ORTHOCELL LIMITED

ACN 118 897 135

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2013

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DIRECTORS' REPORT

Your directors present the financial report of Orthocell Limited and controlled entities (the "Group") for the half year ended 31 December 2013.

DIRECTORS

The names of the directors who held office during or since the end of the half year are:

Mr Paul Anderson – Managing Director

Mr Matthew Callahan – Director

Mr Lars Lidgren – Director

Mr Qi Xiao Zhou – Director

Mr Stewart Washer – Director, appointed 7th April 2014

Mrs Fiona Wood – Director, resigned 8th April 2014

COMPANY SECRETARY

Mr Simon Robertson

REVIEW AND RESULTS OF OPERATIONS

The net loss of the consolidated entity after income tax for the half year ended 31 December 2013 amounted to a loss of $339,266 (2012 loss: $212,327).

REVIEW OF ACTIVITIES

The company continues to focus on the development and commercialisation of its core cell therapy products Ortho-ATI™ and Ortho-ACI™ and biological scaffold Celgro™.

This report is signed in accordance with a resolution of the Board of Directors.

Paul Anderson
12th June 2014
Perth, Western Australia.

ORTHOCELL LIMITED

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Reviewed per IAR 6 months ended 31 Dec 2013	Unaudited / unreviewed 6 months ended 31 Dec 2012
	$	$
Sales revenues	401,715	294,941
Cost of goods sold	(350,730)	(235,817)
Gross Profit	50,985	59,124
Other revenues	309,533	344,909
Expenses:		
Administrative & general expenses	(164,875)	(101,134)
Marketing & sales expenses	(99,651)	(71,046)
Orthopaedic distributor expenses	(159,506)	(222,745)
Human resources expenses	(624,704)	(599,748)
Laboratory / research & development expenses	(181,474)	(157,077)
Other expenses	-	-
	(1,230,210)	(1,151,750)
Loss before income tax expense	(869,210)	(747,717)
Income tax benefit/(expense)	530,426	535,390
Total comprehensive loss and loss attributable to members of parent entity Orthocell Limited	(339,266)	(212,327)

The accompanying condensed notes form part of these financial statements.

ORTHOCELL LIMITED

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	Reviewed per IAR 31 Dec 2013	Audited 30 Jun 2013
CURRENT ASSETS		$	$
Cash and cash equivalents		305,997	591,144
Trade and other receivables		156,480	91,208
Inventories		176,597	185,024
Other current assets		-	57,077
TOTAL CURRENT ASSETS		639,074	924,453
NON-CURRENT ASSETS			
Plant and equipment		287,884	302,815
Intangibles		614,994	537,706
TOTAL NON-CURRENT ASSSETS		902,878	840,521
TOTAL ASSETS		1,541,952	1,764,974
CURRENT LIABILITIES			
Trade and other payables		516,392	303,241
Employee benefits		165,911	158,869
Other current liabilities		175,156	225,130
TOTAL CURRENT LIABILITIES		857,459	687,240
NON-CURRENT LIABILITIES			
Other non-current liabilities		809,675	863,650
TOTAL NON-CURRENT LIABILITIES		809,675	863,650
TOTAL LIABILITIES		1,667,134	1,550,890
NET ASSETS		(125,182)	214,084
EQUITY			
Issued capital	5	5,921,133	5,921,133
Option reserve		85,148	85,148
Accumulated losses		(6,131,463)	(5,792,197)
TOTAL EQUITY		(125,182)	214,084

The accompanying condensed notes form part of these financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Share Capital $	Accumulated Losses $	Option Reserve $	Total $
Balance as at 1 July 2013	5,921,133	(5,792,197)	85,148	214,084
Loss for the period		(339,266)		(339,266)
Transactions with owners in their capacity as owners:				
Issue of shares, net of share issue costs	-	-	-	-
Balance as at 31 December 2013	5,921,133	(6,131,463)	85,148	(125,182)
Balance as at 1 July 2012	4,414,833	(4,468,867)	70,294	16,260
Loss for the period		(212,327)		(212,327)
Transactions with owners in their capacity as owners:				
Issue of shares, net of share issue costs	1,433,580	-	-	1,433,580
Balance as at 31 December 2012	5,848,413	(4,681,194)	70,294	1,237,513

The accompanying condensed notes form part of these financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Reviewed per IAR 6 months ended 31 Dec 2013	Unreviewed Unaudited 6 months ended 31 Dec 2012
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	4,813	10,564
Sales revenue received	585,619	528,736
R&D tax incentive rebate received	530,426	535,390
Export Market Development Grant received	60,000	44,686
Payments to suppliers and employees	(1,434,521)	(1,477,068)
Net cash used for operating activities	(253,663)	(357,692)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for patent and IP costs	(81,484)	(46,389)
Payments for property, plant & equipment	-	(3,305)
Net cash provided by investing activities	(81,484)	(49,694)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share subscription funds received and held in trust	50,000	-
Net cash provided by financing activities	50,000	-
Net decrease in cash and cash equivalents held	(285,147)	(407,386)
Cash and cash equivalents at 1 July	591,144	1,048,195
Cash and cash equivalents at 31 December	305,997	640,809

The accompanying condensed notes form part of these financial statements.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 1: REPORTING ENTITY

The financial report of Orthocell Limited and it's controlled entities (the "Group" or "Consolidated Entity") for the half year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 12th June 2014.

Orthocell Limited (the "Group") is an unlisted public company, limited by shares, incorporated and domiciled in Australia. The Group's principal place of business and registered office is located at Building 191 Murdoch University, Murdoch WA 6150. The Group's primary strategy is focussed on regenerative medicine.

NOTE 2: BASIS OF PREPARATION

Statement of Compliance

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001, as appropriate for "for-profit" orientated entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

Basis of preparation

Information for the year ened 30 June 2013 has been audited by PKF Mack & Co. Information for 31 December 2013 has been reviewed by PKF Mack & Co. The information for 31 December 2012 is not audited and not reviewed. The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2013 annual financial report for the financial year ended 30 June 2013. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Orthocell Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Adoption of new or revised accounting standards and interpretations

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year. The Group has not early adopted any accounting standards or interpretations.

The adoption of all the new and revised standards and interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

Use of Estimates and Judgements

The preparation of the half year financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Going Concern

The half year financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. The Company incurred a loss of $339,266 for the period ended 31 December 2013 (2012: loss $212,327).

The ability of the Company to continue to pay its debts as and when they fall due is dependent upon the Company successfully raising additional share capital and ultimately developing its technologies.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

- The Directors have an appropriate plan to raise additional funds as and when it is required. In light of the Group's current projects, the Directors believe that any additional capital required can be raised in the market; and
- The Directors have an appropriate plan to contain expenditure if appropriate funding is unavailable.

The accounts have been prepared on the basis that the Company can meet its commitments as and when they fall due and can therefore continue normal business activities, and the realisation of assets and liabilities in the ordinary course of business.

NOTE 3: SEGMENT INFORMATION

Management has determined that the company has one reportable segment, being regenerative medicine in Australia. As the company is still in research & development and early stage commercialisation, the Board monitors the company based on actual versus budgeted expenditure incurred. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the company and its ongoing activities, while also taking into consideration the results of R&D work that has been performed to date and capital available to the company.

NOTE 4: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities.

NOTE 5: ISSUED CAPITAL

	31 December 2013 No of Shares	30 June 2013 No of Shares	31 December 2013 $	30 June 2013 $
Ordinary fully paid Shares	2,138,526	2,138,526	3,162,553	3,162,553
Redeemable Preference Shares Series A fully paid	960,714	960,714	1,325,000	1,325,000
Redeemable Preference Shares Series A2 fully paid	338,600	338,600	1,500,000	1,500,000
Share equity costs – Preference Shares Series A2	-	-	(66,420)	(66,420)
	3,437,840	3,437,840	5,921,133	5,921,133

There are no dividends paid or declared during the period.

NOTE 6: SHARE-BASED PAYMENTS

The Company provides benefits to employees, including directors of the Company in the form of share-based payment transactions, whereby options to acquire ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. There were no options issued during the period.

NOTE 7: INTANGIBLES

The directors do not consider the carrying value of capitalised intangibles expenditure to be impaired.

NOTE 8: SUBSEQUENT EVENTS

There have been no material transactions or events subsequent 31 December 2013 which would require comment on or adjustment to the financial information referred to above or that would cause the information referred to above to be misleading other than:

a) The proposed issue of 5,912,500 options exercisable at $0.50 at a deemed value of $993,300 to members of key management personnel as follows:
   - Mr Paul Anderson 1,250,000;
   - Mr Stewart Washer 1,250,000;
   - Mr Matthew Callahan 1,250,000;
   - Professor Ming Hao Zheng 1,250,000;
   - Ms Nicole Telford 500,000; and
   - Mr Simon Robertson 412,500.

   It is proposed that the options will be issued pursuant to the Prospectus.

b) The pre-split issue of 339,517 redeemable preference shares series A for total consideration of $2,093,469 before costs of $120,000.

c) The issue of 1,000 redeemable preference shares series A for total consideration of $5,240.

d) The exercise of 27,500 options at an exercise price of $2.39 per share.

DIRECTORS DECLARATION

The Directors of the company declare that:

The financial statements and notes, of the consolidated entity are in accordance with the Corporations Act 2001 including:

(a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and

In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Director

Dated: 12.06.14

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
ORTHOCELL LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Orthocell Limited (the Company) and controlled entities (consolidated entity) which comprises the condensed consolidated statement of financial position as at 31 December 2013, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at 31 December 2013, or during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporation Regulations 2001. As the auditor of Orthocell Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. In accordance with the Corporations Act 2001, we have given the directors' of the company a written Auditor's Independence Declaration.

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Basis for Qualified Audit Opinion

We did not conduct a review of the consolidated entity's financial results for the half year ended 31 December 2012. Accordingly, this information is provided for comparative purposes only and we have not determined whether any adjustments are necessary to this comparative information contained in the financial report.

Conclusion

Based on our review, which is not an audit, except for the effects of such adjustments, if any, which might have been necessary had we conducted a review for the half year ended 31 December 2012, we have not become aware of any matter that makes us believe that the half-year financial report of Orthocell Limited is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

PKF Mack & Co

PKF MACK & CO

SFermanis

SIMON FERMANIS
PARTNER

12 JUNE 2014
WEST PERTH,
WESTERN AUSTRALIA

PKF Mack & Co

Chartered Accountants & Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF ORTHOCELL LIMITED

In relation to our review of the financial report of Orthocell Limited for the half year ended 31 December 2013, 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 & Co

PKF MACK & CO

SIMON FERMANIS
PARTNER

12 JUNE 2014
WEST PERTH,
WESTERN AUSTRALIA

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