ortho·cell

Advancing Tissue Repair and Regeneration

ANNUAL REPORT 2014

Orthocell Limited
Corporate directory
30 June 2014

Directors	Dr Stewart Washer, Executive Chairman Mr Paul Anderson, Managing Director Professor Lars Lidgren, Non-Executive Director Mr Matthew Callahan, Non-Executive Director Mr Qi Xiao Zhou, Non-Executive Director
Company secretary	Mr Simon Robertson
Registered office	Building 191 Murdoch University South Street Murdoch WA 6150
Share register	Automic Registry Services Suite 1a, Level 1 7 Ventnor Avenue West Perth WA 6005
Auditor	PKF Mack & Co 4th Floor 35 Havelock Street West Perth WA 6005
Solicitors	Gilbert + Tobin 1202 Hay Street West Perth WA 6005
Bankers	Westpac Banking Corporation
Securities exchange listing	Australian Securities Exchange (ASX code: OCC)
Website	www.orthocell.com.au

The directors present their report, together with the consolidated financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Orthocell Limited (referred to hereafter as the 'Company' or 'parent entity') and the entity it controlled at the end of, or during, the year ended 30 June 2014.

Directors
The following persons were directors of Orthocell Limited during the financial year and up to the date of this report, unless otherwise stated:

Dr Stewart Washer, Executive Chairman (appointed 7 April 2014)
Mr Paul Anderson, Managing Director (appointed 21 March 2006)
Professor Lars Lidgren, Independent Non-Executive Director (appointed 17 December 2007)
Mr Matthew Callahan, Non-Executive Director (appointed 30 May 2006)
Mr Qi Xiao Zhou, Non-Executive Director (appointed 2 November 2012)
Mrs Fiona Melanie Wood, Independent Non-Executive Director (appointed 16 August 2006, resigned 8 April 2014)

Principal activities
During the financial year the principal continuing activities of the consolidated entity consisted of the development and commercialisation of cell therapies and related technologies.

Review and results of operations
The loss for the consolidated entity after income tax amounted to $2,182,185 (30 June 2013: $1,323,330).

During the financial year the Company continued to develop its data evidence base and marketing tools that has seen an increase in its market presence and share.

The Company progressed the clinical delivery of its lead products for tendon and cartilage regeneration and continued development towards the clinical phase of its collagen scaffold based medical devices.

During the year the Company also undertook preparation for its listing on the Australian Securities Exchange (ASX) which occurred on 12 August 2014.

Dividends
No dividends were paid during the current or previous financial years and no dividends have been declared subsequent to the financial year end and up to the date of this report.

Significant changes in the state of affairs
During the year the Company raised $2,164,440 through the issue of 400,516 preference shares for working capital purposes and to progress its listing on the Australian Securities Exchange (ASX) and the issue of 27,500 ordinary shares on the exercise of options.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Likely developments and expected results of operations
Having completed its successful IPO, raising $8m, the Company will continue the development and commercialisation of cell therapies and related technologies. The Company expects to complete and publish clinical trials currently being conducted and progress regulatory approvals. The use of the Company's cash for these activities is consistent with the Company's business objectives.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Therapeutic Goods Administration regulation
Orthocell Limited is subject to Australian federal legislation administered by the Therapeutic Goods Administration (TGA). Orthocell hold a manufacturing license (MI-19052008-LI-002420-11) provided by the TGA for tissue processing, on site storage and release for supply of autologous tenocytes and chondrocytes.

Information on directors

Name:	Dr Stewart Washer
Title:	Executive Chairman
Experience and expertise:	Dr Washer has 20 years of CEO and Board experience in medical technology, biotech and agrifood companies. He is currently the Chairman of Cynata Therapeutics Ltd (ASX:CYP), a company developing stem cell therapies and Chairman of Minomic International Ltd who have an accurate non-invasive test for prostate cancer. Dr Washer was previously the CEO of Calzada Ltd (ASX:CZD), the founding CEO of Phylogica Ltd (ASX:PYC) and before this, he was CEO of Celentis and managed the commercialisation of intellectual property from AgResearch in New Zealand with 650 Scientists and $130 million revenues. He was also a founder of a NZ$120m New Zealand based life science fund and Venture Partner with the Swiss based Inventages Nestlé Fund.
Directorships (last 3 years):	Dr Washer is currently a director of Cynata Therapeutics Ltd (ASX: CYP). In the past 3 years Dr Washer has been a director of the following listed entities: iSonea Ltd (ASX:ISN, from 2012 to 2014), Immuron Ltd (ASX: IMC, from 2012 to 2013) and AusBiotech Ltd. He was also a Senator with Murdoch University.
Interest in shares:	369,267
Interests in options:	1,250,000

Name:	Paul Anderson
Title:	Managing Director
Experience and expertise:	Mr Anderson has over 15 years' experience in the medical device and cellular therapeutic fields with expertise in bridging the gap between research and clinical practice in the development of emerging medical technologies. Mr Anderson has a strong track record in his previous board position as Managing Director with Verigen Australia Pty Ltd a human cell therapies company. Mr Anderson has extensive experience in the establishment of GMP manufacturing facilities for cell therapies, sales of orthopaedic and other medical devices and therapies and associated regulatory filings.
Directorships (last 3 years):	Nil
Interest in shares:	6,963,608
Interests in options:	1,250,000

Name:	Matthew Callahan
Title:	Non-Executive Director
Experience and expertise:	Mr Callahan is a founding director of Orthocell. He is also the founding CEO of iCeutica and a co-inventor of some of the technologies that comprise the SoluMatrix Fine Particle Technology™ for improving the bioavailability of pharmaceuticals. iCeutica and its partner Iroka Pharmaceuticals have successfully secured the approval of two drugs by US FDA and has 6 separate clinical programs underway using the technology. He has more than 20 years legal, licensing and investment management experience and was also the founding CEO of Dimerix Bioscience Pty Ltd and is a director of Glycan Bioscience LLC.

	Mr Callahan has worked as investment director for two venture capital firms investing in life sciences and other sectors. He was General Manager and General Counsel with an ASX listed patent licensing company where he was responsible for licensing programs that have generated over $100 million in revenue.
Directorships (last 3 years):	Nil
Interest in shares:	10,179,559
Interests in options:	1,250,000

Name:	Professor Lars Lidgren
Title:	Independent Non-Executive Director
Experience and expertise:	Professor Lidgren has authored and co-authored over 250 original publications, and has more than 150 patents/applications. He was spokesman for Biomaterials in the Nordic Orthopaedic Society, Chairman for the Swedish National Knee Register, Director of the National Board of Health and Welfare, Musculoskeletal Competence Centre and member of several editorial boards. Professor Lidgren initiated and has led the UN ratified Bone and Joint Decade He founded Scandimed, a global leading company in bone cements and delivery, acquired by Biomet. He is the inventor, founder and board member of Bone Support, an emerging leader in bone therapeutics. In 2014 a successful oversubscribed IPO was undertaken in a privately held health/security/mobile communication company, GWS (Nasdaq: OMX, expected listing date 15 October 2014), where he is chairman and majority shareholder.
Directorships (last 3 years):	Nil
Interest in shares:	923,523
Interests in options:	Nil

Name:	Qi Xiao Zhou
Title:	Non-Executive Director
Experience and expertise:	Mr Zhou has 15 years' experience within China as a senior business manager and executive. Mr Zhou is the founding CEO of Shenzhen Lightning Digital Technology Co Ltd, a company focused on the manufacture and distribution of electronic semiconductor since 2001. Mr Zhou has experience within the public markets in Hong Kong, China and Taiwan and brings to the Board a wealth of business management and development experience. In particular Mr Zhou has broad connections and experience in the licensing of technologies into the Asian region.
Directorships (last 3 years):	Nil
Interest in shares:	5,955,673
Interests in options:	Nil

Company secretary
Simon Robertson has held the role of Company Secretary since 8 November 2012. Mr Robertson gained a Bachelor of Business from Curtin University in Western Australia and Master of Applied Finance from Macquarie University in New South Wales. He is a member of the Institute of Chartered Accountants and the Governance Institute of Australia. Mr Robertson currently holds the position of Company Secretary for a number of publically listed companies and has experience in corporate finance, accounting and administration, capital raisings and ASX compliance and regulatory requirements.

Meetings of directors
The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2014, and the number of meetings attended by each director was:

	Full Board	
	Attended	Held(1)
Stewart Washer	1	1
Paul Anderson	2	2
Matthew Callahan	2	2
Lars Lidgren(2)	0	2
Qi Xiao Zhou	2	2
Fiona Wood	0	1

(1) Held: represents the number of meetings held during the time the director held office.
(2) Due to Lars Lidgren being based overseas he was unable to attend the two directors' meetings however he was given a full brief of all meeting matters prior to the meetings being held.

Remuneration report (audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the consolidated entity in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the consolidated entity are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of the Company and the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the parent Company, and includes the Chief Financial Officer.

Remuneration Philosophy
The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives.
- Link executive rewards to shareholder value.
- A portion of executive remuneration may be put 'at risk', dependent on meeting pre-determined performance benchmarks.
- Where appropriate, establish performance hurdles in relation to variable executive remuneration.

Due to the early stage of development which the Company is in, shareholder wealth is directly affected by the Company share price, as the Company is not in a position to pay dividends. By remunerating directors and Executives in part by options, the Company aims to align the interests of directors and executives with shareholder wealth, thus providing individual incentive to perform and thereby improving overall Company performance and associated value.

Remuneration structure

Non-executive director remuneration

Objective
The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure
The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at General Meetings and is currently set at $450,000.

The amount of aggregate directors' fees sought to be approved by shareholders and the manner in which it is apportioned amongst directors will be reviewed annually. The Board may consider advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director receives a fee for being a director of the Company. In addition, if a director performs extra or special services beyond their role as a director, the Board may resolve to provide additional remuneration for such services.

Fees for directors are not linked to the performance of the consolidated entity however, to align all directors' interests with shareholder interests, directors are encouraged to hold shares in the Company and may receive options. This effectively links directors' performance to the share price performance and therefore to the interests of shareholders. For this reason there are no performance conditions prior to grant, but instead an incentive to increase the value to all shareholders.

During the financial year ended 30 June 2014 the Company did not grant any options to Non-Executive Directors.

The remuneration of non-executive directors for the years ended 30 June 2014 and 30 June 2013 are detailed in the tables on page 7 of this report.

Executive remuneration

Objective
The Company aims to reward executives (both directors and Company executives) with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Attract and retain high quality individuals.
- Reward executives for Company performance.
- Align the interest of executives with those of shareholders.
- Link reward with the strategic goals and performance of the Company.
- Ensure total remuneration is competitive by market standards.

Structure
Executive remuneration consists of both fixed and variable (at risk) elements.

Fixed Remuneration

Objective
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually or upon renewal of fixed term contracts by the Board and the process consists of a review of Company and individual performance, relevant comparative remuneration in the market and internal policies and practices.

Structure
Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Variable Remuneration

Objective
The objective of variable remuneration provided is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Structure
Variable remuneration may be delivered in the form of a cash bonuses, or share options. During the financial year ended 30 June 2014 the Company did not grant any options to Executives.

The remuneration of executives for the years ended 30 June 2014 and 30 June 2013 are detailed in the tables below.

Details of remuneration

Amounts of remuneration
Details of the remuneration of the key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Orthocell Limited:

- Dr Stewart Washer - Executive Chairman
- Paul Anderson - Managing Director
- Matthew Callahan - Non-Executive Director
- Professor Lars Lidgren - Non-Executive Director
- Qi Xiao Zhou - Non-Executive Director
- Dr Fiona Melanie Wood - Non-Executive Director

	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees[4]	Bonus[1]	Super-annuation	Long service leave		Total
2014	$	$	$	$	$	$
Non-Executive Directors:						
Matthew Callahan	37,500	-	-	-	-	37,500
Lars Lidgren	-	-	-	-	-	-
Qi Xiao Zhou	-	-	-	-	-	-
Fiona Melanie Wood[2]	31,800	-	-	-	-	31,800
Executive Directors:						
Stewart Washer[3]	60,000	-	-	-	-	60,000
Paul Anderson	235,887	50,000	26,445	12,026	-	324,358
Total	365,187	50,000	26,445	12,026	-	453,658
2013						
Non-Executive Directors:						
Matthew Callahan	15,000	-	-	-	-	15,000
Lars Lidgren	-	-	-	-	-	-
Qi Xiao Zhou[5]	-	-	-	-	-	-
Fiona Melanie Wood	-	-	-	-	-	-
Executive Directors:						
Paul Anderson	192,779	-	17,350	24,838	18,048	253,015
Total	207,779	-	17,350	24,838	18,048	268,015

(1) Discretionary bonus as approved by the board.
(2) Resigned on 8 April 2014
(3) Appointed on 7 April 2014
(4) During the year ended 30 June 2013 there was no remuneration linked to performance.
(5) Appointed on 2 November 2012.

Share-based compensation

There were no share-based compensation payments to key management personnel during the year ended 30 June 2014.

Additional disclosures relating to key management personnel

Shareholding
The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ Other	Balance at the end of the year
Ordinary shares					
Paul Anderson	414,590	-	11,658	-	426,248
Matthew Callahan(2)	92,593	-	-	-	92,593
Lars Lidgren	45,000	-	-	-	45,000
Qi Xiao Zhou	319,677	-	-	-	319,677
	871,860	-	11,658	-	883,518
Series A preference shares(1)					
Stewart Washer	-	-	9,542	-	9,542
Matthew Callahan(2)	465,154	-	-	-	465,154
	465,154	-	9,542	-	474,696
Series A2 preference shares(1)					
Paul Anderson	4,477	-	-	-	4,477
Matthew Callahan(2)	56,433	-	-	-	56,433
Qi Xiao Zhou	33,240	-	-	-	33,240
	94,150	-	-	-	94,150

(1) Subsequent to year end all Series A and Series A2 Preference Shares were converted to Ordinary Shares and split on the basis of 16.16718 per share.

(2) Mr Callahan is a founder and director of Stone Ridge Ventures Pty Ltd which is the manager of the SRV Tech Trust, a venture capital fund. Mr Callahan's interest in shares is held indirectly through:

- SRV Custodians Pty Ltd as trustee for the SRV Tech Trust which is the venture capital fund (574,026 shares) in respect of which AustralianSuper Investments Pty Ltd, as trustee of the AustralianSuper Private Equity Trust is the sole unit holder; and
- SRV Nominees Pty Ltd as trustee for the SRV Trust which is the carry trust for the SRV Tech Trust (40,154 shares).

Mr Callahan is considered to have a relevant interest in these shares due to his position as a director or shareholder of the respective trustee companies and holds a beneficial interest in the SRV Trust.

Option holding
The number options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares:					
Paul Anderson	11,658	-	(11,658)	-	-

Other transactions with key management personnel and their related parties
There were no transactions with key management personnel.

Employment Contracts

The Company has entered into employment agreements with the following key employees (each an Executive) on the following material terms and conditions.

Name	Position	Salary	Short term incentive	Notice period
Mr Paul Anderson	Managing Director	$280,000 per annum plus superannuation	A bonus of a maximum of 25% of Base Salary may be payable each year subject to achievement of key performance indicators to be agreed by the Board. Mr Anderson was also granted 1,250,000 options on 4 August 2014	6 months

Under the employment agreement:

(i) either party may terminate the employment agreement by providing the amount of notice set out in the table above. The Company may terminate the agreement without notice (and without having to pay the Executive an amount in lieu of notice) if the Executive engages in serious or wilful misconduct;

(ii) the Executive is entitled to 20 days annual leave and 10 days personal leave per annum, and to long service leave and other paid and unpaid leave in accordance with applicable legislation;

(iii) the Executive acknowledges that intellectual property created by the Executive will be owned by the Company;

(iv) the Executive agrees to keep confidential information secret and confidential except to the extent required by law; and

(v) during the employment and for a period of 12 months post-employment (or less if a court finds 12 months to be invalid), the Executive agrees not to carry on any business that competes with the business of the Company, solicit, employ or engage any director, employee or contractor of the Company, or entice, provide services to, or accept services from any customer, contractor or supplier of the Company to discontinue their relationship with the Company or otherwise reduce the amount of business they do with the Company. This restraint applies in Australia and New Zealand (or if a court finds this invalid, across, Australia, or if a court finds this invalid, across Western Australia.

Consulting arrangements

The Company has entered into the consulting agreements with the parties set out below under which directors Matthew Callahan and Stewart Washer are to provide services to the Company. The key terms of the consulting agreements are as follows:

Contractor / Key Employee	Consulting fee	Consulting services
Bocca Consulting Pty Ltd / Mr Matthew Callahan	$1,500 per day	Advisory services to the Company on general matters relating to the Company's business, identifying, evaluating and developing new opportunities, performing duties as a non-executive director and any other duties as may be delegated by the Board from time to time.
Biologica Ventures Pty Ltd / Dr Stewart Washer	$120,000 per annum plus annual bonus of 20% of the consultancy fee dependent upon achieve of key performance indicators agreed to by the Board	Services to the Company in relation to acting as Chairman of the Company. The Company and Dr Washer acknowledge that Dr Washer will be the Executive Chairman of the Company pursuant to this consultancy agreement.

The Company can terminate a consulting agreement on 3 months' notice. The Company may terminate the agreement without notice (and without having to pay the Consultant an amount in lieu of notice) if the Consultant or the Key Employee is guilty of gross misconduct, the Key Employee dies, or becomes permanently incapacitated or incapacitated for a period of 2 months in any 6 month period, the Consultant or the Key Employee breaches the agreement and does not rectify the breach, the Key Employee ceases to be a Director, the Consultant or the Key Employee fails to provide the services under the agreement or breaches the covenants under the agreement. The Consultant may terminate the agreement by 6 months' notice or by notice if the Company breaches the agreement or fails to observe any provision and has not adequately responded to the breach or non-observance within 15 days.

The consultants and the key employees acknowledges that intellectual property created by them in providing services under the agreements will be owned by the Company, and undertakes not to divulge any confidential information except so far as may be necessary in connection with the proper performance of their obligations to the Company under the agreement or with the consent of the Company.

The Company also granted Mr Callahan and Mr Washer 1,250,000 options each on 4 August 2014.

Non-Executive Directors letters of appointment
Pursuant to letters of continuing appointment Mr Callahan, Professor Lars Lidgren and Mr Qi Xiao Zhou are continuing their appointments to the Board as a Non-Executive Directors following listing. Mr Callahan, Professor Lars Lidgren and Mr Qi Xiao Zhou will each be paid a directors fee of $45,000 per annum. Mr Callahan, Professor Lars Lidgren and Mr Qi Xiao Zhou are also entitled to fees or other amounts as the Board determines where they perform special duties or otherwise perform special duties or otherwise perform services outside the scope of the ordinary duties of a director. They may also be reimbursed for all reasonable and properly documented expenses incurred in performing their duties.

Directors' and Officers' deeds of indemnity, access and insurance
The Company has entered into a deed of indemnity, access and insurance with each of its Directors and the Company Secretary. Under these deeds, the Company agrees to indemnify each officer to the extent permitted by law against any loss which the officer may incur, or be liable for, arising from or in connection with the officer acting as an officer of the Company. Under the deeds, the Company is also required to enter into an insurance policy for the benefit of the officer that insures the officer for all liability to which the officer is exposed in providing services in the capacity of an officer of the Company for which insurance may be legally obtained. When the policy expires, the Company must ensure that it maintains an insurance policy for the officer during the officer's term of appointment that is on terms no less favourable to the officer (subject to the ability of the Company to reduce the scope of the insurance to the extent it considers reasonable if it is determined that the cost of maintaining it is such that it is not in the interests of the Company to maintain it, or the Company is unable to obtain the insurance on reasonable terms).

This concludes the remuneration report, which has been audited.

Shares under option
At the date of this report there are 5,912,500 options exercisable at $0.50 on or before 3 August 2017 on issue.

Shares issued on the exercise of options
The following ordinary shares of the Company were issued during the year ended 30 June 2014 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
15 August 2010	$2.39	27,500

Indemnity and insurance of officers
The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The Company paid a premium of $5,001 in respect of this policy.

Indemnity and insurance of auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

Matters subsequent to the end of the financial year
On 2 May 2014 meetings of shareholders approved, subject to the ASX providing official quotation of the Company's shares:

1) The conversion of the Series A and Series A2 preference shares into ordinary shares; and
2) The division of each ordinary share into 16.16718 ordinary shares.

On 28 May 2014 the Company lodged a prospectus with the Australian Securities and Investments Commission to raise a maximum of $8,000,000 and list on the ASX.

The offer closed oversubscribed on 18 July 2014.

On 1 August 2014 the ASX provided conditional approval for official quotation of the Company's shares. Accordingly the effective date for the conversion and division approved by shareholders was 1 August 2014.

On 4 August 2014 the following securities were issued;

- 20,000,000 ordinary shares each at an issue price of $0.40 raising $8,000,000 (before costs) pursuant to the prospectus; and
- 5,912,500 options with an exercise price of $0.50 exercisable on or before 3 August 2017 for nil consideration.

The Company shares commenced trading on ASX on 12 August 2014.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the consolidated financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 21 to the consolidated financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former audit partners of PKF Mack & Co
There are no officers of the Company who are former audit partners of PKF Mack & Co.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor
PKF Mack & Co continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors

Paul Anderson
Managing Director

19 September 2014
Perth

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF ORTHOCELL LIMITED

In relation to our audit of the financial report of Orthocell Limited for the year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Mack and Co.

PKF MACK & CO

SIMON FERMANIS
PARTNER

19 SEPTEMBER 2014
WEST PERTH,
WESTERN AUSTRALIA

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Orthocell Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2014

	Note	Consolidated 2014 $	Consolidated 2013 $
Revenue			
Sales revenue	3	691,405	524,281
Cost of goods sold		(597,151)	(482,169)
Gross profit		94,254	42,112
Other revenue	3	1,123,434	1,253,544
Expenses			
Administrative & general expenses		498,372	415,860
Sales & marketing expenses		200,646	132,076
Orthopaedic distributor costs		371,314	392,567
Employment expenses		1,643,418	1,208,548
Laboratory / research & development costs		686,123	450,751
Other expenses		-	19,184
	4	3,399,873	2,618,986
Loss before income tax expense		(2,182,185)	(1,323,330)
Income tax benefit/(expense)	5	-	-
Loss after income tax expense		(2,182,185)	(1,323,330)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss		(2,182,185)	(1,323,330)

		Cents	Cents
Loss per share			
Basic earnings per share	28	(0.61)	(0.40)
Diluted earnings per share	28	(0.61)	(0.40)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Orthocell Limited
Statement of financial position
As at 30 June 2014

	Note	Consolidated 2014 $	2013 $
Assets			
Current assets			
Cash and cash equivalents	6	3,467,352	591,144
Trade and other receivables	7	126,716	91,208
Inventories	8	151,871	185,024
Other	9	305,335	57,077
Total current assets		4,051,274	924,453
Non-current assets			
Property, plant and equipment	10	286,893	302,815
Intangibles	11	799,714	537,706
Total non-current assets		1,086,607	840,521
Total assets		5,137,881	1,764,974
Liabilities			
Current liabilities			
Trade and other payables	12	3,855,443	303,241
Employee benefits	13	232,010	158,869
Other	14	218,540	225,130
Total current liabilities		4,305,993	687,240
Non-current liabilities			
Other	15	755,700	863,650
Total non-current liabilities		755,700	863,650
Total liabilities		5,061,693	1,550,890
Net assets		76,188	214,084
Equity			
Issued capital	16	8,050,570	5,921,133
Reserves	17	-	85,148
Accumulated losses	18	(7,974,382)	(5,792,197)
Total equity		76,188	214,084

The above statement of financial position should be read in conjunction with the accompanying notes

Orthocell Limited
Statement of changes in equity
For the year ended 30 June 2014

Consolidated	**Issued capital $**	**Option reserve $**	**Accumulated losses $**	**Total equity $**
Balance at 1 July 2012	4,414,833	70,294	(4,468,867)	16,260
Loss after income tax expense for the year	-	-	(1,323,330)	(1,323,330)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(1,323,330)	(1,323,330)
Transactions with owners in their capacity as owners:				
Contributions of equity	1,500,000	-	-	1,500,000
Share equity costs	(66,420)	-	-	(66,420)
Vested options	-	42,574	-	42,574
Exercised options share value	45,000	-	-	45,000
Exercised options reserves transfer	27,720	(27,720)	-	-
Balance at 30 June 2013	5,921,133	85,148	(5,792,197)	214,084

Consolidated	**Issued capital $**	**Option reserve $**	**Accumulated losses $**	**Total equity $**
Balance at 1 July 2013	5,921,133	85,148	(5,792,197)	214,084
Loss after income tax expense for the year	-	-	(2,182,185)	(2,182,185)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,182,185)	(2,182,185)
Transactions with owners in their capacity as owners:				
Contributions of equity	2,098,714	-	-	2,098,714
Share equity costs	(120,151)	-	-	(120,151)
Exercised options share value	65,726	-	-	65,726
Exercised options reserves transfer	85,148	(85,148)	-	-
Balance at 30 June 2014	8,050,570	-	(7,974,382)	76,188

The above statement of changes in equity should be read in conjunction with the accompanying notes

Orthocell Limited
Statement of cash flows
For the year ended 30 June 2014

	Note	Consolidated 2014 $	2013 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,099,848	1,046,332
Payments from suppliers and employees (inclusive of GST)		(3,477,304)	(3,021,088)
Receipt from license fee		-	1,079,550
Grants received		78,894	44,686
R&D tax concession received		530,426	535,390
Interest received		15,110	24,558
Net cash used in operating activities	27	(1,753,026)	(290,572)
Cash flows from investing activities			
Payments for property, plant and equipment		(4,872)	(17,223)
Payments for intangible assets		(268,381)	(82,834)
Net cash used in investing activities		(273,253)	(100,057)
Cash flows from financing activities			
Proceeds from issue of shares		2,164,440	-
Share equity costs		(120,151)	(66,420)
Proceeds from IPO – held in trust		2,985,100	-
Share equity costs – IPO		(126,902)	-
Net cash from/(used in) financing activities		4,902,487	(66,420)
Net increase /(decrease) in cash and cash equivalents		2,876,208	(457,051)
Cash and cash equivalents at the beginning of the financial year	6	591,144	1,048,195
Cash and cash equivalents at the end of the financial year	6	3,467,352	591,144

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements
The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 11 Joint Arrangements
The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities
The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

Note 1. Significant accounting policies (continued)

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities
The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments
The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement
The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

Basis of preparation
These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements cover Orthocell Limited as a consolidated entity consisting of Orthocell Limited and its subsidiary. Orthocell Limited is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the consolidated entity’s operations and its principal activities are included in the directors’ report, which is not part of the financial statements. The financial statements were authorised for issue in accordance with a resolution of directors on 19 September 2014. The directors have the power to amend and reissue the financial statements.

Note 1. Significant accounting policies (continued)

Historical cost convention
The consolidated financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

Parent entity information
In accordance with the Corporations Act 2001, these consolidated financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 25.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities and results of Orthocell Limited ('Company' or 'parent entity') and its subsidiary Ausbiomedical Pty Ltd as at 30 June 2014 and the year then ended. Orthocell Limited and its subsidiary together are referred to in these consolidated financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The consolidated financial statements are presented in Australian dollars, which is Orthocell Limited's functional and presentation currency.

Note 1. Significant accounting policies (continued)

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods
Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Research and development tax incentive
The research and development tax incentives are recognised at their fair value where there is reasonable assurance that the incentive will be received and all attached conditions will be complied with.

Interest
Interest revenue is recognised when it is received or due to be received.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable..

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Note 1. Significant accounting policies (continued)

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories
Inventory relates to work in progress which consists of the costs of patients' cells being held in the laboratory awaiting delivery and implantation into the patient. Inventory items are stated at the lower of cost and net realisable value. Inventory comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity.

As indicated in Note 2, when making the decision whether inventory items should be carried forward in the statement of financial position, or written off, management must consider the likelihood of whether each particular patient will proceed to implantation. This requires a degree of estimation and judgement based on historical sales experience, the ageing of the inventories and other demographic and market factors. At present management consider that 2 years is a reasonable period of time to hold inventory in the statement of financial position for each patient unless there is further particular information that would indicate otherwise. This policy is reviewed annually.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 1. Significant accounting policies (continued)

Investments and other financial assets
Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets, principally equity securities, which are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets
The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Leasehold improvements	Straight line	40 years
Plant and equipment	Diminishing value	3-7 years
Computer software	Straight line	2-3 years
Furniture and fittings	Diminishing value	10-15 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Note 1. Significant accounting policies (continued)

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development
Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Patents and trademarks
Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 20 years.

Impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Note 1. Significant accounting policies (continued)

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits
Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured at current value and is not discounted if the effect of discounting is immaterial. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, which are provided to employees in exchange for the rendering of services.
The costs of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The costs of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

Note 1. Significant accounting policies (continued)

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Earnings per share
Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Note 1. Significant accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity has not assessed of the impact of these new or amended Accounting Standards and Interpretations.

AASB No.	Title	Application date of standard	Issue date
AASB 9	Financial Instruments	1 January 2018	December 2010
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014	June 2012
AASB 2013-3	Amendments to AASB 136 – Recoverable amount disclosures for non-financial assets	1 January 2014	June 2013
AASB 2013-4	Amendments to Australian Accounting Standards – notation of derivatives and continuation of hedge accounting	1 January 2014	July 2013
AASB 2013-5	Amendments to Australian Accounting Standards – Investment entities	1 January 2014	August 2013
AASB 2013-9	Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments Part A - Conceptual Framework Part B - Materiality Part C - Financial Instruments	Part A - 20 December 2013 Part B - 1 January 2014 Part C - 1 January 2015	December 2013
AASB 2014-1	Amendments to Australian Accounting Standards Part A - Annual Improvements 2010 - 2012 and 2011 - 2013 Cycles Part B - Defined Benefit Plans: Employee Contributions (Amendments to AASB 119) Part C - Materiality Part D - Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts Part E - Financial Instruments	Part A - 1 July 2014 Part B - 1 July 2014 Part C - 1 July 2014 Part D - 1 January 2016 Part E - 1 January 2015	June 2014
AASB 1031	Materiality (Revised)	1 January 2014	December 2013
AASB 14	Regulatory Deferral Account	1 January 2016	June 2014
Interpretation 21	Levies	1 January 2014	May 2013
Amendments to IAS 16 PP&E and IAS 38 Intangible Assets	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	May 2014
IFRS 15	Revenues from Contracts with Customers	1 January 2017	May 2014

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor’s financial position.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Employee benefits provision
As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date is recognised and measured at current value and is not discounted if the effect of discounting is immaterial. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 3. Revenue

	Consolidated 2014 $	2013 $
Sales revenue		
Sale of goods	691,405	524,281
	691,405	524,281
Other revenue		
Interest	15,110	24,558
Commissions	381,321	507,280
Export market development grant	78,894	44,686
License fee	107,950	107,950
R&D tax rebate	530,426	535,390
Other	9,733	33,680
	1,123,434	1,253,544
Total revenue	1,814,839	1,777,825

Note 4. Expenses

Loss before income tax includes the following specific expenses:

	2014 $	2013 $
Cost of sales		
Cost of sales	597,151	482,169
Depreciation and amortisation		
Depreciation - plant and equipment	29,132	37,178
Amortisation - patents and trademarks	8,698	7,223
Total depreciation and amortisation	37,830	44,401
Net foreign exchange loss		
Net foreign exchange loss	3,929	4,843
Rental expense relating to operating leases		
Minimum lease payments	89,532	51,320
Employment expenses		
Salaries and wages	1,445,771	1,211,425
Employee benefits	73,141	54,932
Superannuation expense	127,366	102,885
Consultants' fees	315,326	274,650
Directors' fees	129,300	15,000
Payroll & other taxes	49,160	-
Other employment costs	5,035	7,448
Share-based payments expense	-	42,574
Allocated to cost centres	(501,681)	(500,366)
Total employment expenses	1,643,418	1,208,548
Loss on disposal of assets		
Plant and equipment	-	792
Write off of assets		
Inventories	51,198	63,376

Note 5. Income tax expense

	Consolidated 2014 $	2013 $
Income tax expense		
Current tax benefit/(expense) relating to ordinary activities	-	-
Deferred tax – origination and reversal of temporary differences	-	-
Adjustment recognised for prior periods	-	-
Aggregate income tax expense	-	-
Income tax expense is attributable to:		
Profit from continuing operations	-	-
Profit from discontinued operations	-	-
	-	-
Aggregate income tax expense at statutory rate of 30%	-	-
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	-	-
Increase/(decrease) in deferred tax liabilities	-	-
Deferred tax – origination and reversal of temporary differences		
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense from continuing operations	(2,181,949)	(1,323,330)
Tax at the statutory tax rate of 30%	(654,585)	(396,999)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible items	4,541	2,850
Research and development expenditure	129,027	353,618
Research and development rebate received	(159,128)	(160,617)
Share-based payments	-	12,772
Sundry items	-	12,717
Income tax benefit not brought to account	680,145	175,659
Adjustment recognised for prior periods	-	-
Income tax benefit/(expense)	-	-
The following deferred tax balances have not been recognised:		
Deferred tax assets at 30%:		
Provisions and accruals	82,652	47,661
Capital raising costs	44,867	-
Carried forward revenue losses	1,043,918	407,585
	1,171,436	455,246

The tax benefits of the above deferred tax assets will only be obtained if:

(i) The company derives future assessable income of a nature and an amount sufficient to enable the benefits to be utilised;

(ii) The company continues to comply with the conditions for deductibility imposed by law; and

(iii) No changes in income tax legislation adversely affects the company in utilising the benefits.

Note 6. Cash and cash equivalents

	Consolidated 2014 $	Consolidated 2013 $
Cash at bank	482,303	591,144
Cash at bank held in trust	2,985,049	-
	3,467,352	591,144

Reconciliation to cash and cash equivalents at the end of the financial year
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

	2014	2013
Balance as above		
Cash and cash equivalents	3,467,352	591,144
Balance as per statement of cash flows	3,467,352	591,144

Note 7. Trade and other receivables

	2014	2013
Trade receivables	54,797	73,582
Other receivables:		
Sundry debtors	200	290
GST refund due	71,719	17,336
	71,919	17,626
	126,716	91,208

Impairment of receivables

There has been no impairment of receivables in the year ended 30 June 2014 (2013: $0).

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $12,200 as at 30 June 2014 ($14,570 as at 30 June 2013)

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	2014	2013
0 to 3 months overdue	12,200	7,420
3 to 6 months overdue	-	7,150
	12,200	14,570

Note 8. Inventories

	2014	2013
Consumables – at cost	-	37,227
Work in progress – at cost	151,871	147,797
	151,871	185,024

Note 9. Other

	Consolidated 2014 $	Consolidated 2013 $
Accrued revenue	58,562	57,077
Capitalised IPO costs	244,228	-
Prepayments	2,545	-
	305,335	57,077

Note 10. Property, plant and equipment

	2014	2013
Leasehold improvements – at cost	272,502	272,501
Less: Accumulated depreciation	(50,008)	(43,195)
	222,494	229,306
Plant and equipment – at cost	325,283	317,709
Less: Accumulated depreciation	(274,050)	(257,392)
	51,233	60,317
Furniture and fittings – at cost	31,184	29,115
Less: Accumulated depreciation	(18,018)	(15,923)
	13,166	13,192
	286,893	302,815

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial years are set out below:

Consolidated	Leasehold improvements $	Plant and equipment $	Furniture and fittings $	Total $
Balance at 1 July 2012	236,119	75,882	11,560	323,561
Additions	-	13,542	3,682	17,224
Disposals	-	(792)	-	(792)
Depreciation expense	(6,813)	(28,315)	(2,050)	(37,718)
Balance at 30 June 2013	229,306	60,317	13,192	302,815
Additions	-	11,140	2,070	13,210
Disposals	-	-	-	-
Depreciation expense	(6,812)	(20,224)	(2,096)	(29,132)
Balance at 30 June 2014	222,494	51,233	13,166	286,893

Note 11. Intangibles

	Consolidated 2014 $	2013 $
Patents and trademarks – at cost	815,635	544,929
Less: Accumulated amortisation	(15,921)	(7,223)
	799,714	537,706

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Patents and trademarks $	Total $
Balance at 1 July 2012	384,393	384,393
Additions	160,536	160,536
Amortisation expense	(7,223)	(7,223)
Balance at 30 June 2013	537,706	537,706
Additions	270,706	268,361
Amortisation expense	(8,698)	(8,698)
Balance at 30 June 2014	799,714	799,714

Note 12. Trade and other payables

	Consolidated 2014 $	2013 $
Trade payables	710,770	278,312
Share applications – held on trust	2,985,100	-
Other payables	159,573	24,929
	3,855,443	303,241

Note 13. Employee benefits

	Consolidated 2014 $	Consolidated 2013 $
Annual leave entitlements	162,310	114,693
Long service leave entitlements	69,700	44,176
	232,010	158,869

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

Note 14. Other current liabilities

Accrued expenses	110,590	117,180
Revenue received in advance	107,950	107,950
	218,540	225,130

Note 15. Other non-current liabilities

Revenue received in advance	755,700	863,650
	755,700	863,650

Note 16. Equity – issued capital

	Consolidated 2014 Shares	2013 Shares	2014 $	2013 $
Ordinary shares – fully paid	2,166,026	2,138,526	3,313,427	3,162,553
Preference shares series A – fully paid	1,361,230	960,714	3,423,714	1,325,000
Preference shares series A2 – fully paid	338,600	338,600	1,500,000	1,500,000
	3,865,856	3,437,840	8,237,141	5,987,553
Share equity costs - preference shares series A2	-	-	(66,420)	(66,420)
Share equity costs - preference shares series A	-	-	(120,151)	-
	3,865,856	3,437,840	8,050,570	5,921,133

Note 16. Equity – issued capital (continued)

Movements in ordinary share capital:

Details	Date	No of shares	Issue price	$
Balance	1 July 2012	2,093,526		3,089,833
Issue of shares	7 June 2013	45,000	$1.00	45,000
Transfer from share options reserve				27,720
Balance	30 June 2013	2,138,526		3,162,553
Issue of shares on the exercise of options	23 May 2014	27,500	$2.39	65,726
Transfer from share options reserve on the exercise of options				85,148
Balance	30 June 2014	2,166,026		3,313,427

Movements in redeemable preference series A share capital:

Details	Date	No of shares	Issue price	$
Balance	1 July 2012	960,714		1,325,000
Balance	30 June 2013	960,714		1,325,000
Issue of shares	9 February 2014	51,710	$5.24	270,968
Issue of shares	18 March 2014	347,806	$5.24	1,822,506
Issue of shares	23 May 2014	1,000	$5.24	5,240
Balance	30 June 2014	1,361,230		3,423,714

Movements in redeemable preference series A2 share capital:

Details	Date	No of shares	Issue price	$
Balance	1 July 2012	-		-
Issue of shares	22 September 2012	338,600	$4.43	1,500,000
Balance	30 June 2013	338,600		1,500,000
Balance	30 June 2014	338,600		1,500,000

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital. The Company does not have any externally imposed capital requirements.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 16. Equity – issued capital (continued)

Redeemable preference series A and A2 shares
The rights, privileges and conditions attached to the Series A and Series A2 Preference Shares (Preference Shares) on issue at 30 June 2014 are the same as the ordinary shares in the Company except as set out below:

(a) The Preference Shares shall rank for dividends pari passu with the ordinary shares in the company on an as converted basis.

(b) A holder of Preference Shares is entitled at any time to convert part or the whole of their Preference Shares into Ordinary Shares.

(c) The Preference Shares will automatically convert into fully paid Ordinary Shares on the closing of a qualifying public offering being upon the closing of a firmly underwritten or completed public offering of Ordinary Shares in the Company at a price per share of at least three times the original price of the Series A Preference Share issued pursuant to the Series A Subscription Agreement of $1, and a total new raising of at least A$5,000,000 (before deduction of underwriters commissions and expenses).

(d) If immediately prior to a conversion, the conversion ratio is not 1:1, the converting Preference Shares will be subdivided into a greater number of Preference Shares reflected by the conversion ratio so that conversion into Ordinary Shares is always on a 1:1 basis. Fractions of a share will be rounded up for the purposes of conversion.

(e) The Preference Shares will confer on their holders the right to receive notices of and to attend and vote at general meetings.

(f) Subject to Chapter 2H, Part 2.H2 of the Corporations Act 2001 (Cth) a holder of Preference Shares may redeem its Preference Shares at their issue price if an Event of Default contained in the Shareholders Agreement occurs.

(g) In the event of any liquidation or winding up of the Company holders of Preference Shares shall be entitled to receive in preference to the holders of other Shares an amount equal to the issue price of the Preference Shares together with any declared, accrued and unpaid dividends, following which the holders of Ordinary Shares and Preference Shares, on an as converted basis, will participate pro rata in any remaining proceeds available for distribution.

(h) In the event of a sale of Shares that includes a sale of Preference Shares or In the event of a sale of all or substantially all of the assets of the Company, holders of Preference Shares shall be entitled to receive in preference to the holders of other Shares an amount equal to the issue price of the Preference Shares together with any declared, accrued and unpaid dividends, following which the holders of Ordinary Shares and Preference Shares, on an as converted basis, will participate pro rata in any remaining proceeds available for distribution.

Following shareholder approval received on 2 May 2014 and ASX providing conditional approval for Official Quotation on 1 August 2014, all redeemable preference series A and A2 shares were converted into ordinary shares on 4 August 2014.

Capital Management Policy
When managing capital, the Board's objective is to ensure the entity continues as a going concern as well as to obtain optimal returns to shareholders and benefits for other stakeholders.

Note 17. Option reserve

	Consolidated 2014 Options	Consolidated 2013 Options	Consolidated 2014 $	Consolidated 2013 $
Share option reserve	-	27,500	-	85,148
	-	27,500	-	85,148

Movement in option reserve
Movement in option reserve during the current and previous financial year are set out below:

	Date	No of options	Total $
Balance	1 July 2012	72,500	70,294
Vested options expense		-	42,574
Options exercised	7 June 2013	(45,000)	(27,720)
Balance	30 June 2013	27,500	85,148
Options exercised	23 May 2014	(27,500)	(85,148)
Balance at 30 June 2014		-	-

The share based payments reserve is used to record the value of share based payments provided to employees, including Key Management Personnel, as part of their remuneration.

Note 18. Equity – accumulated losses

	Consolidated 2014 $	Consolidated 2013 $
Accumulated losses at the beginning of the financial year	5,792,197	4,468,867
Loss after income tax expense for the year	2,182,185	1,323,330
Accumulated losses at the end of the financial year	7,974,382	5,792,197

Note 19. Financial instruments

(a) Financial risk management

The Company's principal financial instruments comprise cash.

The main purpose of these financial instruments is to fund expenditure on the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1.

Note 19. Financial instruments (continued)

(b) Interest rate risk

	Consolidated	
	2014	**2013**
	$	**$**
At reporting date, the Company had the following financial assets exposed to interest rate risk:		
Cash[1]	3,467,352	591,144

[1] The weighted average interest rate of cash is 2.40% (2013: 2.75%)

None of the consolidated entity's financial liabilities are interest bearing.

(c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The consolidated entity's maximum exposure to credit risk in relation to each class of financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

The consolidated entity has in place policies that aim to ensure that counterparties and cash transactions are limited to high credit quality financial institutions and that the amount of credit exposure to one financial institution is limited as far as is considered commercially appropriate.

Since the consolidated entity trades only with recognised third parties, there is no requirement for collateral.

(d) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Less than 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	Total contractual cash flows	Total carrying amount
	$	$	$	$	$	$	$
As at 30 June 2014:							
Trade and other payables	976,583	-	-	-	-	-	976,583
As at 30 June 2013:							
Trade and other payables	420,331	-	-	-	-	-	420,331

(e) Net fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1.

(f) Sensitivity analysis

The following tables summarise the sensitivity of the consolidated entity's financial assets to interest rate risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post-tax profit/(loss) and equity would have been affected as shown. The analysis has been performed on the same basis for 2014 and 2013. None of the Company's financial liabilities are interest bearing.

Note 19. Financial instruments (continued)

	Carrying amount	Interest rate risk -1%		Interest rate risk 1%	
		Net profit	Equity	Net profit	Equity
30 June 2014	$	$	$	$	$
Financial assets					
Cash	3,467,352	(34,673)	(34,673)	34,673	34,673
30 June 2013					
Financial assets					
Cash	591,144	(5,911)	(5,911)	5,911	5,911

Note 20. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 2014 $	Consolidated 2013 $
Short-term employee benefits	415,187	207,779
Post-employment benefits	26,445	17,350
Long-term benefits	12,026	24,838
Share-based payments	-	18,048
	453,658	268,015

Note 21. Remuneration of auditor

During the financial year the following fees were paid or payable for services provided by PKF Mack & Co, the auditor of the Company, its network firms and unrelated firms:

	2014	2013
Audit services – PKF Mack & Co		
Audit or review of the consolidated financial statements	33,000	15,500
Other services – PKF Mack & Co		
Preparation of the tax return	2,000	-
Preparation of Investigating accountants report	11,500	-
Other matters	9,500	-
	23,000	-
	56,000	15,500

Note 22. Contingent liabilities

The consolidated entity has no contingent liabilities for the years ended 30 June 2013 or 30 June 2014.

Note 23. Commitments

Patent annuity commitments		
To maintain patent rights the following commitments will need to be met by the Company:		
Within one year	26,971	16,919
One to five years	119,033	103,514
More than five years	320,466	319,230
	466,470	439,663
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	73,575	74,928
One to five years	15,697	80,199
More than five years	-	-
	89,272	155,127
Total commitments	555,742	594,790

Operating lease commitments includes contracted amounts for various equipment under non-cancellable operating leases expiring within one to ten years and the current office and lab rental lease.

Note 24. Related party transactions

Parent entity
Orthocell Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 25.

Key management personnel
Disclosures relating to key management personnel are set out in note 20 and the remuneration report in the directors' report.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting dates.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 25. Parent entity and interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	**Country of incorporation**	**2014 %**	**2013 %**
Ausbiomedical Pty Ltd	Australia	100	100

Ausbiomedical Pty Ltd has no assets or liabilities and does not trade in its own right.

As the Company's only subsidiary, Ausbiomedical Pty Ltd, does not trade or have any assets and liabilities, the consolidated entity and parent entity disclosures are the same.

Note 26. Events after the reporting period

On 2 May 2014 meetings of shareholders approved, subject to the Australian Securities Exchange providing official quotation of the Company's shares:

1) The conversion of the Series A and Series A2 preference shares into ordinary shares; and
2) The division of each ordinary share into 16.16718 ordinary shares.

On 28 May 2014 the Company lodged a prospectus with the Australian Securities and Investments Commission to raise a maximum of $8,000,000 and list on the ASX.

The offer closed oversubscribed on 18 July 2014.

On 1 August 2014 the ASX provided conditional approval for official quotation of the Company's shares. Accordingly the effective date for the conversion and division approved by shareholders was 1 August 2014.

On 4 August 2014 the following securities were issued;

- 20,000,000 ordinary shares each at an issue price of $0.40 raising $8,000,000 (before costs) pursuant to the prospectus; and
- 5,912,500 options with an exercise price of $0.50 exercisable on or before 3 August 2017 for nil consideration.

The Company shares commence trading on ASX on 12 August 2014.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 27. Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
	2014 $	2013 $
Loss after income tax expense for the year	(2,182,185)	(1,323,330)
Adjustments for:		
Depreciation and amortisation	37,830	44,401
Inventory write-off	51,198	63,376
Loss on disposal of fixed assets	-	792
Change in operating assets and liabilities:		
(Increase)/decrease in debtors	(35,508)	(20,528)
(Increase)/decrease in prepayments	(2,545)	2,273
(Increase)/decrease in inventories	(18,045)	(94,557)
(Increase)/decrease in accrued revenue	(1,486)	(10,021)
Increase/(decrease) in creditors	439,114	49,858
Increase/(decrease) in accruals	(6,590)	(17,010)
Increase/(decrease) in employee entitlements	73,141	42,574
Increase/(decrease) in unearned income	(107,950)	971,600
Net cash from operating activities	(1,753,026)	(290,572)

Note 28. Loss per share

Loss per share		
Loss after income tax	(2,182,185)	(1,323,330)
	Number	**Number**
Weighted average number of shares used in calculating basic and diluted loss per share	3,561,056	3,318,802

Options are considered to be potential ordinary shares and have been included in the determination of diluted loss per share to the extent to which they are dilutive.

Following the conversion of preference shares, division of shares and issue of shares pursuant to the prospectus dated 28 May 2014 the Company at the date of this report has 82,500,000 ordinary shares on issue.

Note 29. Share-based payments

Set out below are summaries of options granted by the Company:

Grant date	Expiry date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2014							
15/08/2010	15/08/2015	$2.39	27,500	-	27,500	-	-
2013							
15/08/2010	15/08/2015	$2.39	27,500	-	-	-	27,500

Note 30. Operating segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

The financial information presented in the statement of profit or loss and other comprehensive income and statement of financial position is the same as that presented to the chief operating decision makers.

The consolidated entity predominately operates in the regenerative medicine industry in Australia.

In the directors' opinion:

- the attached consolidated financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached consolidated financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the consolidated financial statements;
- the attached consolidated financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Paul Anderson
Director

19 September 2014

Perth

PKF Mack & Co

Chartered Accountants & Business Advisers

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

ORTHOCELL LIMITED

Report on the Financial Report

We have audited the accompanying consolidated financial report of Orthocell Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity. The consolidated entity comprises 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

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

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PKF MACK & CO
Chartered Accountants & Business Advisers

Opinion

In our opinion:

(a) the financial report of Orthocell Limited 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 2014 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 10 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Orthocell Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.

PKF Mack and Co.

PKF MACK & CO

SIMON FERMANIS
PARTNER

19 SEPTEMBER 2014
WEST PERTH,
WESTERN AUSTRALIA

General

The Board is responsible for establishing the Company's corporate governance framework, the key features of which are set out in this Section. In establishing its corporate governance framework, the Board has referred to the 3rd edition of the ASX Corporate Governance Councils' Corporate Governance Principles & Recommendations.

This corporate governance statement discloses the extent to which the Company has followed the recommendations since the date of admission of the Company to the ASX.

The Company's Corporate Governance Statement and any charters, codes or procedures adopted by the Company can be found on the Company's website at www.orthocell.com.au, under the section marked "Corporate Governance":

Roles and responsibilities of the Board, Company Secretary and Senior Executives

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter.

The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The Company Secretary supports the effectiveness of the Board by monitoring that Board policy and procedures are followed, and by coordinating the completion and dispatch of Board agendas, minutes, appropriate registers and briefing papers. The Company Secretary is accountable to the Board via the Chairperson.

Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company in accordance with the delegated authority of the Board. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, directly to the Chair or the lead independent Director, as appropriate.

The Company's Board Charter is disclosed on the Company's website.

Skills, experience, expertise and period of office of each Director

A profile of each Director setting out their skills, experience, expertise and period of office will be included in the Company's Annual Report.

The mix of skills and diversity for which the Board is looking to achieve in its membership is represented by the current Board. The Board comprises directors with significant experience as directors of public companies; marketing experience; accounting and financial expertise; experience in the management and growth of businesses and extensive experience in the industry in which Orthocell operates. The Board considers that these skills and experience are appropriate for Orthocell.

Director independence

The Board does not have a majority of directors who are independent.

The Board considers that the composition of the Board is adequate for the Company's current size and operations, and includes an appropriate mix of skills and expertise, relevant to the Company's business. These skills include members with significant experience as directors of public companies, relevant experience in the management and growth of businesses together with extensive experience in the industry in which Orthocell operates.

The Board will review its composition as the Company's circumstances change. The Board will have regard to the Company's Diversity Policy and the balance of independence on the Board in identifying appropriate candidates for any appointments for the Board.

The independent Director of the Company is Professor Lars Lidgren. Professor Lidgren is independent as he is a non-executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles & Recommendations and the Company's materiality thresholds.

The Executive Chair of the Board is Dr Stewart Washer. The board considers that given its stage of development it is beneficial that Dr Washer is an Executive. The Board will consider the appointment of an independent chair as the Company increases in size and complexity.

The Managing Director is Paul Anderson who is not Chair of the Board.

To assist Directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director then, provided the Director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice. Where it is the Chair who is seeking the independent professional advice, the role of the Chair to consider and provide approval as set out above will be carried out by the independent Directors.

Selection and (Re) Appointment of Directors

In determining candidates for the Board the board will evaluate the mix of skills, experience, expertise and diversity of the existing Board. In particular, the board will seek to identify the particular skills and diversity that will best increase the Board's effectiveness. Consideration will also be given to the balance of independent Directors. Any appointment made by the Board will be subject to ratification by shareholders at the next general meeting.

Prior to the appointment of a new director the Board will undertake appropriate checks to ensure that the person's character, experience and education is appropriate for the position which will include criminal history and bankruptcy checks.

Each Board member will have a written letter of appointment or executive contract setting out the terms of their appointment.

Each Director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that Director's last election or appointment (whichever is the longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one Director or one third of the total number of Directors (rounded down) must resign. A Director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of Directors is not automatic.

Board committees

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time preferring at this stage to manage the Company through the full board of Directors.

Matters typically dealt with by a Nomination, Audit, Remuneration and Risk committee will be dealt with by the full Board in accordance with adopted policies and procedures.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

Remuneration of Directors and Executives

Details of remuneration, including the Company's policy on remuneration, will be contained in the "Remuneration Report" which will form part of the Company's Annual Report.

The Company's policy is to remunerate non-executive Directors at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive Directors is not linked to individual performance. From time to time the Company may grant performance rights or to non-executive Directors. The grant of performance rights or options is designed to attract and retain suitably qualified non-executive Directors. The maximum aggregate amount of fees (including superannuation payments) that can be paid to non-executive directors is subject to approval by shareholders at a General Meeting.

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

Executive remuneration consists of a base salary and performance incentives.

Short term performance incentives may be paid in cash and may be subject to the successful completion of performance hurdles agreed by the board.

Long term performance incentives may include options, performance rights, or other equity based products granted at the discretion of the Board subject to obtaining the relevant approvals. The grant of equity based products is designed to recognise and reward efforts as well as to provide additional incentive to continue those efforts for the benefit of the Company, and may be subject to the successful completion of performance hurdles.

Executives are offered a competitive level of base pay at market rates (for comparable companies), which are reviewed at least annually to ensure market competitiveness.

The Company's Securities Trading Policy includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

Performance evaluation

The Managing Director will review the performance of the senior executives. The Managing Director will conduct a performance evaluation of the senior executives by meeting individually with each senior executive on a yearly basis to review performance against the senior executive's responsibilities as outlined in his or her contract with the Company and against key performance indicators (KPI's) set for the senior executive set by the Managing Director or the Board.

The performance of executive Directors, including the Managing Director, will be reviewed by the Board. The Board (or Directors nominated by the board) will conduct a formal performance evaluation of the Executive Directors annually to review performance against KPIs set for the previous year, and to establish KPIs for the forthcoming year.

Board, its committees and individual directors

The Chair has the overall responsibility for evaluating the Board, any committees established and, when appropriate, individual directors on an annual basis.

The method and scope of the performance evaluation will be set by the Chair and which may include a Board self-assessment checklist to be completed by each Director. The Chairperson may also use an independent adviser to assist in the review.

Code of Conduct

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Diversity

The Company has established a Diversity Policy, which provides the Board with objectives for achieving diversity that is appropriate for the Company.

The Company presently has only a small number of full time employees. The Board considers due to the size of the Company setting measurable diversity objectives is not appropriate with its practice currently being to hire the most appropriate candidate for the position to be filled having regard to the activities to be undertaken in the role. As the Company increases in size the board will consider setting measurable objectives.

At 30 June 2014 the following proportion of women hold roles in the Company:

	Number	% of total
Board	0	0%
Senior management	1	50%
Other	7	54%
Total	8	40%

Integrity of Financial Reporting

The Company has not established and Audit Committee. The full Board has responsibility for verifying and safeguarding the integrity of its corporate reporting. The full Board will assess any proposal to appoint or remove the auditor and will ensure that the engagement partner rotates in accordance with the Corporations Act.

The Managing Director and the Chief Financial Officer will to provide a declaration to the Board in accordance with section 295A of the Corporations Act and will assure the Board that such declaration is founded on a sound system of risk management and internal controls and that the system is operating effectively in all material respects in relation to financial reporting risks.

A representative of the Company's auditor will be present at the Annual General Meeting and to answer any questions regarding the conduct of the audit and the preparation and content of the auditors' report

Continuous Disclosure Policy

The Company has established a written policy designed to ensure compliance with ASX Listing Rules disclosure requirements and accountability at a senior executive level for that compliance.

Shareholder Communication Policy

The Company has designed a communications policy for promoting effective communication with shareholders, receive communities from shareholders, including by electronic means, and encouraging shareholder participation at general meetings and at the annual general meeting.

Risk Management Policy

The Company has not established a Risk Committee or a formal internal audit function.

The Board has adopted a Risk Management, internal Compliance and Control Policy., which sets out the Company's risk management and control framework. Under the policy, the Board is responsible for the oversight of the Company's risk management and control framework and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director**,** who is responsible for identifying, assessing, monitoring and managing risks.

In fulfilling the duties of risk management, the Managing Director may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

The Board will receive a periodic report from management as to the effectiveness of the Company's management of identified risks, including identified weaknesses or incidents and will review the Company's risk framework, at lease annually to satisfy itself that it continues to be sound and appropriate for the Company's size and levels of operations.

ASX Corporate Governance Council recommendations checklist

The following table sets out the Company's position with regard to adoption of the Principles & Recommendations:

Principles and Recommendations		**Comply (Yes/ No)**
Principle 1: Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes
1.2	Background checks and information to be given for elections	Yes
1.3	Written contracts of engagement	Yes
1.4	Company Secretary accountable to board through Chairperson	Yes
1.5(a)(b)(d)	Diversity Policy	Yes
1.5(c)	Measurable Objectives in Diversity Policy	No The Board considers that due to the size of the Company setting measurable diversity objectives is not appropriate with its practice currently being to hire the most appropriate candidate for the position to be filled having regard to the activities to be undertaken in the role
1.6	Evaluation of Board	Yes
Principle 2: Structure the Board to add value		
2.1	The Board should establish a nomination committee.	No Due to its current size the Company has not established a nomination committee. The full Board will undertake the activities normally undertaken by a nomination committee
2.2	Skills Matrix	Yes
2.3	Disclose independence and length of service	Yes
2.4	A majority of the Board should be independent directors.	No The Board considers that the composition of the Board is adequate for the Company's current size and operations, and includes an appropriate mix of skills and expertise, relevant to the Company's business. Consideration will be given to the appointment of further independent directors as the Company's level of activities increase.

Principles and Recommendations		**Comply (Yes/ No)**
2.5	The chair should be an independent director.	No The board considers that given its stage of development it is beneficial that Dr Washer is an Executive. The Board will consider the appointment of an independent chair as the Company increases in size and complexity.
2.5	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes
2.6	Induction and professional development of directors	Yes
Principle 3: Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct	Yes
Principle 4: Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee.	No Due to its current size the Company has not established an audit committee. The full Board will undertake the activities normally undertaken by an audit committee
4.2	Declaration from chief executive officer and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act.	Yes
4.3	External Auditor to be available at AGM	Yes
Principle 5: Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements.	Yes
Principle 6: Respect the rights of shareholders		
6.1	Information of website	Yes
6.2	Investor relations program	Yes
6.3	Facilitate participation at general meetings	Yes
6.4	Facilitate electronic communications	Yes
Principle 7: Recognise and manage risk		
7.1	The Board should establish a risk committee	No Due to its current size the Company has not established a risk committee. The full Board will undertake the activities normally undertaken by a risk committee
7.2	Conduct annual risk review	Yes
7.3	Internal audit function	No Due to its current size the Company has not established an internal audit function. The Board has responsibility for the oversight of the Company's risk management and control framework. the Board delegates day-to-day management of risk to the Managing Director**,** who is responsible for identifying, assessing, monitoring and managing risks

Principles and Recommendations		Comply (Yes/ No)
7.4	Disclose exposure to sustainability risks	Yes
Principle 8: Remunerate fairly and responsibly		
8.1	The Board should establish a remuneration committee.	No Due to its current size the Company has not established a remuneration committee. The full Board will undertake the activities normally undertaken by a remuneration committee
8.2	Disclose remuneration policy	Yes
8.3	Disclose policy on hedging equity incentive schemes	Yes

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is effective as at 16 October 2014.

1. 20 largest shareholders

The names of the twenty largest holders of each class of listed securities are listed below:

Twenty largest shareholders	Number held	% of issued shares
SRV Custodians Pty Ltd	9,530,382	11.55
Ming Hao Zheng & Ying Fan	6,963,608	8.44
Paul Anderson & Nicole Telford	6,963,608	8.44
Mr Qixiao Zhou	5,955,673	7.22
Mr Jia Xun Xu	5,168,276	6.26
Australian super Investments Pty Ltd	4,619,190	5.60
Citicorp Nominees Pty Limited	4,472,500	5.42
Veritas Securities Limited	2,425,077	2.94
Statewide Superannuation Pty Ltd	2,309,595	2.80
HSBC Custody Nominees (Australia) Limited	1,942,131	2.35
National Nominees Limited	1,796,000	2.18
Pacific Development Capital Limited	1,542,672	1.87
Murdoch Ventures Pty Ltd	923,841	1.12
Mr Jackie Au Yeung	771,336	0.93
Sandhurst Trustees Ltd	750,000	0.91
Diamonex Ltd	727,523	0.88
SRV Nominees Pty Ltd	649,177	0.79
The University Of Western Australia	646,687	0.78
Dixson Trust Pty Limited	625,000	0.76
Ryder Capital Pty Ltd	625,000	0.76
Total	59,407,276	72.00

2. Substantial shareholders

The Names of substantial shareholders set out below:

Shareholder	Number of shares
SRV Custodians Pty Ltd	9,530,382
Ming Hao Zheng & Ying Fan	6,963,608
Paul Anderson & Nicole Telford	6,963,608
Mr Qixiao Zhou	5,955,673
Mr Jia Xun Xu	5,168,276
Australian Super Investments Pty Ltd	4,619,190
Citicorp Nominees Pty Limited	4,472,500

3. Voting rights

Ordinary shares:
On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options:
No voting rights

4. Distribution of equity securities

Range	Shareholders	Holdings	Percentage
1 – 1000	1	16	0.00
1001 – 5000	101	420,132	0.51
5001 - 10,000	38	305,401	0.37
10,001 - 100,000	213	8,166,097	9.90
100,001 and above	88	73,608,354	89.22
Total	441	82,500,000	100.00

5. Less than marketable parcels

Number of shareholders: 6

6. Unquoted securities

Options issued under the options plans total 5,912,500.

Date of issue:	4 August 2014
Entitlement:	One ordinary share upon exercise of each option
Exercise price:	$0.50
Expiry date:	3 August 2017

Holders of options > 20%

Paul Anderson & Nicole Telford <The Elwing Super Fund A/C>	1,750,000
Mal Washer Nominees Pty Ltd <Mal Washer Family A/C>	1,250,000
Ming Hao Zheng	1,250,000
Shenasaby Investments Pty Ltd <Shenasaby A/C>	1,250,000

7. Restricted securities

Security	Escrow expiry	Number
Ordinary shares	23 May 2015	42,651
Ordinary shares	12 August 2016	27,185,515
Options exercisable at of $0.50 expiring 3/8/2017	4 August 2015	1,662,500
Options exercisable at of $0.50 expiring 3/8/2017	12 August 2016	4,250,000

8. On-market buy back

There is currently no on-market buyback program for any of Orthocell Limited's listed securities.