



BIOPHARMICA LTD

ACN 095 912 002

Annual Financial Report 2007

Contents

BioPharmica Ltd and its controlled entities

	Page Number
Directors' Report	1
Corporate Governance Statement	11
Auditor Independence Declaration	16
Income Statement	17
Balance Sheet.....	18
Statement of Changes in Equity	19
Cash Flow Statement.....	21
Notes to the Financial Statements.....	22
Directors' Declaration.....	50
Independent Audit Report.....	51
Additional Stock Exchange Information	53

Company Information

Directors

David Breeze – Chairman/Managing Director
Seng Yap – Non- Executive Director
Greg Gilbert – Non-Executive Director
(appointed 3 October 2007)
Dr. Samantha Gallagher – Executive Director
(appointed 30 November 2005)
(resigned 28 November 2006)
Charles Murphy – Executive Director
(resigned 3 October 2007)

Scientific Advisors

Professor Peter Klinken
Dr. Benjamin Fry

Registered Office

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Auditor

Rix Levy Fowler
Level 1
12 Kings Park Road
West Perth WA 6005

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

Australian Stock Exchange Listing

Australian Stock Exchange Limited
(Home Exchange: Perth, Western Australia)
ASX Code: BPH

Australian Business Number

41 095 912 002

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

The directors of BioPharmica Ltd present their report on the company and its controlled entities for the financial year ended 30 June 2007.

Directors

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

D L Breeze
S K Yap
G Gilbert (appointed 3 October 2007)
C R Murphy (resigned 3 October 2007)
S Gallagher (appointed 30 November 2005)
(resigned 28 November 2006)

Company Secretary

Mr David Leslie Breeze held the position of Company Secretary at the end of the financial year. Mr Breeze was appointed Company Secretary on 14 February 2001. Full details of his qualifications and experience can be found in the information on directors section of the directors' report.

Principal Activities

Biotechnology Activity Update

- BioPharmica is a company dedicated to the ideals of Personalized Medicine through the applied development of discoveries made from fundamental research. Globally, healthcare has moved away from mass produced solutions to biotechnology programmes designed to address the issues of the individual.
- BioPharmica is currently working to commercialise a portfolio of Australian biomedical research projects with leading universities, medical institutes and hospitals targeting large global markets. It is recognized world wide that Australian research and invention is as rich and diverse as its natural resources.
- BioPharmica is committed to facilitating the development of biomedical research in order to compete internationally, producing marketable intellectual property and a movement to the development path within a much reduced time frame.
- BioPharmica has a diverse portfolio of projects undergoing pre-clinical and clinical development in the production of diagnostic arrays, nanotechnology, biomarkers and therapeutics. The research and development program is designed around state of the art technology, specifically to deliver validated, individually tailored healthcare solutions.

Biomarkers and Therapeutics

Developed around novel pathways involved in multiple, key disease processes, with the linked development of diagnostic, prognostic and treatment regimes. The current development pipeline involves pre-clinical molecules for use in oncology, metabolic, neurodegenerative and infectious disease.

BioPharmica has established the 100% owned entity, Molecular Discovery Systems to acquire high content information from large scale sample analysis to create a range of direct and indirect

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

commercial opportunities. Research and development is focused on theranostic discovery and validation linking therapeutics and diagnostics.

Drug Monitoring

Developing new technology that will provide clinicians and researchers with a substantially improved ability to detect and accurately quantify the effects of a wide range of drugs on brain function.

Diagnostic Arrays

Identification of multiple micro-organisms in biological samples. Simple, rapid and inexpensive characterisation of disease, facilitating correct diagnosis and treatment.

Nanoprobes

Fibre optic SERS (Surface-Enhanced Raman Spectroscopy) nanotechnology used in biosensors across a range of disciplines.

Operating Results

The consolidated loss of the economic entity after providing for income tax and accounting for minority interest amounted to \$1,266,019 (2006 \$795,653).

Dividends

The Directors recommend that no dividend be paid in respect of the current Period and no dividends have been paid or declared since the commencement of the period.

Review of Operations

The major activities throughout the period were (a) the collaboration between Molecular Discovery Systems and GE Healthcare (b) the launch of a new clinical trial for the brain function monitoring technology (c) the granting of a patent for HLS5 for a Tumour Suppressor Factor (d) the completion of a commercial development agreement for the SERS investment (e) the award of an NHMRC grant to investee Cortical Dynamics (f) the decision to spin off and list investee Cortical Dynamics (g) the agreement by BioPharmica to take an 83.5% investment in the HLS5 project with the University of Western Australia .

Financial Position

The net assets of the economic entity decreased by \$802,546 to \$3,802,187 at 30 June 2007. This decrease has largely resulted from the following factors:

- Current assets decreasing by \$700,411
- Investments using the equity method decreasing by \$399,477
- Intangible assets increasing by \$629,269
- Total liabilities increasing by \$114,430
- The consolidated entity posting a net loss of \$1,226,019 after accounting for minority interests

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

Significant Changes in State Of Affairs

On 1 March 2007 BioPharmica increased its interest in Diagnostic Array Systems to 51.82%, as such it has been accounted for as a subsidiary (see Note 20 for details of acquisition).

There were no other significant changes in the state of affairs of the economic entity other than that referred to in the financial statements or notes thereto.

After Balance Date Events

On 16th July the Company announced the completion of the option conversion raising \$663,646. On the 27th July the Company announced the completion of the shareholder share purchase plan raising \$898,200. On the 27th September shareholders voted to approval an equal reduction in capital allowing for the spin off of Cortical Dynamics.

Other than referred to there have not been any matters or circumstance that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Environmental Issues

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

Future Developments

The entity will continue to commercialise breakthrough biomedical research developed in universities, medical institutes and hospitals.

Information on Directors

D L Breeze

Managing Director, Company Secretary and Executive Chairman – Age 54

Shares held – 10,056,402

Unlisted Options held – 2,000,000

David Breeze is a Corporate Finance Specialist with extensive experience in the stock broking industry and capital markets. He has been a corporate consultant to Daiwa Securities; was formerly Manager of Corporate Services for Eyres Reed McIntosh and the State Manager and Associate Director for the stock broking firm BNZ North's.

David has a Bachelor of Economics and a Masters of Business Administration, and is a Member of the Australian Institute of Management, an Associate Member of the Financial Services Institute of Australasia, and a Fellow of the Institute of Company Directors of Australia. He has published in the Journal of Securities Institute of Australia and has also acted as Independent Expert under the Corporations Act. He has worked on the structuring, capital raising and public listing of over 70 companies involving in excess of \$250M. These capital raisings covered a diverse range of areas including oil and gas, gold, food, manufacturing and technology.

David has worked on the structuring, capital raising and public listing of over 80 companies involving in excess of \$250M. These capital raisings covered a diverse range of areas including oil and gas, gold,

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

biotechnology and manufacturing. David Breeze is Chairman of Grandbridge Ltd, a publicly listed investment and advisory company and MEC Resources Ltd, a public listed company investing in exploration companies that targets potentially large energy and mineral resources

S K Yap

Non-Executive Director – Age 51

Shares held – 725,000

Unlisted Options held – 2,000,000

Seng Yap is currently actively involved as a consultant for major companies in Japan and China and has extensive experience in Investment Banking activities throughout the Asian region. Seng Yap was formerly the CEO of a listed resort and gaming operator in the Philippines. He was also previously a Director for Victoria Co, the owner and operator of the Burswood Resort. Seng also served as Director for Daiwa Securities in Australia.

Seng Yap has a Bachelor of Engineering (Information Engineering) Degree from Kyoto University as well as a Postgraduate Diploma from the Securities Institute of Australia and the Company Directors Diploma from the Australian Institute of Company Directors.

G Gilbert

Executive Director – Age 59

Appointed 3 October 2007

Shares held – nil

Unlisted Options held – nil

Mr Gilbert is a specialist in strategy and planning and works in the health and aged care sector. He has a Master of Science from Cranfield University in the UK and, in addition, has a Master of Health Administration from La Trobe University, an MBA from Deakin University, a BA from the University of Queensland, and a Dip.App Sc from the Royal Military College Duntroon.

He has an extensive background in merchant banking and banking, having held the position Global Head of Strategy and Finance and Project Director Global Credit Review with the National Australia Bank, as well as having worked in executive roles with Capel Court Investment Bank, CIBC Australia Limited and Bentley and Chau.

He has also worked with the National Australia Bank as an Internal Consultant on strategic operational reviews with McKinsey and Company and Booz Allen and Hamilton consultants.

A former Lieutenant Colonel in the Australian Defence Force, he has extensive senior management experience in strategic planning, financial management, change management and project management as well as merchant banking and corporate advisory experience in mergers and acquisitions and valuations.

C R Murphy

Executive Director – Age 35

Resigned 3 October 2007

Shares held – 700,000

Unlisted Options held – 4,000,000

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

Charles Murphy has been a corporate consultant to a wide range of companies and industries including Biotechnology, Bioinformatics, Mining, Telecommunications and other advanced technology companies in business planning, strategy, corporate development, structuring and capital raising.

He has also previously held senior management positions that have incorporated business and corporate development within Venture Capital funded and private equity funded ITC start-up companies.

Mr Murphy has lived and worked in Asia and also has experience in export marketing throughout the Asia Pacific region. Mr Murphy holds a Masters Degree in Business Administration (MBA) and a Bachelor Degree in Asian Studies and Marketing.

Charles currently serves as a Director of ASX listed investment and advisory company Grandbridge Ltd, ASX listed biotechnology commercialization business BioPharmica Ltd and a number of private emerging growth companies.

Dr S Gallagher

Executive Director – Age 39

(Appointed 30 November 2005)

(Resigned 28 November 2006)

Shares held – nil

Unlisted Options held – 3,000,000

Dr. Gallagher gained her PhD from The University of Wales, College Cardiff, sponsored by, the then ICI, this followed on from her joint honours degree in Biochemistry and Zoology from the same institution. Dr. Gallagher, garnered strong international experience, during a series of post doctoral fellowships in lung toxicology, imaging, particulate and cell based analysis and validation fields.

Dr Gallagher has focused on biotech and healthcare throughout most of her professional career. Dr Gallagher was involved in the development and launch of biomedical products produced by Amersham Biosciences and GE healthcare. Dr Gallagher has worked collaboratively with leading international scientists across Europe, America and Canada.

Remuneration Report

This report details the nature and amount of remuneration for each director of BioPharmica, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of BioPharmica Ltd has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

- The remuneration committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

Details of Remuneration for the year ended 30 June 2007

The remuneration for each director and each of the executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

2007

Key Management Person	Short-term Benefits				Post-employment Benefits
	Cash, Salary and fees	Cash profit share	Non-cash benefit	Other	Superannuation
D L Breeze	98,000	-	-	-	-
C R Murphy	123,000	-	-	-	2,250
S Gallagher	165,000	-	-	-	14,240
S K Yap	25,000	-	-	-	-

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

2007 (cont'd)

Key Management Person	Long-term Benefits	Share-based payment		Total	Performance Related
	Other	Equity	Options	\$	%
D L Breeze	-	-	-	98,000	-
C R Murphy	-	-	4,712	129,962	-
S Gallagher	-	-	3,628	182,868	-
S K Yap	-	-	-	25,000	-

2006

Key Management Person	Short-term Benefits				Post-employment Benefits
	Cash, Salary and fees	Cash profit share	Non-cash benefit	Other	Superannuation
D L Breeze	98,000	-	-	-	-
C R Murphy	123,000	-	-	-	1,168
S Gallagher	123,862	-	-	18,181	1,177
S K Yap	55,417	-	-	-	-

2006 (cont'd)

Key Management Person	Long-term Benefits	Share-based payment		Total	Performance Related
	Other	Equity	Options	\$	%
D L Breeze	-	-	-	98,000	-
C R Murphy	-	-	-	124,168	-
S Gallagher	-	-	-	143,220	-
S K Yap	-	-	-	55,417	-

Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.7.2006	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2007	Total Vested 30.6.2007	Total Exercisable 30.6.2007	Total Unexercisable 30.6.2007
D L Breeze	6,988,001	-	-	(4,988,001)	2,000,000	2,000,000	2,000,000	-
C R Murphy	2,350,000	2,000,000	-	(350,000)	4,000,000	4,000,000	2,000,000	2,000,000
S Gallagher	-	3,000,000	-	-	3,000,000	3,000,000	-	3,000,000
S K Yap	2,362,500	-	-	(362,500)	2,000,000	2,000,000	2,000,000	-

The Net Change Other reflected above includes those options that have been forfeited by holders, options that have expired as well as options issued during the year under review.

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

Shareholdings

Number of Shares Held by Key Management Personnel

	Balance 1.7.2006	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2007
D L Breeze	10,031,402	-	-	25,000	10,056,402
C R Murphy	700,000	-	-	-	700,000
S Gallagher	-	-	-	-	-
S K Yap	725,000	-	-	-	725,000

Net Change Other refers to shares purchased or sold during the financial year.

Employment contracts of directors and senior executives

The employment conditions of the managing director, David Breeze, the executive director and specified executives are formalised in contracts of employment. The directors are permanent employees of BioPharmica Ltd. The employment contracts stipulate a six month resignation period. The company may terminate an employment contract without cause by providing six months written notice or making payment in lieu of notice, based on the individual's annual salary component together with a redundancy payment of six months of the individual's fixed salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will not lapse.

Meetings of Directors

During the financial year, four meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meetings	
	Number eligible to attend	Number attended
D L Breeze	4	4
C R Murphy	4	4
S Gallagher	3	3
S K Yap	4	4

Indemnifying Officers or Auditors

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$18,820.

- D Breeze
- C Murphy

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

- S Gallagher
- S Yap

Options

At the date of this report, the unissued ordinary shares of BioPharmica Ltd under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
2 August 2004	8 April 2009	\$0.205	6,000,000
22 September 2006	29 August 2011	\$0.18	2,000,000
22 September 2006	29 August 2011	\$0.125	3,000,000

During the year ended 30 June 2007, no ordinary shares of BioPharmica Ltd were issued on the exercise of options granted under the BioPharmica Ltd Employee Option Plan. No amounts are unpaid on any of the shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of 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.

Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2007.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 16.

Directors' Report (continued)

BioPharmica Ltd and its controlled entities

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'D. Breeze'.

David Breeze

Dated this 12th day of October 2007

Corporate Governance

BioPharmica Ltd and its controlled entities

The Board of Directors of BioPharmica Limited (“BPH” or “the Company”) is responsible for the corporate governance of the economic entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines and accountability as the basis for the administration of corporate governance.

CORPORATE GOVERNANCE DISCLOSURES

The Board and management are committed to corporate governance and to the extent that they are applicable to the Company have followed the “Principles of Good Corporate Governance and Best Practice Recommendations” issued by the Australian Stock Exchange (“ASX”) Corporate Governance Council.

COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise a majority or at least 50% of the Board will be independent non-executive directors;
- the Board should have at least one director with an appropriate range of qualifications and expertise; and
- the Board shall meet at regular intervals and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the Board selects a candidate or panel of candidates with the appropriate expertise.

The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of shareholders. The Company does not have a formal Nomination Committee.

REMUNERATION AND NOMINATION COMMITTEES

The Company does not have a formal Remuneration or Nomination Committees. The full Board attends to the matters normally attended to by a Remuneration Committee and a Nomination committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitable qualified and experienced Directors and senior executives.

AUDIT COMMITTEE

The Company does not have a formal Audit Committee. The full Board carried out the functions of an Audit Committee. Due to the status of the Company and the relatively straight forward accounts of the Company anticipated in the financial year, the Directors believe that at the moment there would be no additional benefits obtained by establishing such a committee. The Board follows the Audit Committee Charter, a copy of which is available on request.

Corporate Governance

BioPharmica Ltd and its controlled entities

BOARD RESPONSIBILITIES

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive Officer. The Board ensures that the Chief Executive Officer is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, employees, contractors and consultants.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. It has a number of mechanisms in place to ensure this is achieved, including the following:

- Board approval of a strategic plan, designed to meet shareholder needs and manage business risk;
- Implementation of operating plans and budgets by management and Board monitoring progress against budget;
- Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

MONITORING OF THE BOARD'S PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all directors is to be reviewed annually by the chairperson. Directors whose performance is unsatisfactory are asked to retire.

BEST PRACTICE RECOMMENDATION

Outlined below are the 10 Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council. The Company has complied with the Corporate Governance Best Practice Recommendations except as identified below.

	Action taken and reasons if not adopted
<i>Recognise and publish the respective roles and responsibilities of the board and management</i> <i>Principle 1: Lay solid foundation for management and oversight</i> 1.1 Formalise and disclose the functions reserved to the Board and those delegated to management	Adopted
<i>Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties</i> <i>Principle 2: Structure the board to add value</i>	Adopted except as follow:- 2.2 The Chairman does not satisfy the Independence Test. The Board considers that the

Corporate Governance

BioPharmica Ltd and its controlled entities

	Action taken and reasons if not adopted
2.1 A majority of the Board should be independent 2.2 The chairperson should be an independent director 2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual 2.4 The board should establish a nomination committee 2.5 Provide the information indicated in 'Guide to reporting on Principle 2'	Chairman's role as Chairman of the Board is appropriate given his experience in business. 2.4 The Company is not of a size at the moment that justifies having a separate Nomination Committee. However, matters typically dealt with by such a committee are dealt with by the Executive Committee.
Actively promote ethical and responsible decision-making <i>Principle 3: Promote ethical and responsible decision-making</i> 3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the Company's integrity 3.1.2 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices 3.2 Disclose the policy concerning trading in Company securities by directors, officers and employees 3.3 Provide the information indicated in 'Guide to Reporting on Principle 3' Have a structure in place to independently verify and safeguard the integrity of the Company's financial reporting <i>Principle 4: Safeguard integrity in financial reporting</i> 4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. 4.2 The Board should establish an audit committee 4.3 Structure the audit committee so that it consists of: ▪ Only non-executive directors ▪ A majority of independent directors ▪ An independent chairperson who is not the chairperson of the Board ▪ At least three members	Adopted Adopted except as follows:- 4.2 & 4.3 The Company does not have a separate Audit Committee. The full Board carries out the functions of an Audit Committee. Due to the status of the Company and the relatively straight forward accounts of the Company, the Directors at the moment can see no additional

Corporate Governance

BioPharmica Ltd and its controlled entities

4.4 The audit committee should have a formal operating charter 4.5 Provide the information indicated in the 'Guide to reporting on Principle 4'	benefits to be obtained by establishing such a committee. The Board follows the Audit Committee Charter, a copy of which is available on request.
Promote timely and balanced disclosure of all material matters concerning the Company <i>Principle 5: Make timely and balanced disclosure</i> 5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance 5.2 Provide the information indicated in the 'Guide to reporting on Principle 5'	Adopted
Respect the rights of shareholders and facilitate the effectiveness of those rights <i>Principle 6: Respect the rights of shareholders</i> 6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings. 6.2 Request the external audit to attend the annual general meeting and be available to answer shareholder questions about the audit and the preparation and content of the auditor's report	Adopted
Establish a sound system of risk oversight and management and internal control <i>Principle 7: Recognise and manage risk</i> 7.1 The Board or appropriate Board committee should establish policies on risk oversight and management 7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements	Adopted

Corporate Governance

BioPharmica Ltd and its controlled entities

- the policies adopted by the Board
- 7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

7.3 Provide the information indicated in the 'Guide to reporting on Principle 7'

Fairly review and actively encourage enhanced board and management effectiveness

Principle 8: Encourage enhanced performance

- 8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives

Adopted

Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined

Principle 9: Remunerate fairly and responsibly

- 9.1 Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the cost and benefits of these policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.
- 9.2 The Board should establish a remuneration committee
- 9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives
- 9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders

Adopted except as follows:-

9.2 The Company is not of a size that justifies having a separate Remuneration Committee. However, matters typically dealt with by such committee are dealt with by the full Board.

Recognise the legal and other obligations of all legitimate stakeholders

Principle 10: Recognise the legitimate interest of stakeholders

- 10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders

Adopted



To The Board of Directors

**Auditor's Independence Declaration
under Section 307C of the Corporations Act 2001**

This declaration is made in connection with our audit of the financial report of BioPharmica Limited and controlled entities for the year ended 30 June 2007 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- no contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the audit.

Yours faithfully

RIX LEVY FOWLER
Audit & Corporate Pty Ltd

RANKO MATIC
Director

DATED at PERTH this 12th day of October 2007

Income Statement for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	2	197,125	123,381	249,406	113,309
Other income	2	381,311	190,960	318,672	190,960
Share of associates profit/(loss)	2	2,701	(87,808)	2,701	(87,808)
Administration expenses		(125,719)	(85,645)	(103,101)	(84,198)
Advertising and Promotion expenses		(1,392)	(75,941)	(894)	(75,941)
Impairment expense		(216,935)	-	-	-
Consulting and Legal expenses		(338,673)	(95,362)	(292,851)	(95,321)
Research and Development expenses		(777,166)	(222,510)	(115,884)	(222,416)
Depreciation and amortisation expense		(15,773)	(4,800)	(3,984)	(4,514)
Employee expense		(175,834)	(173,461)	(59,950)	(173,461)
Finance costs		(45,514)	(12,927)	-	-
Insurance expenses		(8,830)	(24,924)	(6,067)	(23,290)
Mailing and Distribution expenses		-	(2,500)	-	(2,500)
Listing and Prospectus expenses		(2,824)	(62,717)	(2,824)	(62,717)
Service Fees		(131,040)	(131,040)	(131,040)	(131,040)
Travelling expenses		(47,594)	(90,733)	(47,579)	(90,733)
Other expenses from ordinary activities		(33,234)	(39,626)	(26,328)	(35,761)
<i>Loss Before Income Tax</i>		(1,339,391)	(795,653)	(219,723)	(785,431)
Income tax expense		-	-	-	-
Loss from continuing operations		(1,339,391)	(795,653)	(219,723)	(785,431)
<i>Loss for the year</i>		(1,339,391)	(795,653)	(219,723)	(785,431)
<i>Loss attributable to minority equity interest</i>		73,372			
Loss attributable to members of the parent entity		(1,266,019)	(795,653)	(219,723)	(785,431)
<i>Earnings Per Share –</i>					
<i>Basic earnings per share (cents per share)</i>	6	(2.07)	(1.52)		

The accompanying notes form part of these financial statements.

Balance Sheet as at 30 June 2007

BioPharmica Ltd and its controlled entities

		Consolidated		Parent	
	Note	2007 \$	2006 \$	2007 \$	2006 \$
Current Assets					
Cash and cash equivalents	7	2,076,725	3,025,624	1,814,650	2,702,418
Trade and other receivables	8	420,880	220,110	383,938	217,259
Other current assets	9	47,718	-	29,515	-
Total Current Assets		2,545,323	3,245,734	2,228,103	2,919,677
Non-Current Assets					
Other non-current assets	9	21,153	57,661	471,930	65,409
Financial assets	10	182,118	171,972	1,545,971	1,159,170
Investments accounted for using the equity method	11	255,893	655,370	-	-
Intangible assets	13	1,262,269	633,000	751,697	633,000
Property, plant & equipment	14	368,130	559,265	11,558	8,883
Total Non-Current Assets		2,089,563	2,077,268	2,781,156	1,866,462
Total Assets		4,634,886	5,323,002	5,009,259	4,786,139
Current Liabilities					
Trade and other payables	16	379,510	168,842	149,400	163,907
Financial liabilities	17	155,129	156,222	-	-
Short-term provisions	18	19,020	7,277	12,770	7,277
Total Current Liabilities		553,659	332,341	162,170	171,184
Non Current Liabilities					
Financial Liabilities	17	279,040	385,928	50,033	-
Total Non Current Liabilities		279,040	385,928	50,033	-
Total Liabilities		832,699	718,269	212,203	171,184
Net Assets		3,802,187	4,604,733	4,797,056	4,614,955
Equity					
Issued capital	19	6,588,464	6,194,979	6,588,464	6,194,979
Option Reserve		111,191	102,851	111,191	102,851
Accumulated losses		(2,959,116)	(1,693,097)	(1,902,599)	(1,682,875)
Minority equity interest		61,649	-	-	-
Total Equity		3,802,187	4,604,733	4,797,056	4,614,955

The accompanying notes form part of the financial statements.

Statement of Changes in Equity for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

Consolidated						
	Note	Ordinary Share Capital \$	Accumulated losses \$	Options \$	Minority Interest \$	Total \$
Balance at 30 June 2005		3,727,120	(897,444)	102,851	-	2,932,527
Shares Issued during the financial year		2,467,859	-	-	-	2,467,859
Loss attributable to members of consolidated entity	27	-	(795,653)	-	-	(795,653)
Balance at 30 June 2006		6,194,979	(1,693,097)	102,851	-	4,604,733
Balance at 30 June 2006		6,194,979	(1,693,097)	102,851	-	4,604,733
Shares issued during the financial year	19	393,485	-	-	-	393,485
Transfer to option reserve		-	-	8,340	-	8,340
Loss attributable to members of consolidated entity		-	(1,266,019)	-	-	(1,266,019)
Minority equity interest		-	-	-	61,648	61,648
Balance at 30 June 2007		6,588,464	(2,959,116)	111,191	61,648	3,802,187

Statement of Changes in Equity for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

Parent					
Note	Ordinary Share Capital \$	Accumulated losses \$	Options \$	Minority Interest \$	Total \$
Balance at 30 June 2005	3,727,120	(897,444)	102,851	-	2,932,527
Shares Issued during the financial year	2,467,859	-	-	-	2,467,859
Loss attributable to members of parent entity	27	-	(785,431)	-	(785,431)
Balance at 30 June 2006	6,194,979	(1,682,875)	102,851	-	4,614,955
Balance at 30 June 2006	6,194,979	(1,682,875)	102,851	-	4,614,955
Shares issued during the financial year	19	393,485	-	-	393,485
Transfer to option reserve	-	-	8,340	-	8,340
Loss attributable to members of parent entity	-	(219,724)	-	-	(219,724)
Balance at 30 June 2007	6,588,464	(1,902,599)	111,191	-	4,797,056

The accompanying notes form part of these financial statements.

Cash Flow Statement for the year ended 30 June 2007

Biopharmica Ltd and its controlled entities

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash Flows From Operating Activities					
Receipts from customers		235,413	-	273,993	-
Finance costs		(45,514)	-	-	-
Payments to suppliers and employees		(1,086,417)	(973,977)	(1,007,194)	(966,051)
Interest received		132,107	113,381	127,406	113,309
Net cash used in operating activities	21	(764,411)	(860,596)	(605,795)	(852,742)
Cash Flows From Investing Activities					
Payment to Term Deposit		-	(171,972)	-	-
Amounts to/(from) other entities		-	1,478	(552,801)	(6,270)
Payment for intangible assets		(409,006)	(296,543)	(115,997)	(800,343)
Payment for property, plant and equipment		(168,967)	(15,206)	(6,660)	(6,690)
Net cash used in investing activities		(577,973)	(482,243)	(675,458)	(813,303)
Cash Flows From Financing Activities					
Proceeds from capital raising		393,485	2,467,859	393,485	2,467,859
Interest paid		-	(2)	-	(2)
Net cash provided by financing activities		393,485	2,467,857	393,485	2,467,857
<i>Net increase (decrease) in Cash Held</i>		(948,899)	1,125,018	(887,768)	801,812
<i>Cash At the Beginning Of The Financial Year</i>		3,025,624	1,900,606	2,702,418	1,900,606
Cash At The End Of The Financial Year	7	2,076,725	3,025,624	1,814,650	2,702,418

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of BioPharmica Ltd and controlled entities, and BioPharmica Ltd as an individual parent entity. BioPharmica Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report of BioPharmica Ltd and controlled entities, and BioPharmica Ltd as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in the entirety.

The following is a summary of the material accounting policies adopted by the economic entity in preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity BioPharmica Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 20 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

(b) 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 substantially enacted by the balance sheet 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

BioPharmica Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. BioPharmica Ltd is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Taxation Office on 30 June 2006 that it had formed an income tax consolidated group to apply from 30 June 2006. The tax consolidated group has entered 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.

(c) Property, Plant & 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.

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 employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Computers	33 %
Office furniture	13 %

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each 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 and 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.

(d) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(e) 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.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

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 income statement.

(f) Impairment of Assets

At each reporting date, the group reviews the 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 value. 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 group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(g) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post-acquisition reserves of its associates.

(h) Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated statements of financial performance and financial position.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

(i) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

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.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred.

Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(j) Employee Benefits

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

Equity-settled compensation

The group operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(k) Provisions

Provisions are recognised when the group 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.

(l) Debt Defeasance

Where assets are given up to extinguish the principal repayments and all future interest payments of a debt any differences in the carrying values of assets foregone and the liability extinguished are brought to account in the profit from ordinary activities. Costs incurred in establishing the defeasance are expensed in the period that the defeasance occurs.

Where only part of a debt is extinguished the interest payments and principal repayments are defeased proportionately and a liability recognised for the net present value of the remaining future interest and principal repayments. The discount factor applied is the implicit rate in the original debt.

In all cases where defeasance occurs, it is highly unlikely that the company will again be required to pay any part of the debt or meet any guarantees or indemnities associated with the debt.

(m) Cash and Cash Equivalents

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

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

(n) 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. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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

All revenue is stated net of the amount of goods and services tax (GST).

(o) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of 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 cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Refer also to note 27 Prior Period Error.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge 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 group.

Key estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

The financial report was authorised for issue on 12th October 2007 by the board of directors.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
2. Revenue					
<i>Operating activities</i>					
Funding		-	10,000	-	-
Interest revenue : other entities		142,253	113,381	127,406	113,309
Cost recoveries		54,872	-	122,000	-
Total revenue		197,125	123,381	249,406	113,309
<i>Other income</i>					
Research & development rebate	27	381,311	190,960	318,672	190,960
<i>Non-operating activities</i>					
Share of profit/(loss) of associates		2,701	(87,808)	2,701	(87,808)
3. Profit for the year					
<i>a) Expenses</i>					
Finance costs:					
- related entities		45,514	12,927	-	-
Total finance costs		45,514	12,927	-	-

4. Key Management Personnel Compensation

- (a) Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Key Management Person

D L Breeze - Executive Chairman

C Murphy - Executive Director – (resigned 3 October 2007)

S Gallagher - Non-Executive Director – (resigned 28 November 2006)

S K Yap - Non-Executive Director

(b) Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Key management personnel are paid six months of salary in the event of redundancy. Options not exercised before or on the date of termination do not lapse. The employment conditions of the managing director, David Breeze and other key management personnel are formalised in contracts of employment.

The employment contract stipulates a six month resignation period. The company may terminate an employment contract without cause by providing six months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse. The Board determines the proportion of fixed and variable compensation for each key management personnel.

(c) Key Management Personnel Compensation

2007

Key Management Person	Short-term Benefits				Post-employment Benefits
	Cash, Salary and fees	Cash profit share	Non-cash benefit	Other	Superannuation
D L Breeze	98,000	-	-	-	-
C R Murphy	123,000	-	-	-	2,250
S Gallagher	165,000	-	-	-	14,240
S K Yap	25,000	-	-	-	-

2007 (continued)

Key Management Person	Long-term Benefits	Share-based payment		Total	Performance Related
	Other	Equity	Options	\$	%
D L Breeze	-	-	-	98,000	-
C R Murphy	-	-	4,712	129,962	-
S Gallagher	-	-	3,628	182,868	-
S K Yap	-	-	-	25,000	-

2006

Key Management Person	Short-term Benefits				Post-employment Benefits
	Cash, Salary and fees	Cash profit share	Non-cash benefit	Other	Superannuation
D L Breeze	98,000	-	-	-	-
C R Murphy	123,000	-	-	-	1,168
S Gallagher	123,862	-	-	18,181	1,177
S K Yap	55,417	-	-	-	-

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

4. Key Management Personnel Compensation - continued

2006 (continued)

Key Management Person	Long-term Benefits	Share-based payment		Total	Performance Related
	Other	Equity	Options	\$	%
D L Breeze	-	-	-	98,000	-
C R Murphy	-	-	-	124,168	-
S Gallagher	-	-	-	143,220	-
S K Yap	-	-	-	55,417	-

(d) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.7.2006	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2007	Total Vested 30.6.2007	Total Exercisable 30.6.2007	Total Unexercisable 30.6.2007
D L Breeze	6,988,001	-	-	(4,988,001)	2,000,000	2,000,000	2,000,000	-
C R Murphy	2,350,000	2,000,000	-	(350,000)	4,000,000	4,000,000	2,000,000	2,000,000
S Gallagher	-	3,000,000	-	-	3,000,000	3,000,000	-	3,000,000
S K Yap	2,362,500	-	-	(362,500)	2,000,000	2,000,000	2,000,000	-

The Net Change Other reflected above includes those options that have been forfeited by holders, options that have expired as well as options issued during the year under review.

(e) Shareholdings

Number of Shares Held by Key Management Personnel

	Balance 1.7.2006	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2007
D L Breeze	10,031,402	-	-	25,000	10,056,402
C R Murphy	700,000	-	-	-	700,000
S Gallagher	-	-	-	-	-
S K Yap	725,000	-	-	-	725,000

Net Change Other refers to shares purchased or sold during the financial year.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

5. Auditors' Remuneration

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial report	15,050	12,500	15,050	12,500
- other services	-	11,147	-	11,147
Remuneration of other auditors of subsidiaries for:				
- auditing or reviewing the financial report of subsidiaries	-	-	-	-
	15,050	23,647	15,050	23,647

6. Earnings per share

	Consolidated	
	2007	2006
	\$	\$
Reconciliation of Earnings to Profit or Loss		
Loss	(1,266,019)	(795,653)
Earnings used to calculate basic EPS	(1,266,019)	(795,653)
Earnings used in the calculation of dilutive EPS	(1,266,019)	(795,653)

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options will result in a decreased net loss per share.

	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	61,305,992	52,264,027

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
7. Cash and cash equivalents					
Cash at Bank and in hand		1,625,804	2,404,651	1,363,729	2,081,445
Short-term bank deposits		450,921	620,973	450,921	620,973
		<u>2,076,725</u>	<u>3,025,624</u>	<u>1,814,650</u>	<u>2,702,418</u>

The effective interest rate on short-term bank deposits was 6.30% (2006 5.56%).

Reconciliation of cash

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 and cash equivalents	<u>2,076,725</u>	<u>3,025,624</u>	<u>1,814,650</u>	<u>2,702,418</u>
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8. Trade and other receivables

CURRENT

Trade receivables	83,031	3,831	83,031	3,831
Other receivables	337,849	216,279	300,907	213,428
27	<u>420,880</u>	<u>220,110</u>	<u>383,938</u>	<u>217,259</u>

9. Other Assets

CURRENT

Prepaid insurance	14,115	-	14,115	-
Prepaid – other	33,603	-	15,400	-
	<u>47,718</u>	<u>-</u>	<u>29,515</u>	<u>-</u>

NON CURRENT

Unsecured Loans to other entities:

Cortical Dynamics Pty Ltd	-	-	66,000	-
Diagnostic Array Systems Pty Ltd	-	3,565	-	3,565
Grandbridge Ltd	-	54,096	-	54,402
Molecular Discovery Systems Pty Ltd	-	-	389,212	7,442
University of Western Australia joint venture	16,718	-	16,718	-
Other	4,435	-	-	-
	<u>21,153</u>	<u>57,661</u>	<u>471,930</u>	<u>65,409</u>

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
10. Financial assets					
(a) Available for sale financial assets	27	-	-	1,545,971	1,159,170
(b) Held-to-maturity financial assets		182,118	171,972	-	-
		<u>182,118</u>	<u>171,972</u>	<u>1,545,971</u>	<u>1,159,170</u>
(a) Available for sale Financial Assets					
Comprise:					
Unlisted investments, at cost					
- shares in controlled entities		-	-	1,356,078	503,800
- shares in other corporations		-	-	189,893	655,370
Total available-for-sale financial assets		<u>-</u>	<u>-</u>	<u>1,545,971</u>	<u>1,159,170</u>

Available-for-sale financial assets comprise investments in the ordinary share capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost. Management has determined that the estimate of total consolidated fair values for unlisted investments is nil, as the investment in Cortical Dynamics Pty Ltd is accounted for using the equity method in 2007. Diagnostic Array Systems Pty Ltd discontinued equity accounting when a controlling interest was obtained. Unlisted available-for-sale financial assets exist within active markets and could be disposed of if required.

(b) Held-to-maturity Investments Comprise:

- Security Deposit	182,118	171,972	-	-
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The security deposit is held as a special condition for the Leased Rental Equipment, GE In Cell Analyser, Rental Agreement with NAB dated 28 June 2006.

11. Investments Accounted for using the Equity Method

Associated Companies (Note 12)	27	<u>255,893</u>	<u>655,370</u>	<u>-</u>	<u>-</u>
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Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

12. Associated Companies

Interests are held in the following companies:

	Note	Ownership Interest		Carrying amount of investment	
		2007 %	2006 %	2007 \$	2006 \$
Unlisted:					
Diagnostic Array Systems Pty Ltd	20	-	39.59 %	-	316,467
Principal activities: Medical Research Incorporated in Australia Ordinary Shares					
Cortical Dynamics Pty Ltd		46.71%	32.50 %	255,893	338, 903
Principal activities: Medical Research Incorporated in Australia Ordinary Shares					
				255,893	655,370

	Consolidated		Parent	
	2007 \$	2006 \$	2007 \$	2006 \$
(a) Movements during the year in Equity Accounted Investment in Associated Companies				
Balance at beginning of financial year	555,370	346,635	-	-
Add: New investment during the year	91,000	296,543		
Share of associated company's losses after income tax	(51,574)	(87,808)	-	-
Share of associated company's reserve increments arising during the year				
Disposals during the year	(338,903)	-	-	-
Balance at end of financial year	255,893	555,370	-	-

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

12. Associated Companies - continued

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
(b) Equity accounted associate losses are broken down as follows:				
Share of associates losses before income tax expense	(51,574)	(87,808)	-	-
Share of associates income tax expense	-	-	-	-
Share of associates losses after income tax	(51,574)	(87,808)	-	-
(c) Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates				
Current Assets	10,245	76,721	-	-
Non-current Assets	20,183	17,957	-	-
Total Assets	30,428	94,678	-	-
Current Liabilities	13,684	34,102	-	-
Non-current Liabilities	64,862	54,165	-	-
Total Liabilities	78,546	88,267	-	-
Net Assets	(48,118)	6,411	-	-
Revenues	13	42,920	-	-
Loss after income tax of associates	110,414	188,621	-	-

- (d)** On 1 March 2007 BioPharmica increased its interest in Diagnostic Array Systems to 51.82%, as such it has been accounted for as a subsidiary (see Note 20 for details of acquisition). BioPharmica's share of Diagnostic Array Systems profits up to the point where it ceased to be an associated entity and became a subsidiary was \$51,565. This has been accounted for within the transaction to acquire the subsidiary.
- (e)** Ownership interest in Cortical Dynamics at that company's balance date was 46.71% of ordinary shares. The reporting date of Cortical Dynamics is 30 June 2007. This reporting date coincides with the entity's holding company.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Consolidated		Parent	
	2007 \$	2006 \$	2007 \$	2006 \$
13. Intangible assets				
Patent costs capitalised				
Cost	20,454	-	-	-
Accumulated amortisation and impairment	-	-	-	-
Net carrying value	20,454	-	-	-
Acquired intellectual property				
At cost (a)	1,458,750	-	751,697	633,000
Accumulated amortisation and impairment	(216,935)	-	-	-
Net carrying value	1,241,815	-	751,697	633,000
Total intangibles	1,262,269	633,000	751,697	633,000

(a) Cost

(i) University of Western Australia	600,000	600,000	600,000	600,000
(ii) Swinburne University of Technology	151,697	33,000	151,697	33,000
(iii) Diagnostic Array Systems Pty Ltd	707,053	-	-	-

(b) Movements in Carrying Amounts

	Intellectual Property Costs	Capitalised Patent Costs	Total
Year ended 30 June 2007	\$	\$	\$
Balance at the beginning of year	633,000	-	633,000
Additions	825,750	20,454	846,204
Disposals	-	-	-
Amortisation charge	-	-	-
Impairment losses	(216,935)	-	(216,935)
Closing carrying value at 30 June 2007	1,241,815	20,454	1,262,269

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
14. Property, Plant and Equipment				
Plant and Equipment:				
At cost	576,956	566,309	22,302	15,642
Accumulated depreciation	(208,826)	(7,044)	(10,744)	(6,759)
Total Property, Plant and Equipment	368,130	559,265	11,558	8,883

(a) Movements in Carrying Amounts

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

	Plant and Equipment	Total
	\$	\$
Economic Entity:		
Balance at the beginning of the year	559,265	559,265
Additions	14,881	14,881
Disposals	-	-
Adjustment to leased asset	(37,576)	(37,576)
Depreciation expense	(168,440)	(168,440)
Carrying amount at the end of the year	368,130	368,130
Parent Entity:		
Balance at the beginning of the year	8,883	8,883
Additions	6,659	6,659
Disposals	-	-
Depreciation expense	(3,984)	(3,984)
Carrying amount at the end of the year	11,558	11,558

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

		Consolidated		Parent	
		2007	2006	2007	2006
		\$	\$	\$	\$
15. Income Tax Expense					
(a) The components of tax expense comprise:					
Current tax		-	-	-	-
Deferred tax		-	-	-	-
		-	-	-	-
(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2006: 30%)					
Economic entity		401,817	238,696	-	-
Parent entity		-	-	65,917	235,629
Add tax effect of:					
Non deductible expenses		2,824	107,946	2,824	107,946
Prior year tax loss used in Research and development clawback		240,726	156,047	240,726	156,047
Tax benefit of revenue losses not recognised		(344,460)	(307,630)	(8,560)	(304,563)
Less tax effect of:					
Research and development clawback income related to prior periods		(300,907)	(195,059)	(300,907)	(195,059)
Income tax attributable to parent entity		-	-	-	-
(c) Deferred Tax Assets					
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1b occur.					
Temporary difference		8,081	2,184	8,581	2,184
Tax losses:					
- operating losses		874,895	530,435	535,928	527,368
- capital losses		26,342	26,342	26,342	26,342
16. Trade and other payables					
CURRENT					
Trade payables	27	316,793	37,000	116,325	32,066
Sundry payables and accrued expenses		62,717	131,842	33,075	131,841
		379,510	168,842	149,400	163,907

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
17. Financial Liabilities					
Current					
Secured Liabilities					
Lease Liability	23	155,129	156,222	-	-
		<u>155,129</u>	<u>156,222</u>	<u>-</u>	<u>-</u>
Non Current					
Secured Liabilities					
Lease Liability	23	228,701	385,928	-	-
Non-current borrowings		50,339	-	50,033	-
		<u>279,040</u>	<u>385,928</u>	<u>50,033</u>	<u>-</u>

Secured Liabilities: Consists of a new GE IN CELL 1000 Analyser.

Security consists of National Australia Bank (the lender) holding charge over the asset.

18. Provisions

Employee entitlements:

Opening balance at 1 July	7,277	-	7,277	-
Additional provision	11,743	7,277	5,493	7,277
Balance at 30 June	<u>19,020</u>	<u>7,277</u>	<u>12,770</u>	<u>7,277</u>

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual leave. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

19. Issued Capital

61,311,560 (2006: 61,304,060) fully paid ordinary shares

6,588,464	6,194,979	6,588,464	6,194,979
<u>No.</u>	<u>No.</u>	<u>No.</u>	<u>No.</u>
61,304,060	47,597,508	61,304,060	47,597,508
7,500	13,706,552	7,500	13,706,552
<u>61,311,560</u>	<u>61,304,060</u>	<u>61,311,560</u>	<u>61,304,060</u>

(a) Ordinary Shares

At the beginning of reporting period

Shares Issued during the year

At reporting date

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

19. Issued Capital - continued

Capital Raising

Options were exercised during the year resulting in the issue of 7,500 (2006: 33,987) fully paid ordinary shares at 20c each raising \$1,500 (2006: \$6,797).

As at 30 June 2007, \$385,985 in issued capital was raised on the exercise of options. Shares in this regard were issued subsequent to balance date in accordance with note 25 Events Subsequent to Balance Date.

Fully Paid Ordinary Share Capital

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

(b) Options

The market price of the company's ordinary shares at 29 June 2007 was 22 cents.

21,005,539 listed options exercisable at 20 cents each expired on 30 June 2007.

3,318,228 listed 30 June 2007 options were converted to fully paid ordinary shares (refer Note 25).

1,250,000 unlisted options exercisable at 20 cents each expired on 1 July 2007.

The holders of options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

The difference between the total market value of options issued during the period, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that period.

20. Controlled Entities

a) Controlled Entities Consolidated

Name of Entity	Principal Activity	Country of Incorporation	Ownership Interest %	
			2007	2006
Parent Entity				
BioPharmica Ltd	Investment	Australia		
Subsidiaries of BioPharmica Ltd				
Molecular Discovery Systems Pty Ltd	BioMedical Research	Australia	100.00	100.00
Diagnostic Array Systems Pty Ltd	BioMedical Research	Australia	51.82	n/a

b) Acquisition of Controlled Entities

On 1 March 2007 for a purchase consideration of \$359,100 the parent entity increased its ownership interest in Diagnostic Array Systems Pty Ltd to 51.82%. This entitles BioPharmica Ltd to 51.82% profits (or losses) earned from 1 March 2007.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Consolidated		Parent	
	2007 \$	2006 \$	2007 \$	2006 \$
21. Cash Flow Information				
Reconciliation of Cash Flow from Operations with Profit after income tax				
Operating loss after income tax	(1,339,391)	(795,653)	(219,723)	(785,432)
Non-cash flows in profit:				
Depreciation	201,782	4,800	3,984	4,514
Impairment	216,935	-	-	-
Share based payment expense	8,340	-	8,340	-
Changes in net assets and liabilities, net of effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	(200,770)	(117,651)	(166,679)	(114,798)
(Increase)/decrease in prepayments	(57,864)	-	(29,515)	-
(Increase)/decrease in other financial assets	136,508	-	(240,520)	-
(Increase)/decrease in associated entities	(2,701)	-	(2,701)	-
Increase/(decrease) in provisions	11,743	7,277	13,410	7,277
Increase/(decrease) in trade payables and accruals	210,668	40,631	(22,424)	35,697
Increase/(decrease) in other loans	50,339	-	50,033	-
Increase/(decrease) in option reserve	-	-	-	-
Cash flow from operations	(764,411)	(860,596)	(605,795)	(852,742)

22. Financial Instruments

(i) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, and loans to and from subsidiaries. The main purpose of non-derivative financial instruments is to raise finance for group operations.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

22. Financial Instruments - continued

(ii) Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Financial Instruments

i. Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2007	Effective Average Interest Rate Payable %	Floating Interest Rate \$	Non-Interest Bearing \$	Total \$
Financial Assets				
Cash and cash equivalents	6.30	2,076,725	-	2,076,725
Trade and other receivables	-	-	420,880	420,880
Other financial assets	-	-	47,718	47,718
Total Financial Assets		2,076,725	468,598	2,545,323
Financial Liabilities				
Trade and sundry payables	-	-	379,510	379,510
Lease liabilities	-	434,169	-	434,169
Total Financial Liabilities		434,169	379,510	813,679

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

22. Financial Instruments - continued

2006	Effective Average Interest Rate Payable %	Floating Interest Rate \$	Non-Interest Bearing \$	Total \$
Financial Assets				
Cash and cash equivalents	5.56	3,025,624	-	3,025,624
Trade and other receivables	-	-	29,150	29,150
Other financial assets	-	-	171,972	171,972
Total Financial Assets		3,025,624	201,122	3,226,746
Financial Liabilities				
Trade and sundry payables	-	-	68,842	68,842
Lease liabilities		542,150	-	542,150
Total Financial Liabilities	-	542,150	68,842	610,992

ii. Net Fair Values

The net fair values of:

- Term receivables are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.
- Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.
- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present value.
- Other assets and liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
23. Capital and Leasing Commitments				
Finance Lease Commitments				
Payable – minimum lease payments				
- not later than 12 months	155,129	158,616	-	-
- between 12 months and 2 years	228,701	304,015	-	-
- greater than 2 years	-	86,500	-	-
Minimum lease payments	383,830	549,131	-	-
Less future finance charges	(48,651)	(6,981)	-	-
Present value of minimum lease payments (note 22)	335,179	542,150	-	-

The finance lease on plant and equipment which commenced on 27 April 2006 is a three year lease with an option to refinance at the end. The equipment is being leased directly from Technology Leasing Ltd with lease payments due monthly in advance.

24. Segment Information

The Economic entity operates predominantly in one industry, namely the biomedical research sector through its wholly owned subsidiary Molecular Discovery Systems Pty Ltd. These activities are predominantly in Australia.

25. Events after the Balance Sheet Date

On 16th July the Company announced the completion of the option conversion raising \$663,646. On the 27th July the Company announced the completion of the shareholder share purchase plan raising \$898,200. On the 27th September shareholders voted to approval an equal reduction in capital allowing for the spin off of Cortical Dynamics.

Other than referred to there have not been any matters or circumstance that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

26. Related Party Transactions

(a) Equity interests in controlled entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in **note 20** to the financial statements.

(b) Directors' Remuneration

Details of directors' remuneration and retirement benefits are **disclosed in note 4** to the financial statements.

(c) Directors' Equity Holdings

	Parent	
	2007 No.	2006 No.
<i>Ordinary Shares</i>		
Held as at the date of this report by directors and their director-related entities in:		
BioPharmica Ltd	10,481,402	11,456,402
<i>Other Equity Instruments</i>		
Options		
Held as at the date of this report by directors and their director-related entities in:		
BioPharmica Ltd	5,000,000	11,700,501

(d) Directors

The Company has agreements with Hebex Pty Ltd, Kanou Pty Ltd and Trandcorp Pty Ltd on normal commercial terms procuring the services of Charles Murphy, Seng Yap and David Breeze respectively to provide product development services. \$248,250 (2006: \$251,413) was paid during the year. Each of the agreements is at the rate of up to \$98,000 per annum.

(e) Controlling Entities

The parent entity in the economic entity is BioPharmica Ltd.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

27. Prior Period Error

On 16 July 2004 Biopharmica Ltd purchased the issued capital of Diagnostic Array Systems Pty Ltd that was held by Grandbridge Ltd. However the purchase was incorrectly accounted for in BioPharmica's accounts. This had the result of overstating the amount owed by Grandbridge Ltd by \$100,000.

The Research & Development clawback for the 2004/2005 financial year was lodged prior to 30 June 2006 but not received from the Australian Taxation Office until 7 July 2006.

The Correction of this error has had the following effect on the balance sheet

Parent			
Effect of Changes as at 30 June 2006	Prior to Adjustment	Required adjustment	Post Adjustment
Other financial assets	1,059,170	100,000	1,159,170
Trade and other payables	(63,907)	(100,000)	(163,907)
Trade and other receivables	26,299	190,960	217,259
Other income	-	(190,960)	(190,960)

Consolidated			
Effect of Changes as at 30 June 2006	Prior to Adjustment	Required adjustment	Post Adjustment
Investments accounted for using the equity method	555,370	100,000	655,370
Trade and other payables	(68,842)	(100,000)	(168,842)
Trade and other receivables	29,150	190,960	220,110
Other income	-	(190,960)	(190,960)

(a) The Loan account to Grandbridge is recorded in other assets.

28. Share-Based Payments

The following share-based payment arrangements existed at 30 June 2007:

On 22nd September 2006, 2,000,000 share options were granted to Charles Murphy (a director), to take up ordinary shares at an exercise price of \$0.18 each. The options are exercisable on or before 29th August 2011. The options hold no voting or dividend rights and are not transferable.

At balance date, no share option has been exercise.

On 22nd September 2006, 3,000,000 share options were granted to Samantha Gallagher (a former director), to take up ordinary shares at an exercise price of \$0.125 each. The options are exercisable on or before 29th August 2011. The options hold no voting or dividend rights and are not transferable. She resigned as a director on 29th November 2006. At balance date, no share options have been exercised.

Notes to the Financial Statements for the year ended 30 June 2007

BioPharmica Ltd and its controlled entities

28. Share-Based Payments - continued

All options granted to key management personnel are ordinary shares in BioPharmica Limited, which confer a right of one ordinary share for every option held.

	Consolidated Group				Parent Entity			
	2007		2006		2007		2006	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	-	-	-	-	-	-	-	-
Granted	2,000,000	0.18	-	-	2,000,000	0.18	-	-
Granted	3,000,000	0.125	-	-	3,000,000	0.125	-	-
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	-	-	-	-	-	-
Outstanding at year-end	5,000,000	-	-	-	5,000,000	-	-	-
Exercisable at year-end	5,000,000	-	-	-	5,000,000	-	-	-

No options exercised during the year ended 30th June 2007.

The 2,000,000 options outstanding at 30th June 2007 had a weighted average exercise price of \$0.18 and a weighted average remaining contractual life of 4.92 years.

The 3,000,000 options outstanding at 30th June 2007 had a weighted average exercise price of \$0.125 and a weighted average remaining contractual life of 4.17 years.

The weighted average fair value of the options granted during the year was \$53,450.

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price on 2,000,000 options	\$0.18
Weighted average exercise price on 3,000,000 options	\$0.125
Weighted average life of the option	59 months
Underlying share price	\$0.10
Expected share price volatility	30%
Risk free interest rate	5.40%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 17 to 49, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. 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.



.....
David Breeze
Executive Chairman

Dated this 12th day of October 2007



Independent Audit Report

To the Members of BioPharmica Limited

We have audited the accompanying financial report of BioPharmica Limited ("the company") and BioPharmica Limited and Controlled Entities ("the consolidated entity"), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and 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.

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 1, the directors also state, in accordance with Accounting Standards AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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 judgment, 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.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Independent Auditor's Report

To the Members of BioPharmica Limited (Continued)

Auditor's Opinion

In our opinion:

- a. The financial report of BioPharmica Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their 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 1.



RIX LEVY FOWLER
Audit & Corporate Pty Ltd



RANKO MATIĆ
Director

DATED at PERTH this 12th day of October 2007

Additional Stock Exchange Information

BioPharmica Ltd and its controlled entities

Additional information required by Australian Stock Exchange Limited and not shown elsewhere in this report as follows.

The information is made up to 25th September 2007.

1. Substantial Shareholder

The name of the substantial shareholder listed in the company's register is:

Shareholder	Shares	%
Trandcorp Pty Ltd	9,882,700	14.20

2. Distribution of Shareholders

Range of Holding	Shareholders	Number Ordinary Shares	%
1 – 1,000	146	91,663	0.13
1,001 – 5,000	271	828,204	1.20
5,001 – 10,000	234	2,087,934	3.02
10,001 – 100,000	870	30,605,536	44.25
100,001 and over	94	35,547,451	51.40
	1,615	69,160,788	100.00

The number of shareholders with less than a marketable parcel is 311, holding in total 448,068 shares.

3. Voting Rights - Shares

All ordinary shares issued by BioPharmica Ltd carry one vote per share without restriction.

4. Voting Rights - Options

The holders of employee options do not have the right to vote.

5. Restricted Securities

The Company does not have any restricted securities.

Shares

Number of Shares free of escrow 69,160,788

Additional Stock Exchange Information

BioPharmica Ltd and its controlled entities

6. Twenty Largest Shareholders

The names of the twenty largest shareholders of the ordinary shares of the company are:

Name	Number of ordinary fully paid shares	% held of issued ordinary capital
Trandcorp Pty Ltd	9,822,700	14.20
Grandbridge Ltd	6,778,200	9.80
S Yap	700,000	1.01
Robina Partners Pty Ltd	700,000	1.01
Mac Tech (Australia) Pty Ltd	700,000	1.01
E Miglas	660,000	0.95
Lewis Securities Ltd	600,000	0.87
P Zuzza	477,700	0.69
M B L and P Lee	470,000	0.68
H Lantzke	465,000	0.67
Kinetas Pty Ltd	424,000	0.61
Superfold Pty Ltd	400,000	0.58
P Abourizk	369,000	0.53
C Breeze	303,000	0.44
M R Breeze	300,000	0.43
P Malone Services Pty Ltd	300,000	0.43
Davnet Pty Ltd	300,000	0.43
J Baldwin	299,900	0.43
Pontil Consolidated Pty Ltd	280,185	0.41
Franford Pty Ltd	280,000	0.40
	24,629,685	35.58