accounting records from which the additional information presented in the following page is taken. Our examination was intended primarily for the purpose of formulating an opinion on the basic financial statements taken as a whole and was not such as to enable us to express an opinion as to the fairness of all of the details of the additional information; accordingly, we do not express an opinion thereon.

Edwards Marshall

Edwards Marshall
Chartered Accountants

B. Morkunas

Partner

Adelaide
South Australia

Dated *18/10/2011*

REPRODUCTIVE HEALTH SCIENCE PTY LTD
ABN 51 067 210 922

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

| | Year Ended 30 June 2011 | | | Year Ended 30 June 2010 | | |
|--|-------------------------|------------------|------------------|-------------------------|------------------|------------------|
| | R&D | Admin/ Other | Total | R&D | Admin/ Other | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| INCOME | | | | | | |
| Grants Received | 138,341 | - | 138,341 | 325,547 | - | 325,547 |
| Other Income | - | 900 | 900 | - | 6,540 | 6,540 |
| Interest Received | - | 23,625 | 23,625 | - | 14,416 | 14,416 |
| | 138,341 | 24,525 | 162,866 | 325,547 | 20,956 | 346,503 |
| EXPENSES | | | | | | |
| (a) Direct Research & Development Expenditure | | | | | | |
| Laboratory Supplies | 76,349 | - | 76,349 | 134,961 | - | 134,961 |
| (b) Operating Expenses | | | | | | |
| Accounting Fees | - | 4,000 | 4,000 | - | 5,750 | 5,750 |
| Administration Costs | - | - | - | - | 780 | 780 |
| Advertising | - | - | - | - | - | - |
| Audit Fees | 2,500 | 5,300 | 7,800 | 2,500 | 3,500 | 6,000 |
| Bank Charges | 253 | 283 | 536 | 253 | 490 | 743 |
| Bookkeeping | - | - | - | - | - | - |
| Cleaning & Outgoings | - | 4,273 | 4,273 | - | 7,047 | 7,047 |
| Consultancy Fees | 66,170 | 14,913 | 81,083 | 242,900 | 240 | 243,140 |
| Depreciation | 40,939 | 9,835 | 50,774 | 40,939 | 15,879 | 56,818 |
| Electricity | - | 2,828 | 2,828 | - | - | - |
| Entertainment | - | - | - | - | - | - |
| Filing Fees | - | - | - | - | 212 | 212 |
| Fines and Penalties | - | - | - | - | 540 | 540 |
| Freight & Postage | 297 | - | 297 | 4,009 | 167 | 4,176 |
| Insurance | 627 | 8,564 | 9,191 | 627 | 11,381 | 12,008 |
| IT Costs | 271 | 14,525 | 14,796 | 271 | 18,244 | 18,515 |
| Legal Fees | - | 1,800 | 1,800 | 4,300 | 14,297 | 18,597 |
| Office Supplies | - | 918 | 918 | - | 1,566 | 1,566 |
| Permits, Licences and Fees | - | - | - | - | - | - |
| Rent | - | 63,930 | 63,930 | - | 60,970 | 60,970 |
| Repairs & maintenance | - | 1,677 | 1,677 | - | - | - |
| R&D Refund Interest | - | 61,657 | 61,657 | - | - | - |
| Seminars and Conferences | 9,978 | 2,652 | 12,630 | 2,397 | 1,946 | 4,343 |
| Subscriptions and Memberships | - | 2,750 | 2,750 | - | 3,395 | 3,395 |
| Telephone | - | 3,786 | 3,786 | 131 | 2,233 | 2,364 |
| Travel Expenses | - | 596 | 596 | 20,663 | 2,207 | 22,870 |
| Sundry Expenses | - | 202 | 202 | 386 | 948 | 1,334 |
| | 121,035 | 204,489 | 325,524 | 319,376 | 151,792 | 471,168 |
| (c) Employee Expenses | | | | | | |
| Staff Recruitment | - | 390 | 390 | - | - | - |
| Staff Amenities | - | 298 | 298 | - | 12 | 12 |
| Salaries and Wages | 281,185 | 138,813 | 419,998 | 275,185 | 175,668 | 450,853 |
| Annual Leave Expense | - | 32,005 | 32,005 | - | 4,328 | 4,328 |
| Long Service Leave Expense | - | 2,444 | 2,444 | - | 8,108 | 8,108 |
| Superannuation Contributions | - | 40,153 | 40,153 | - | 40,906 | 40,906 |
| WorkCover | - | 1,812 | 1,812 | - | 1,994 | 1,994 |
| Payroll Tax | - | - | - | - | - | - |
| Salaries On Costs | - | - | - | 64,988 | (64,988) | - |
| | 281,185 | 215,915 | 497,100 | 340,173 | 166,028 | 506,201 |
| Total Expenses | 478,569 | 420,404 | 898,973 | 794,510 | 317,820 | 1,112,330 |
| Loss Before Income Tax | (340,228) | (395,879) | (736,107) | (468,963) | (296,864) | (765,827) |