regeneus

living regenerative medicine

Consolidated Financial Statements for the year ended 30 June 2013

Regeneus Ltd

ACN 127 035 358

Contents

01 Directors' Report

Your Directors present their report for Regeneus Ltd, and its controlled entities (the Group) for the financial year ended 30 June 2013.

1.1 DIRECTORS

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

John Martin	– Executive Chairman
Professor Graham Vesey	– CEO and Executive Director
Assoc Professor Ben Herbert	– Non-Executive Director
Barry Sechos	– Non-Executive Director – appointed 27 July 2012
Dr Roger Aston	– Non-Executive Director – appointed 21 September 2012
Professor Marc Wilkins	– Non-Executive Director – resigned on the 31 May 2013

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

Chairman

John Martin has served on the Board of the Company since early 2009 and was appointed Chairman in 2010. John has over 20 years of corporate, commercial and legal experience including roles as CEO and director of ASX listed and private emerging technology and high growth companies and corporate and executive partner of Allens specialising in M&A, fundraising and corporate advice. He is a principal of Channel Group, non-executive director of Ai-Media and Eagle Eye Solutions (Asia Pacific).

Other Current Directorships:	–	none
Previous Directorships (last 3 years)	–	none
Interests in Shares	–	3,095,802
Interests in Options	–	4,273,490

CEO

Dr Graham Vesey is a co-founder and founding CEO of the Company and has served on the Board since incorporation. Graham is a successful biotechnology entrepreneur, technology innovator and inventor and a highly regarded scientist. Graham was a co-founder and executive director of the successful biotech start-up, BTF, which was sold to bioMerieux in 2007. Graham is an Adjunct Professor at Macquarie University.

Other Current Directorships:	–	none
Previous Directorships (last 3 years)	–	none
Interests in Shares	–	13,586,408
Interests in Options	–	1,108,944

Non-Executive Directors

Dr Roger Aston joined the Board on 21 September 2012. Roger is one of the most experienced and commercially astute people in drug commercialisation in Australia. Roger brings more than 20 years experience in the pharmaceutical and healthcare industries in senior roles in the United Kingdom, Asia-Pacific and Australia. He is also a director or chairman on a number of boards carrying out late stage drug development.

Other Current Directorships: Immuron Ltd, IDT Ltd, Oncosil Ltd

Previous Directorships (last 3 years): Mayne Pharma Group Ltd, Clinuvel Limited, Ascent Pharma Health Ltd.

Interests in Shares	–	nil
Interests in Options	–	nil

Assoc Professor Ben Herbert is a co-founder and founding director of the Company and has served on the Board since incorporation. He is an experienced biotechnology entrepreneur, innovator and science communicator. Dr Herbert is a Vice-Chancellor Innovation Fellow and Director of Regenerative Science at Macquarie University where he leads a stem cell research group that collaborates on R&D projects with the Company.

Other Current Directorships:	–	none
Previous Directorships (last 3 years)	–	none
Interests in Shares	–	8,689,412
Interests in Options	–	nil

Barry Sechos is a non-executive director who has served as an alternate director for Dr Ben-Ami since July 2011 and was appointed a director in July 2012. He has over 20 years experience as a director, business executive and corporate lawyer with particular experience in investment and asset management. Barry is executive director of the Sherman Group (a strategic investor in the Company) and sits on the board of many Sherman Group companies and investee companies.

Other Current Directorships: Aberdeen Leaders Fund Limited

Previous Directorships (last 3 years)	–	Icash Payment System Limited
Interests in Shares	–	nil
Interests in Options	–	nil

Professor Marc Wilkins is a co-founder and founding director of the Company and has served on the Board since incorporation. He is an experienced biotechnology entrepreneur and innovator particularly in the area of bioinformatics. Dr Wilkins is Professor of Systems Biology at the University of New South Wales. He serves on scientific advisory boards for the ARC Centre of Excellence in Bioinformatics, the Australian Proteomics Computing Facility (APCF) and the UNSW Biomolecular Mass Spectrometry Facility (BMSF)

Other Current Directorships:	–	none
Previous Directorships (last 3 years)	–	none
Interests in Shares	–	9,189,413
Interests in Options	–	378,797

Company Secretary

Sandra McIntosh is the Office/HR Manager and the Company Secretary. She has been with the Company since 2009, and has 20 years management experience in HR, Customer Service and Finance. Sandra is currently studying a Graduate Diploma of Applied Corporate Governance with Chartered Secretaries Australia.

Principal activities

The principal activities of the Group during the financial year were the development and commercialisation of proprietary adipose-derived stem cell technologies used by physicians and veterinarians to treat musculoskeletal conditions in humans and animals.

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

Operating results

The loss of the Group for the financial year after providing for income tax amounted to $5,195,047 (2012: $3,261,031).

Review of operations

A review of the operations of the Group during the financial year and the results of those operations found that the changes in market demand and competition have seen an increase in revenue of 45% to $1.719m (2012: $1.186m).

Gross Profit for the year was 67% (2012: 79%). The decrease was a result of the additional costs of direct staff associated with HiQCell treatments, and an increase in the amount of discounted cryoshot product, provided to veterinary clinics for trial purposes.

The main sources of revenue are:

Human Health – HIQCell revenues increased by 101% to $750k (2012: $374k). During the year there were 3 medical facilities in Sydney supporting HiQCell procedures, being serviced by 8 medical specialists. In April 2013, the Company introduced the option for patients to have their regenerative cells cryogenically stored for future treatments. This has created another source of revenue for Regeneus. During the year over 700 joints were treated in 335 patients using the HiQCell procedure.

Animal Health – The focus this year has been on generating clinical trial data for the off the shelf product, Cyroshot to treat musculoskeletal conditions in dogs and horses. Cryoshot is made available to clinics under the APVMA Permit 7250. The uptake by key opinion leaders and large other veterinarians, has been very positive. Although revenue increased slightly to $207k, this excludes a substantial amount of product that was provided at no cost for trial purposes. The sales of AdiCell have not seen any increase, as the procedure is being phased out.

Licence Fees – technology licence fees for R and D continue, however during the year the fee arrangement with Ku- Ring-Gai Veterinary clinic ceased, due to a change in ownership.

Expenses – these have increased in line with the expansion of all areas of the Company.

Research and Development expenses – these have increased from both internal and external costs. The internal costs are related to employees, laboratories supplies and equipment expenses. The external cost rise is from consultants, trials, and various research contacts.

Occupancy expenses – these have increased in line with additional staff, and associated overheads. the Company has come to an amicable arrangement with its lessor to terminate the current lease, and will be moving to new premises in Pymble, later this year. This will provide an opportunity to expand the laboratories, warehouse and offices.

Selling expenses – there has been significant planned growth in the sales and support teams for all products. Regeneus anticipates these costs will continue to grow to cater for the successful commercialisation of its products.

Corporate expenses – these include employment, regulatory, patents, and overheads. They are expected to increase as the Company expands to cater for new systems, training, rent, and additional staff.

Income Tax benefit - the Company has received a R and D Taxation concession rebate of $2.3m for FY13 (2012: $1.7 mill).

Significant changes in state of affairs

No significant changes in the Group's state of affairs occurred during the financial year.

Events subsequent to the end of the reporting date

The Company was successful on completing an initial public offering (IPO) in September 2013 where it raised $10.5m. Its shares commenced trading on the ASX on 19th September 2013.

As part of the listing:

- the Company converted all the Convertible Notes (8,666,667), plus accrued interest, into ordinary shares (25,560,255);
- provided full recourse loans totalling $1.5million to employee option holders, to enable the early exercise of 12,740,253 options into shares;
- an additional 6,785,110 options will be issued under an employee incentive scheme, that have an exercise price of $0.25.

Regeneus will be moving to new premises in December 2013 or early in 2014, to allow for expansion of laboratory and warehouse facilities.

The Company was provided with a $370k unsecured loan in August 2013 for working capital. The loan attracts an interest rate of 10% p.a. and was repaid late September 2013.

Likely developments, business strategies and prospects

Over FY 14 and FY 15, Regeneus will be focusing on the following business initiatives and strategies.

Human Health

- Expand our HiQCell treatment footprint into all mainland capital cities in Australia. HiQCell is available through licensed medical specialists operating at 3 medical facilities currently in Sydney and one in the Gold Coast. The number of licensed medical specialists and medical facilities will increase to create and meet market demand. Regeneus is also expanding its offering by providing the opportunity for HiQCell patients to have their cells frozen, for later re-injection. This creates another source of income for the Company.
- Work with medical specialists to collect clinical data to expand the application of HiQCell for other musculoskeletal indications including neuropathic pain conditions.
- Expand HiQCell for musculoskeletal conditions into Singapore, UK and other major markets with a similar regulatory environment to Australia.

Animal Health

- Continue to collect clinical trial data in Australia for CryoShot for canine and equine osteoarthritis.
- Commence FDA approval clinical trial in USA for CryoShot for canine osteoarthritis with the aim of seeking registration for CyroShot in the USA, EU, Australia and other major markets.

Research and Development

- Finalise production of CryoShot for human musculoskeletal conditions.
- Commence pre-clinical study for Human CryoShot.
- Commence safety and efficacy study in man for Human CryoShot.
- Complete safety study on stem cell secretions cream for inflammatory skins conditions such as acne.

Directors' meetings

The number of meetings of directors (including committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Number of Board meetings	
Directors	**Eligible**	**Attended**
John Martin	11	11
Professor Graham Vesey	11	10
Professor Marc Wilkins	11	10
Assoc Professor Ben Herbert	11	10
Dr Roger Aston	9	7
Barry Sechos	11	10

	Number of Audit and Risk Committee meetings	
Committee Members	**Eligible**	**Attended**
John Martin	2	2
Professor Graham Vesey	1	1
Dr Roger Aston	1	1
Barry Sechos	1	1

	Number of Remuneration and Nominations Committee meetings	
Committee Members	**Eligible**	**Attended**
John Martin	2	2
Professor Graham Vesey	1	1
Dr Roger Aston	1	1
Barry Sechos	1	1

Environmental issues

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

Dividends paid or recommended

No dividends have been paid or declared since the start of the financial year (2012: nil).

Share options

At the date of this report, the Company has issued options over 20,283,007 (2012: 20,770,067) ordinary shares of Regeneus Ltd granted pursuant to the employee share option plan. These options are subject to exercise conditions some of which relate to the achievement of business milestones.

1.2 UNISSUED SHARES UNDER OPTION

Unissued ordinary shares of Regeneus Ltd under option at the date of this report are:

Date of Granting	Expiry date	Exercise price of shares ($)	Number under option
1/07/2009	29/06/2019	$0.006	693,090
1/01/2010	30/12/2019	$0.054	1,540,200
17/05/2010	14/05/2020	$0.136	2,310,300
2/06/2010	30/05/2020	$0.006	308,040
10/06/2010	7/06/2020	$0.136	154,020
1/07/2010	28/06/2020	$0.136	5,298,288
1/07/2010	30/06/2015	$0.136	1,540,200
23/07/2010	20/07/2020	$0.136	770,100
13/08/2010	10/08/2020	$0.136	231,030
25/08/2010	22/08/2020	$0.136	770,100
1/09/2010	29/08/2020	$0.136	292,638
1/01/2011	29/12/2020	$0.136	1,386,180
21/02/2011	18/02/2021	$0.136	1,155,150
11/03/2011	8/03/2021	$0.140	550,000
25/05/2011	22/05/2021	$0.280	60,000
25/07/2011	22/07/2021	$0.280	25,000
1/12/2011	28/11/2021	$0.280	71,428
1/07/2011	28/06/2021	$0.280	857,143
1/12/2011	28/11/2021	$0.280	1,500,000
1/01/2012	30/12/2016	$0.140	770,100

All options expire on the earlier of their expiry date or termination of the employee's employment. These options were issued under the ESOP plan and have been allotted to individuals on condition that they meet the agreed milestones before becoming entitled to exercise the options. These options do not entitle the holder to participate in any share issue of the Company.

As part of the IPO, 12,740,252, employee options that have an exercise price of less than 20cents, were exercised prior to the listing in September. These were financed by a full recourse loan provided by the Company to the option holders.

1.3 REMUNERATION REPORT (AUDITED)

The Directors of the Group present the Remuneration Report for non-executive directors, executive directors and other key management personnel prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The Remuneration Report is set out under the following main headings:

a. Principles used to determine the nature and amount of remuneration
b. Details of remuneration
c. Service agreements

(a) Principles used to determine the nature and amount of remuneration

The principles of the Group’s executive strategy and supporting incentive programs and frameworks are:

- to align rewards to business outcomes that deliver value to shareholders;
- to drive a high performance culture by setting challenging objectives and rewarding high performing individuals; and
- to ensure remuneration is competitive in the relevant employment market place to support the attraction, motivation and retention of executive talent.

Regeneus has structured a remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The Board has established a Remuneration and Nomination Committee which operates in accordance with its charter as approved by the Board and is responsible for determining and reviewing compensation arrangements for the directors and the executive team.

The remuneration structure that has been adopted by the Group consists of the following components:

- fixed remuneration being annual salary; and
- short and long term incentives, being employee bonuses and option plan.

The Remuneration and Nominations Committee assess the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The payment of bonuses, share options and other incentive payments are reviewed by the Remuneration and Nominations Committee annually as part of the review of executive remuneration and a recommendation is put to the Board for approval. All bonuses, options and incentives must be linked to pre-determined performance criteria.

Short term incentive (STI)

Regeneus performance measures involve the use of annual performance objectives, metrics, performance appraisals and continuing emphasis on living the Company values.

The performance measures are set annually after consultation with the directors and executives and are specifically tailored to the areas where each executive has a level of control. The measures target areas the Board believes hold the greatest potential for expansion and profit and cover financial and non-financial measures.

The KPI’s for the Executive Team are summarised as follows:

Performance area:

- Financial - operating results ; and
- Non-financial - strategic goals set by each individual business unit based on job descriptions.

The Board may, at its discretion, award bonuses for exceptional performance in relation to each person’s pre-agreed KPIs.

(b) Details of remuneration

Details of the nature and amount of each element of the remuneration of each key management personnel ('KMP') of Regeneus are shown in the table below:

		Short term employee benefits			Post-employment benefits	Share-based payments		% of remuneration that is performance based
		Cash salary and fees ($)	Cash bonus ($)	Non-monetary benefits ($)	Superannuation ($)	Options ($)	Total ($)	
Executive directors								
John Martin	2013	277,667	-	-	25,000	1,187	303,854	0.4%
	2012	173,830	-	-	-	89,679	263,509	34.0%
Professor Graham Vesey	2013	275,000	-	-	24,750	-	299,750	0.0%
	2012	225,000	25,000	-	20,250	-	270,250	0.0%
Non Executive Directors								
Assoc Professor Ben Herbert Independent Non-executive Director	2013	55,000	45,000	-	-	-	100,000	0.0%
	2012	55,000	46,500	-	-	-	101,500	0.0%
Barry Sechos Independent Non-executive Director	2013	25,000	-	-	-	-	25,000	0.0%
	2012	-	-	-	-	-	-	0.0%
Dr Roger Aston – Independent Non-Executive Director*	2013	49,239	-	-	2,167	-	51,406	0%
	2012	-	-	-	-	-	-	0%
Professor Marc Wilkins - Independent Non Executive Director	2013	25,000	-	-	-	-	25,000	0%
	2012	-	-	-	-	15,653	15,653	100.0%
Thomas Mechtersheimer - Independent Non Executive Director - resigned 30th June 12	2012	25,000	-	-	-		25,000	0.0%
Dr Ben Ami - Independent Non Executive Director - resigned 17th May 12	2012	-	-	-	-	15,653	15,653	100.0%
2013 Total		**706,906**	**45,000**	**-**	**51,917**	**1,187**	**805,010**	
2012 Total		**478,830**	**71,500**	**-**	**20,500**	**120,985**	**691,565**	

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name Executive directors	Fixed remuneration	At risk - STI	At risk - Options
John Martin	100%	0%	0.4%
Professor Graham Vesey	93%	7%	0%

(c) Service agreements

Remuneration and other terms of employment for the Executive Directors and other key management personnel are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below:

Name	Base salary	Term of agreement	Notice period
John Martin	$290,000	Unspecified	Three months
Professor Graham Vesey	$290,000	Unspecified	Three months

There are no termination payments provided for in these agreements, other than those required by statute.

Options

Options granted over unissued shares

Details of options over ordinary shares in the Company that were granted as remuneration to each key management personnel are set out below.

	Number granted	Grant date	Value per option at grant date ($)	Number vested	Number lapsed	Exercise price ($)	First exercise date	Last exercise date	% Remuneration which is options
John Martin	693,090	1/07/09	$0.004	693,090	0	$0.006	30/06/10	26/06/19	nil
John Martin	1,540,200	1/01/10	$0.004	1,540,200	0	$0.054	30/06/10	30/12/19	nil
John Martin	770,100	1/07/10	$0.085	770,100	0	$0.136	31/12/10	20/06/20	nil
John Martin	770,100	1/01/11	$0.086	770,100	0	$0.136	30/06/11	29/12/20	nil
John Martin	500,000	1/07/11	$0.176	500,000	0	$0.280	21/12/11	28/06/21	nil
Prof Graham Vesey	1,108,944	1/07/10	$0.085	1,108,944	0	$0.136	30/06/11	28/06/20	nil

The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual’s employment.

1.4 ENVIRONMENTAL LEGISLATION

Regeneus operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.

1.5 INDEMNITIES GIVEN AND INSURANCE PREMIUMS PAID TO AUDITOR'S AND OFFICERS

During the year, Regeneus paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

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

1.6 NON-AUDIT SERVICES

During the year, Grant Thornton, the Company's auditor's, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company to ensure they do not impact upon the impartiality and objectivity of the auditor; and
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor's of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 23 to the Financial Statements.

1.7 PROCEEDINGS ON BEHALF OF THE GROUP

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.

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 page 13 and forms part of this directors' report.

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

John Martin

Executive Chairman

Dated this 27th day of September 2013

Grant Thornton

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Auditor's Independence Declaration
To the Directors of Regeneus Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Regeneus Ltd for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N J Bradley
Partner - Audit & Assurance

Sydney, 27 September 2013

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, the Group has adopted a corporate governance framework and practices to ensure they meet the interests of shareholders.

The Group complies with the Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd Edition ('the ASX Principles'). This statement incorporates the disclosures required by the ASX Principles under the headings of the eight core principles. All of these practices, unless otherwise stated, were in place for the full reporting period.

Further information on the Group's corporate governance policies and practices can be found on Regeneus 's website at www.regeneus.com.au.

3.1 PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Functions of the Board and Management

The Board of Directors is responsible for the corporate governance of the Group and operates in accordance with the principles set out in its Charter, which is available in the corporate governance section of the Regeneus website. To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. These responsibilities include:

- Setting the strategy for the Group, including operational and financial objectives and ensuring that there are sufficient resources for this strategy to be achieved.
- Appointing and, where appropriate, removing the Chief Executive Officer ('CEO'), approving other key executive appointments and planning for executive succession.
- Overseeing and evaluating the performance of the CEO and the executive team through a formal performance appraisal process having regard to the Group's business strategies and objectives.
- Monitoring compliance with legal, regulatory and occupational health and safety requirements and standards.
- Overseeing the identification of key risks faced by the Group and the implementation of an appropriate internal control framework to ensure those risks are managed to an acceptable level.
- Approving the Group's budgets, including operational and capital budgets, and the approval of significant acquisitions, expenditures or divestitures.
- Approval of the annual and half-yearly financial reports.
- Ensuring the market and shareholders are fully informed of material developments.

The responsibility for the operation and administration of the Group is delegated by the Board to the CEO and the executive management team. The Board ensures that both the CEO and executive team, are appropriately qualified and experienced to discharge their responsibilities and, as discussed above, has in place procedures to monitor and assess their performance.

To ensure that the responsibilities of the Board are upheld and executed to the highest level, the Board has established the following sub-committees:

- Audit and Risk Committee.
- Remuneration and Nomination Committee.

Sub-committees are able to focus on a particular responsibility and provide informed feedback to the Board. Each of these sub-committees have established Charters and operating procedures in place, which are reviewed on a regular basis. The Board may also establish other sub-committees from time to time to deal with issues of special importance.

Senior Executive performance evaluation

The Board reviews the performance of the executive team on a half-yearly basis. Performance is measured against a set of key performance indicators which have been established with reference to the Group's strategy and the individual's responsibilities.

The Remuneration and Nomination Committee annually reviews and determines the remuneration arrangements for the Executive Chairman, CEO and executive team, submitting their recommendations to the Board for approval.

3.2 PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The names of the members of the Board as at the date of this report are as follows:

John Martin	– Executive Chairman
Professor Graham Vesey	– CEO and Executive Director
Assoc Professor Ben Herbert	– Non-Executive Director
Barry Sechos	– Non-Executive Director - appointed 27 July 2012
Dr Roger Aston	– Non-Executive Director – appointed 21 September 2012

The Board's composition is determined with regard to the following criteria:

- A majority of directors having extensive experience in the industries that the Group operates in, with those that do not, having extensive experience in significant aspects of financial reporting and risk management in large ASX listed companies.
- Re-election of directors at least every three years (except for the Executive Chairman and CEO).
- The size of the board is appropriate to facilitate effective discussion and efficient decision making.
- There are a sufficient number of directors to serve on Board sub-committees without overburdening the directors of making it difficult for the directors to effectively discharge their responsibilities.

With regards to director independence, the Board has adopted specific principles which state that an independent director must not be a member of management and must comply with the following criteria:

- Not, within the last three years, have been employed in an executive capacity by Regeneus or any other member of the Group.
- Not be a substantial shareholder
- Not, within the last three years, have been a professional advisor to the Group either as a principal, or material consultant, or an employee materially associated with the service provided.
- Are not a material supplier or customer of the Group or associated either directly or indirectly with a material supplier or customer of the Group.

At the end of this reporting period the Board comprised of five directors, two of whom were independent non-executive directors.

The Board undertakes an annual review of the extent to which each non-executive director is independent, having regard to the criteria set out in its Charter. As part of this review, each director is required to make an annual declaration stating their compliance with the independence criteria to the Board. As at the date of this report, the three non-executive directors have submitted their annual declaration to the Board, and the board is satisfied that they have retained their independence throughout the reporting period.

Individual details of the Directors, including period in office, Board committee memberships, qualifications, experience and skills are set out in the information on Directors section of the Directors' Report.

Role of the Chairman

The Chairman is responsible for the leadership of the Board. This includes taking responsibility for ensuring that the Board functions effectively and that they comply with the continuous disclosure requirements of the ASX with regard to communicating the operations and activities of the Group to shareholders. The Chairman's responsibilities include:

- Setting the agenda for Board meetings.
- Managing the conduct, frequency and length of Board meetings to ensure that all directors have had the opportunity to establish a detailed understanding of the issues affecting the Group.
- Facilitating the Board meetings to ensure effective communication between the directors and that all directors have contributed to the decision making process thereby leading to a considered decision being made in the best interest of the Group and its shareholders.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee oversees the appointment and induction process for directors and the selection, appointment and succession planning process of the Group's CEO. A copy of the Committee's Charter is available on Regeneus 's website at www.regeneus.com.au.

Directors are initially appointed to office by the Board and must stand for re-election at the Group's next annual general meeting of shareholders. Directors must then retire from office and nominate for re-election at least once every three years with the exception of the CEO.

The Remuneration and Nomination Committee comprises of Mr Barry Sechos, Dr Roger Aston and Mr John Martin, being a majority of independent non-executive directors.

Directors' Performance Evaluation

The Board undertakes an assessment of its collective performance, the performance of the Board committees and the Chairman on an annual basis.

The Chairman meets each Director on an individual basis to discuss their performance and to provide feedback. The results of this discussion including any key areas for development are formally documented.

Independent Professional Advice and Access To Information

Each Director has the right of access to all relevant information in the Group in addition to access to the Group's executives. Each Director also has the right to seek independent professional advice subject to prior consultation with, and approval from, the chairman. This advice will be provided at the Group's expense and will be made available to all members of the Board.

Insurance

The Group has in place a Directors and Officers liability insurance policy providing a specified level of cover for current and former Directors and executive Officers of the Group against liabilities incurred whilst acting in their respective capacity.

3.3 PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Group recognises the importance of establishing and maintaining high ethical standards and decision making in conducting its business and is committed to increasing shareholder value in conjunction with fulfilling its responsibilities as a good corporate citizen. All Directors, managers and employees are expected to act with the utmost integrity, honesty and objectivity, striving at all times to enhance the reputation and performance of the Group.

The Group has established a Code of Conduct a copy of which is available on the Regeneus website under the corporate governance section.

Unethical practices, including fraud, legal and regulatory breaches, and policy breaches are required to be reported on a timely basis to management. Reporting parties are able to do so without fear of reprisal or retribution as their identity and report are kept in the strictest confidence.

Securities Trading Policy

The Group has established a securities trading policy which governs the trading in the Group's shares and applies to all Directors and employees of the Group. A copy of this policy is available on the Regeneus website under www.regeneus.com.au.

Under this securities trading policy, an executive, employee or director must not trade in any securities of the Group at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, an executive or employee must first obtain the permission of the Company Secretary to do so, and a director must obtain the permission of the Chairman. The trading windows are four weeks after the release of the half year results, full year results and the holding of the Annual General Meeting. Trading of securities outside the trading windows can only occur in exceptional circumstances and with the approval of the Company Secretary.

As required by the ASX listing rules, the Group notifies the ASX of any transaction conducted by Directors in the securities of the Group.

Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. A copy of the Company's diversity policy is available on the Regeneus website at www.regeneus.com.au. This diversity policy outlines the requirements for the Board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. A copy of this policy is available on the Regeneus website under www.regeneus.com.au.

	2013 No.	2013 %
Women on the Board	0	0%
Women in senior management roles	2	25%
Women employees of the Company	20	43%

3.4 PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

An Audit and Risk Committee has been established by the Board. The Committee's role and operations are documented in a Charter which is approved by the Board. This Charter is available on Regeneus 's website under www.regeneus.com.au.

The Committee's Charter provides that the majority of members of the Audit and Risk Committee must be Independent Non-Executive Directors and that the Chair cannot be the Chairman of the Board. Members of the Committee throughout the period and at the date of this report Mr Barry Sechos, Dr Roger Aston and Mr John Martin, the majority of whom are Independent Non-Executive Directors of the Group.

The purpose of the Committee is to:

- Ensure the integrity of the Group's internal and external financial reporting including compliance with applicable laws and regulations.
- Ensure that financial information provided to the Board is of a sufficiently high quality to allow the Board to make informed decisions.
- Ensure that appropriate and effective internal systems and controls are in place to manage the Group's exposure to risk.
- Oversee the appointment, compensation, retention and oversight of the external auditor, and review of any non-audit services provided by the external auditor.
- Regularly review the performance of the external auditor regarding quality, costs and independence.

The Audit and Risk Committee is required under the Charter to meet at least quarterly and otherwise as necessary. The Committee met four times during the year and Committee members' attendance records are disclosed in the Audit and Risk Meeting Minutes.

The Chief Financial Officer and external auditor may also attend the Committee meetings by standing invitation. Other Directors and management are invited to attend Committee meetings and participate in discussion relating to specific issues that they have an interest in.

The Committee is authorised to obtain independent legal advice at the Group's expense if it considers it necessary in fulfilling its duties.

3.5 PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Regeneus has established policies and procedures to ensure timely and balanced disclosure of all material matters concerning the Group, and ensure that all investors have access to information on the Group's financial performance. This ensures that the Group is compliant with the information disclosure requirements under the ASX Listing Rules.

These policies and procedures include a comprehensive Disclosure Policy that includes identification of matters that may have a material impact on the price of Regeneus securities, notifying them to the ASX, posting relevant information on the Group's website and issuing media releases. These policies are available on the Regeneus website under www.regeneus.com.au.

Matters involving potential market sensitive information must first be reported to the Chairman either directly or via the Company Secretary. The Chairman will advise the other Directors if the issue is important enough to warrant the consideration of the full Board. In all cases the appropriate action must be determined and carried out in a timely manner in order for the Group to comply with the Information Disclosure requirements of the ASX.

Once the appropriate course of action has been agreed upon, either the Chairman or Company Secretary will disclose the information to the relevant authorities, being the only authorised officers of the Group who are able to disclose such information. Board approval is required for market sensitive information such as financial results, material transactions or upgrading/downgrading financial forecasts. This approval is minuted in the meetings of the Board of Directors.

3.6 PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Regeneus has established a Shareholder Communication Policy which describes the Group's approach to promoting effective communication with shareholders which includes:

- The annual report, including relevant information about the operations of the Group during the year, key financial information, changes in the state of affairs and indications of future developments. The annual report can be accessed either through the ASX website or Regeneus's website under www.regeneus.com.au.
- The half year and full year financial results are announced to the ASX and are available to shareholders via the Regeneus and ASX websites.
- All announcements made to the market and related information (including presentations to investors and information provided to analysts or the media during briefings), are made available to all shareholders under the investor information section of Regeneus's website after they have been released to the ASX
- Detailed notices of shareholder meetings are sent to all shareholders in advance of the meeting.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of Director accountability to shareholders and shareholder identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on matters such as the adoption of the Group's remuneration report, the granting of options and shares to Directors and changes to the Constitution.

The external auditor attends the Annual General Meeting to answer any questions concerning the audit of the Group and the contents of the auditor's report.

3.7 PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Framework

Regeneus recognises that a robust risk management framework is essential for corporate stability, protecting the interests of its stakeholders and for sustaining its competitive market position and long term performance.

The following objectives drive the Group's approach to risk management:

- Having a culture that is risk aware and supported by high standards of accountability at all levels.
- Promoting and achieving an integrated risk management approach whereby risk management forms a part of all key organisational processes.
- Supporting more effective decision making through better understanding and consideration of risk exposures.
- Increasing shareholder value by protecting and improving share price and earnings per share in the short to medium term while building a sustainable business in the longer term.
- Safeguarding the Group's assets.
- Enabling the Board to fulfil its governance and compliance requirements.
- Supporting the sign off for ASX Principles four and seven by the Chief Executive Officer and Chief Financial Officer.

In achieving effective risk management, Regeneus recognises the importance of leadership. As such, the Board and executive management have responsibility for driving and supporting risk management across the Group.

Audit and Risk Committee

Under its Charter, the Audit and Risk Committee has been delegated responsibility by the Board to oversee the implementation and review of risk management and related internal compliance and control systems throughout the Group.

The Committee reviews the appropriateness and adequacy of internal processes for determining, assessing and monitoring risk areas including the assessment of the effectiveness of the Group's internal compliance and controls including:

- The existence and adequacy of key policies and procedures.
- The adequacy of disclosures and processes for regular reporting of information to the appropriate parties, including the Board.

The Committee is also responsible for monitoring the Group's compliance with applicable laws and regulations including:

- Ensuring that management is reviewing developments and changes in applicable laws and regulations relating to the Group's responsibilities.
- Reviewing management's actions and responses to ensure that the Group's practices are compliant with all new developments.
- Reviewing material actual and suspected breaches of applicable laws and regulations, and any breaches of Group policies.
- Reviewing material litigation, legal claims, contingencies or significant risks relating to the Group.
- Reviewing Director and executive management related party transactions.

The Audit and Risk Committee reports to the Board on the major issues and findings that are presented and discussed at its meetings.

Corporate reporting

The Board has required management to design and implement a risk management and internal control system to manage the Group's material business risks and to report on whether those risks are being effectively managed.

The Chief Executive Officer and Chief Financial Officer, in addition to the executive management have reported and declared in writing to the Board as to the effectiveness of the Group's management of its material business risks, in accordance with Recommendation 7.2 of the ASX Corporate Governance Principles.

The Board has received the relevant declarations from the Chief Executive Officer and Chief Financial Officer in accordance with s295A of the Corporations Act 2001 and the relevant assurances required under Recommendation 7.3 of the ASX Corporate Governance Principles.

3.8 PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration and Nomination Committee

As previously stated in Principle 2, the Board has established a Remuneration and Nomination Committee whose role is documented in a Charter which is approved by the Board.

The objective of the Committee with respect to its remuneration function is to assist the Board in determining appropriate remuneration arrangements for the Directors and executive management.

These objectives include:

- Reviewing the adequacy and form of remuneration of Independent Non-Executive Directors.
- Ensuring that the remuneration of the Independent Non-Executive Directors is reflective of the responsibilities and the risks of being a Director of the Group.
- Reviewing the contractual arrangements of the CEO and the executive management team including their remuneration.
- Comparing the remuneration of the CEO and executive management to comparable groups within similar industries to ensure that the remuneration on offer can attract, retain and properly reward performance which will translate into long term growth in shareholder value.
- Annually review key performance indicators of the CEO and executive team to ensure that they remain congruent with the Group's strategies and objectives.
- Reviewing the basis for remuneration of other Executive Directors of the Group for their services as Directors.
- Reviewing incentive performance arrangements when instructed by the Board.
- Reviewing proposed remuneration arrangements for new Director or executive appointments

The Committee will submit their recommendations to the Board regarding the remuneration arrangements and performance incentives for the CEO and executive team. The Board will review these recommendations before providing their approval.

Details of the Group's remuneration structure and details of senior executives' remuneration and incentives are set out in the Remuneration Report contained within the Directors' Report. The Remuneration Report also contains details on the structure of Non-Executive Director Remuneration.

3.9 - ASX LISTING RULE DISCLOSURE – EXCEPTION REPORTING

The following table discloses the extent to which Regeneus, as at the 30th June 2013, has not followed the best practice recommendations set by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition). As the Company is listed on the ASX on 19th September 2013, it is focusing on putting into place the best practice recommendations.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
2	Best Practice Recommendation	Currently, the Company has an Executive Chairman.	The person has been selected as Chairman to bring specific skills and industry experience relevant to the Company. Given the size of the Company and the stage of its development, the Board considers that this appointment is appropriate until such time that a better alternative can be identified.
4	The chair should be an independent director.	The Company's Audit and Compliance Committee currently has three members, two who are Non executive directors.	Given the present size of the Company and the Board, the Audit and Compliance Committee currently has only two independent Non-executive directors as members. The Board believes no efficiencies or other benefits could be gained by altering the structure of the Audit and Compliance Committee. It is noted the chair of the Committee is not the chair of the Board and is an independent Non-executive director and that only independent Non-Executive Directors are on the Committee. The Audit and Compliance Committee has a formal Charter.

04 Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2013

	Note	2013 $	2012 $
Revenue	6	1,769,628	1,259,613
Cost of sales	7	[580,526]	[245,730]
Gross profit		1,189,102	1,013,883
Other income	6	300,597	87,289
Research & development expenses		[4,134,478]	[3,212,085]
Occupancy expenses		[468,592]	[387,471]
Selling expenses		[1,783,534]	[1,024,374]
Corporate expenses		[2,296,770]	[1,415,917]
Finance costs	7	[328,660]	[1,045]
Loss before income tax		[7,522,335]	[4,939,720]
Income tax benefit	16	2,327,288	1,678,689
Loss for the year		[5,195, 047]	[3,261, 031]
Other comprehensive income		-	-
Total comprehensive loss for the year		**[5,195,047]**	**[3,261,031]**

Earnings per share

Basic earning per share from continuing operations	24	[0.05]	[0.03]
Diluted earnings per share from continuing operations	24	[0.05]	[0.03]

05 Consolidated Statement of Financial Position

As at 30 June 2013

	Note	2013 $	2012 $
Current assets			
Cash and cash equivalents	8	410,658	528,225
Other financial assets	9	122,926	-
Trade and other receivables	10	26,576	107,066
Inventories	11	231,057	142,672
Current tax assets	16	2,327,288	1,678,689
Other current assets	12	251,689	267,734
Total current assets		3,370,194	2,724,386
Non-current assets			
Property, plant and equipment	13	608,563	526,851
Intangible assets	14	44,677	45,062
Total non-current assets		653,240	571,913
Total assets		4,023,434	3,296,299
Current liabilities			
Trade and other payables	15	1,842,458	1,294,478
Provisions	17	149,801	53,131
Financial liabilities	18	4,900,000	-
Total current liabilities		6,892,259	1,347,609
Non Current liabilities			
Total liabilities		6,892,259	1,347,609
Net assets		**[2,868,825]**	**1,948,690**
Equity			
Issued capital	19	6,651,935	6,651,935
Retained earnings		[11,269,205]	[6,145,049]
Reserves	19(b)	1,748,445	1,441,804
Total equity		**[2,868,825]**	**1,948,690**

06 Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

	Note	Share Capital $	Accumulated losses $	Share options reserve $	Total $
Balance at 1 July 2011		5,374,252	[2,884,018]	797,082	3,287,316
Loss for the year		-	[3,261,031]	-	[3,261,031]
Other Comprehensive Income		-	-	-	-
Share options		-	-	644,722	644,722
Shares issued		1,277,683	-	-	1,277,683
Balance at 30 June 2012		6,651,935	[6,145,049]	1,441,804	1,948,690
Balance at 1 July 2012		6,651,935	[6,145,049]	1,441,804	1,948,690
Loss for the year		-	[5,195,047]	-	[5,195,047]
Other Comprehensive Income		-	-	-	-
Share options		-	-	377,532	377,532
Shares issued		-	-	-	-
Transfer from reserves to retained earnings		-	70,891	[70,891]	-
Balance at 30 June 2013		**6,651,935**	**[11,269,205]**	**1,748,445**	**[2,868,825]**

07 Consolidated Statement of Cash Flows

For year ended 30 June 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Receipts from customers		2,318,031	1,356,725
Payments to suppliers and employees		[8,665,253]	[5,309,383]
Interest received		50,683	73,334
R&D Tax refund		1,678,689	939,245
Net cash (used in) operating activities	25	[4,617,850]	[2,940,079]
Cash flows from investing activities			
Investment in short-term deposit		[122,926]	-
Purchase of property, plant and equipment		[262,223]	[377,866]
Purchase of intangibles		[14,568]	[43,594]
Net cash (used in) investing activities		[399,717]	[421,460]
Cash flows from financing activities			
Proceeds from issue of shares		-	2,299,912
Proceeds from issue of Convertible Notes		4,900,000	-
Net cash provided by financing activities		4,900,000	2,299,912
Net change in cash and cash equivalents held		[117,567]	[1,061,627]
Cash and cash equivalents at beginning of financial year		528,225	1,589,852
Cash and cash equivalents at end of financial year	**8**	**410,658**	**528,225**

1 NATURE OF OPERATIONS

Regeneus Ltd develops and commercialises proprietary stem cell technologies for the creation and manufacture of innovative cellular therapies for human and animal health.
The activities are conducted in business units:

- Human Health
- Animal Health
- Research and Development

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

Regeneus Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements cover Regeneus Ltd and its controlled entities as a consolidated entity ("The Group"). As at the 30th June 2013, Regeneus is an unlisted public Group limited by shares, incorporated and domiciled in Australia.

Statement of compliance

Compliance with Australian Accounting Standards ensures that the financial statements and notes of Regeneus comply with International Financial Reporting Standards (IFRS) as issued by the IASB.

The financial statements were authorised for issue by the directors on 27 September 2013.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

Adoption of new and revised accounting standards

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

Significant effects on current, prior or future periods arising from the first-time application of the standards discussed above in respect of presentation, recognition and measurement of accounts are described in the following notes.

AASB 2011-9 Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income Financial Statements (AASB 101 Amendments)

The AASB 101 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

These amendments have no impact on the Group.

AASB 9 Financial Instruments (effective from 1 January 2015)

The AASB aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard AASB 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

The Group's management have yet to assess the impact that this new standard on the Group's consolidated financial statements. However, they do not expect to implement AASB 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

AASB 10 Consolidated Financial Statements

AASB 10 establishes a revised control model that applies to all entities. It replaces the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements and AASB Interpretation 112 Consolidation – Special Purpose Entities.

The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional guidance for applying the model to specific situations, including when acting as an agent may give control, the impact of potential voting rights and when holding less than a majority voting rights may give 'de facto' control. This is likely to lead to more entities being consolidated into the group.

AASB 11 Joint Arrangements

AASB 11 replaces AASB 131 Interests in Joint Ventures and AASB Interpretation 113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations for liabilities are accounted for by recognising the share of those assets and liabilities. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures introduced by AASB 12 include disclosures about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted by other Standards.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

AASB 119 Employee Benefits

Main changes include:

Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans.

Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods.

Subtle amendments to timing for recognition of liabilities for termination benefits.

Employee benefits 'expected to be settled' (as opposed to 'due to be settled' under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.

Amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities. Qualitative and quantitative disclosures have been added to IFRS 7 relating to gross and net amounts of recognised financials instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are applicable for annual periods beginning on or after 1 January 2014. The Group's management have yet to assess the impact of these amendments.

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

Comparative Figures

When required by accounting standards, comparative figures in the statement of comprehensive income have been adjusted to conform to changes in the presentation for the current financial year, in the expense classification.

3 SUMMARY OF ACCOUNTING POLICIES

Overall Considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared using the measurement bases specified by Australian Accounting Standards for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

a. Basis of Consolidation

A controlled entity is any entity that Regeneus has the power to control the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 4 to the financial statements. All controlled entities have a June financial year end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. All inter-Group balances and transactions between entities in the Group have been eliminated on consolidation.

b. Segment Reporting

The Group has three operating segments: Human Health, Animal Health, and Research and Development, In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group (see Note 5).

Each of these operating segments is managed separately as each of these service lines require different technologies and other resources as well as marketing approaches.

The measurement policies the Group uses for segment reporting under AASB 8 are the same as those used in its financial statements, except that expenses related to share-based payments are not included in arriving at the operating profit of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

c. Going concern basis of accounting

Notwithstanding the consolidated entity incurring a net loss for the year, negative operating cash flows from operations and has accumulated losses, the directors have prepared the financial statements on a going concern basis. As at 30th June 2013 Regeneus had negative net assets and a history of losses. On 19th September 2013 the Company listed its shares on the ASX and raised $10,500,000 in additional equity.

d. Comparative Figures

When required by accounting standards, comparative figures in the statement of profit or loss and other comprehensive income have been adjusted to conform to changes in the presentation for the current financial year.

e. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

f. Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income). Current and deferred income tax expense (income) is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. The average cost method has been used to value inventory. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

h. Plant and Equipment

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

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

i. Depreciation

The depreciable amount of fixed assets are depreciated on either a straight line or reducing balance basis over their useful lives to the Consolidated entity commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

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

Class of Fixed Asset	Depreciation Rate
Office equipment	2.5% - 67% reducing balance
Laboratory equipment	20% - 30% reducing balance
Leasehold Improvements	20% straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income .

j. Intangibles

Intangible assets include acquired software. Intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Amortisation commences from the date the asset is brought into use. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software. Subsequent expenditure is expensed as incurred.

Costs associated with maintaining intangibles are expensed as incurred.

The amortisation rate used for acquired software is 25% reducing balance.

k. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

l. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Consolidated entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss and other comprehensive income .

m. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is de-recognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value adjusted by transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial liabilities

The Group's financial liabilities include trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

n. Equity and Reserves

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Other components of equity include the following:

- Option reserve - comprises equity-settled share based remuneration plans for the Groups employees
- Retained earnings include all current and prior period retained profits.

o. Post-employment benefits and short-term employee benefits

The Group pays fixed contributions into independent entities in relation to several plans.

The Groups has no legal or constructive obligations to pay contributions in addition to fixed contributions, which are recognised as an expense in the period that the relevent employee services are received.

Short-term employee benefits, including annual leave entitlement, are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

p. Share-based employee remuneration

The Group operates equity-settled share-based remuneration plans for its employees.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

q. Revenue

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Consolidated Group. Revenue is measured at the fair value of the consideration received or receivable. Licence fee revenue is recognised on a straight line basis over the period that the licence covers.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Revenue relating to the provision of services is recognised when the services are provided.

Interest revenue is recognised using the effective interest rate method.

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

r. Goods and Services Tax (GST)

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

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

s. Research and development

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

t. Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

u. Significant management judgement in applying accounting policies

The directors evaluate estimates and judgements incorporated into the financials report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data.

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Estimation Uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expense is provided below. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews is estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolence that may change the utility of certain software and IT equipment.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date.

4 CONTROLLED ENTITIES

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)* 2013 $	2012 $
Subsidiaries of Regeneus:			
Regeneus Animal Health Pty Ltd	Australia	100	100
Cell Ideas Pty Ltd	Australia	100	100

5 SEGMENT REPORTING

Management currently identifies the Group's three service lines as its operating segments (see Note 3b). These operating segments are monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results .

Segment information for the reporting period is as follows:

	Human Health 2013 $	Animal Health 2013 $	R and D 2013 $	Total 2013 $
Revenue				
From external customers	749,600	207,012	762,333	1,718,945
Segment revenues	749,600	207,012	762,333	1,718,945
Costs of Goods Sold	[280,232]	[94,363]	[16,399]	[390,994]
Direct Salaries	[176,786]	-	-	[176,786]
Other Employment Expense	[915,360]	[329,434]	[716,065]	[1,960,859]
Research	[35,253]	[52,569]	[1,718,491]	[1,806,313]
Travel and Marketing	[266,159]	[105,587]	[44,652]	[416,398]
Depreciation	[39,850]	-	[60,860]	[100,710]
Other expenses	[49,034]	[12,413]	[17,885]	[79,332]
Segment Expenses	[1,762,674]	[594,366]	[2,574,352]	[4,931,392]
Segment Operating Loss	[1,013,074]	[387,354]	[1,812,019]	[3,212,447]
Segment Fixed Assets	147,840	-	229,368	377,208

	Human Health 2012 $	Animal Health 2012 $	R and D 2012 $	Total 2012 $
Revenue				
From external customers	373,915	158,364	654,000	1,186,279
Segment revenues	373,915	158,364	654,000	1,186,279
Costs of Goods Sold	[75,962]	[45,356]	[7,712]	[129,030]
Direct Salaries	[110,778]	-	-	[110,778]
Employment Expense	[427,439]	[242,383]	[283,437]	[953,259]
Research	[84,037]	[13,376]	[1,281,344]	[1,378,757]
Travel and Marketing	[100,445]	[129,133]	-	[229,578]
Depreciation	-	-	-	-
Other expenses	[16,591]	[8,148]	[5,174]	[29,913]
Segment Expenses	[815,252]	[438,396]	[1,577,667]	[2,831,315]
Segment Operating Loss	[441,337]	[280,032]	[923,667]	[1,645,036]
Segment Fixed Assets	69,967	-	205,535	275,502

The totals presented for the Group's operating segments reconcile to the key financial figures as presented in its financial statements as follows:

	2013 $	2012 $
Revenue		
Total reportable segment revenues	1,718,945	1,186,279
Group revenues	1,718,945	1,186,279
Profit or loss		
Total reportable segment operating loss	[3,212,447]	[1,645,036]
Employment Expense Not Allocated	[2,502,521]	[1,772,554]
Travel and Marketing	[223,676]	[205,235]
Occupancy Expense	[368,336]	[331,532]
Overhead	[428,328]	[341,355]
Depreciation and Amortisation Not Allocated	[94,754]	[113,452]
Other expenses Not Allocated	[368,294]	[440,219]
Total Operating Expenses	[7,198,356]	[4,849,383]
Grants income	93,089	75,801
Interest Received	50,683	73,334
Other Income	207,509	11,488
Finance Costs	[328,660]	[1,045]
Costs of IPO	[346,600]	[249,915]
Group loss before Tax	[7,522,335]	[4,939,720]
Assets		
Total reportable segment fixed assets	377,208	275,502
Leasehold premises	135,537	178,139
Office equipment	95,818	73,210
Group Fixed Assets	7,198,357	526,851

6 REVENUE

	2013 $	2012 $
Operating activities		
Licence fee income	762,333	654,000
Income from sale of goods	956,612	532,279
Interest received	50,683	73,334
Total revenue	1,769,628	1,259,613
Other income		
Grant income	93,088	75,801
Other income	207,509	11,488
Total other income	300,597	87,289

7 RESULT FOR THE YEAR

The result for the year has been arrived at after charging the following items:

	2013 $	2012 $
a. Expenses		
Cost of sales	580,526	245,730
Impairment of trade receivables	-	-
Rental expense on operating leases - minimum lease payments	167,012	188,399
Amortisation of intangible assets	14,953	6,219
Depreciation	180,511	107,233
Loss on disposal of assets	-	11,354
Employment expenses	3,263,827	1,575,292
Write-off of inventories	22,815	2,940
b. Finance costs		
- Interest expense	323,291	1,045
- Bank charges	5,369	-
Total finance costs	328,660	1,045

8 CASH AND CASH EQUIVALENTS

	2013 $	2012 $
Cash on hand	624	210
Cash at bank	410,034	528,015
Total Cash and Cash Equivalent	410,658	528,225

9 OTHER FINANCIAL ASSETS

	2013 $	2012 $
Term Deposit	122,926	-
Total Other Financial Assets	122,926	-

10 TRADE AND OTHER RECEIVABLES

	2013 $	2012 $
Current		
Trade receivables	26,576	107,066
Total trade and other receivables	26,576	107,066

11 INVENTORIES

	2013 $	2012 $
At cost	231,057	142,672
Total inventories	231,057	142,672

12 OTHER ASSETS

	2013 $	2012 $
Other current receivables		
Other debtors	5,332	4,771
Prepayments	89,122	108,192
Security Deposit	63,217	61,127
GST receivables	94,018	93,644
Total current other assets	251,689	267,734

13 PLANT AND EQUIPMENT

	2013 $	2012 $
Office Equipment		
At cost	175,035	121,489
Accumulated depreciation	[79,217]	[48,279]
Total office equipment	95,818	73,210
Lab Equipment		
At cost	376,902	280,264
Accumulated depreciation	[147,534]	[74,727]
Total lab equipment	229,368	205,537
Leasehold Improvements		
At cost	213,018	213,018
Accumulated depreciation	[77,481]	[34,879]
Total leasehold improvements	135,537	178,139
Equipment in Clinics		
At cost	188,716	76,677
Accumulated depreciation	[40,876]	[6,712]
Total equipment in clinic	147,840	69,965
Total property, plant and equipment	608,563	526,851

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

	Office Equipment $	Laboratory Equipment $	Leasehold Improvements $	Equipment in Clinics $	Total $
Balance at 1 July 2011	33,421	119,218	114,933	-	267,572
Additions	70,922	134,021	96,246	76,677	377,866
Net Disposals	[11,354]	-	-	-	[11,354]
Depreciation expense	[19,779]	[47,702]	[33,040]	[6,712]	[107,233]
Balance at 30 June 2012	73,210	205,537	178,139	69,965	526,851
Additions	53,546	96,638	-	112,039	262,223
Net Disposals	-	-	-	-	-
Depreciation expense	[30,938]	[72,807]	[42,602]	[34,164]	[180,511]
Balance at 30 June 2013	95,818	229,368	135,537	147,840	608,563

14 INTANGIBLE ASSETS

	2013 $	2012 $
Software		
Cost	66,541	51,973
Accumulated amortisation	[21,864]	[6,911]
Net carrying value	44,677	45,062
Reconciliation of software costs		
Balance at the beginning of year	45,062	7,687
Additions	14,568	43,594
Amortisation	[14,953]	[6,219]
Closing carrying value at the end of the year	44,677	45,062

15 TRADE AND OTHER PAYABLES

	2013 $	2012 $
Current		
Trade payables	627,841	810,888
Amounts payable to related parties	76,314	62,092
Accruals	918,546	337,614
PAYG payable	137,511	41,662
Superannuation payable	82,246	42,222
Total trade and other payables	1,842,458	1,294,478

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

15.1 Foreign currency risk

The carrying amount of trade and other payables denominated in the foreign currencies is:

	2013 $	2012 $
US Dollar	36,109	25,081
GBP	34,247	-
Euro	3,069	-

16 TAXATION

	2013 $	2012 $
Current		
R&D tax refund receivable	2,327,288	1,678,689
Total Current Tax Asset	2,327,288	1,678,689

17 PROVISIONS

	2013 $	2012 $
Current - Annual Leave		
Opening balance 1 July 2012	53,131	20,900
Benefits accrued, net	96,670	32,231
Balance as at 30 June 2013	149,801	53,131

18 FINANCIAL LIABILITIES

	2013 $	2012 $
Current		
Convertible Notes Issued	4,900,000	-
Total Financial Liabilities	4,900,000	-

The convertible notes were issued with a coupon rate of 10% p.a., and convert to shares at a 12% discount to the IPO price of $0.25.

19 ISSUED CAPITAL

The share capital of Regeneus consists of fully paid ordinary shares, the shares do not have a par value.

	2013 $	2012 $
102,934,566 (2012:102,934,566) fully paid ordinary shares	6,651,935	6,651,935
Total Issued Capital	6,651,935	6,651,935

The Group does not have a limited amount of authorised capital.

a. Ordinary Shares

	2013 No.	2012 No.
At the beginning of reporting period	102,934,566	95,946,558
Fully paid up shares issued during the period	-	4,508,286
Unpaid share capital	-	-
Share options exercised during the period	-	2,479,722
Closing share capital	102,934,566	102,934,566

Ordinary shares participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Option Reserve

The details of the other reserves are as follows

	Share Option Reserve $
Balance at 1st July 2011	797,082
Increase for expense and adjustments during the period	644,722
Balance at 30th June 2012	1,441,804
Balance at 1st July 2012	1,441,804
Increase for expense and adjustments during the period	306,641
Balance at 30th June 2013	1,748,445

c. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's capital includes ordinary share capital and is supported by financial assets.

There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the issue of shares.

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

20 SHARE BASED PAYMENTS

The grant date fair value of options granted to employees is recognised as an employee benefit expense, with a corresponding increase in equity, within the share options reserve. The amount recognised is adjusted to reflect actual number of share options that vest.

All share-based employee remuneration will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

The fair value of share options was calculated using a binomial option pricing model applying the following inputs:

Grant date	1-Jul-10	23-Jul-10	13-Aug-10	25-Aug-10	1-Sep-10
Life of the option	10 years	10 years	10 years	10 years	10 years
Underlying share price	$0.136	$0.136	$0.136	$0.136	$0.136
Expected share price volatility	45%	45%	45%	45%	45%
Risk free interest rate	5.10%	5.10%	5.30%	5.30%	5.10%
Exercise Price	$0.136	$0.136	$0.136	$0.136	$0.136
Weighted average Fair Value of options at grant date	$0.085	$0.085	$0.085	$0.086	$0.085
Dividend yield	0%	0%	0%	0%	0%
Grant date	**1-Jan-11**	**21-Feb-11**	**8-Mar-11**	**11-Mar-11**	**25-May-11**
Life of the option	10 years	10 years	10 years	10 years	10 years
Underlying share price	$0.136	$0.136	$0.136	$0.28	$0.28
Expected share price volatility	45%	45%	45%	45%	45%
Risk free interest rate	5.60%	5.50%	5.60%	5.60%	5.30%
Exercise Price	$0.136	$0.136	$0.136	$0.14	$0.28
Weighted average Fair Value of options at grant date	$0.086	$0.085	$0.086	$0.22	$0.16
Dividend yield	0%	0%	0%	0%	0%
Grant date	**1-Jul-11**	**25-Jul-11**	**1-Dec-11**	**1-Jan-12**	
Life of the option	10 years	10 years	10 years	10 years	
Underlying share price	$0.28	$0.28	$0.28	$0.28	
Expected share price volatility	45%	45%	45%	67.50%	
Risk free interest rate	5.30%	5.30%	4.50%	3.80%	
Exercise Price	$0.28	$0.28	$0.28	$0.14	
Weighted average Fair Value of options at grant date	$0.18	$0.18	$0.17	$0.21	
Dividend yield	0%	0%	0%	0%	

Volatility of comparable companies has been used to determine the expected share price volatility.

Included under employee benefits expense in the profit or loss relating to employee share options is $377,532 (2012: $644,722) and relates, in full, to the value of employee share option payments at their grant date.

Share options granted under the employee share option plan:

	2013 Number	2013 Weighted average exercise price ($)	2012 Number	2012 Weighted average exercise price ($)
Options outstanding at beginning of period	20,770,067	0.141	20,155,138	0.108
Granted	-	-	3,248,671	0.247
Converted	-	-	-	-
Exercised	-	-	[2,479,722]	0.006
Forfeited	[487,060]	0.143	[154,020]	0.136
Granted subsequent to conversion	-	-	-	-
Expired	-	-	-	-
Outstanding at end of period	20,283,007	0.141	20,770,067	0.141
Exercisable at end of period	17,714,289	0.132	9,568,871	0.135

No options were exercised in 2013. The weighted average share price in 2012 at the date of exercise was $0.28.
Other details of options currently outstanding

- the range of exercise prices are $0.006 to $0.28. Most vested options with an exercise price of less then $0.20 were exercised prior to the listing on the ASX on the 17th September 2013.
- weighted average remaining contractual life is 7 years.

21 LEASING COMMITMENTS

	2013 $	2012 $
a. Operating Lease Commitments Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable — minimum lease payments		
- not later than 12 months	113,618	221,650
- between 12 months and five years	-	681,791
- greater than five years	-	-
Total Leasing Commitments	113,618	903,441

Regeneus will be vacating its existing premises later this year and moving to new leased premises. It has signed a lease for five years.

22 INCOME TAX BENEFIT

		2013 $	2012 $
a. The components of tax benefit comprise:			
Current tax	16	2,327,288	1,678,689
		2,327,288	1,678,689
b. The prima facie tax on loss before income tax is reconciled to the income tax as follows:			
Prima facie tax receivable on loss before income tax at 30% (2012: 30%)		[2,256,700]	[1,481,916]
Add:			
Tax effect of:			
- tax losses not brought to account		2,037,082	1,150,785
- non-deductible expenses		297,546	246,577
- other non-allowable items		1,377	84,554
Less:			
Tax effect of:			
- R&D tax allowances		[2,327,288]	[1,678,689]
- Other allowable items		[79,305]	-
Income tax benefit		[2,327,288]	[1,678,689]
The applicable weighted average effective tax rates are as follows:		[31%]	[34%]

23 AUDITOR'S' REMUNERATION

	2013 $	2012 $
Remuneration of the auditor of Group (Grant Thornton Audit Pty Ltd) for:		
- audit and reviewing financial statements	74,500	32,000
- taxation	17,784	-
- other services	7,000	2,500
- corporate finance	42,000	33,500
Total auditor's remuneration	141,284	68,000

24 EARNINGS PER SHARE AND DIVIDENDS

Both basic and diluted earnings per share have been calculated using the loss attributable to the shareholders of the parent company.

	2013 $	2012 $
Earnings per Share		
Basic earnings per share from continuing operations	[0.05]	[0.03]
The weighted average number of ordinary shares used as the denominator on calculating the EPS	102,934,566	102,934,566
Diluted Earnings per Share		
Basic earnings per share from continuing operations	[0.05]	[0.03]
The weighted average number of ordinary shares used as the denominator on calculating the DEPS	102,934,566	102,934,566

Share options have not been included in the diluted ESP calculation because they are anti-dilutive.

25 CASH FLOW INFORMATION

	2013 $	2012 $
Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss after income tax	[5,195,047]	[3,261,031]
Non-cash flows in profit:		
- Depreciation	180,511	107,233
- Amortisation	14,953	6,219
- Net loss on write-off of assets	-	11,354
Equity settled share based transactions	377,532	644,722
Share capital issued but not paid at year end	-	4,771
Changes in assets and liabilities		
- Decrease/(increase) in other assets	16,045	[92,896]
- Decrease/ (increase) in tax assets	[648,599]	[739,444]
- Decrease/ (increase) in inventories	[88,385]	[81,994]
- Decrease/ (increase) in receivables	80,490	36,592
- Increase/(decrease) in payables	[168,825]	462,157
- Increase/(decrease) in employee benefits	135,873	51,555
- Increase/(decrease) in provisions	96,670	32,231
- Increase/(decrease) in accrued liabilities	580,932	[121,548]
Net Cash From Operating Activities	[4,617,850]	[2,940,079]

26 RELATED PARTY TRANSACTIONS

During 2013, the Group used the services consulting of a company over which one director exercises significant influence.

Related Party Transactions	2013 $	2012 $
Amounts paid to director related entities for marketing, consulting services and directors fees	496,716	434,571
Total paid to Related Parties	496,716	434,571

27 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Refer to the Remuneration Report contained in the Directors Report for details of the remuneration paid, or payable, to the Groups KMP for the year ended 30th June 2013.

The total amount paid to KMP for the Group is set out below

	Short-term benefits ($)	Post-employment benefits ($)	Share based payment benefits ($)	Total ($)
2013 Total compensation	751,906	51,917	1,187	805,010
2012 Total compensation	550,330	20,250	120,985	691,565

28 OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

The number of options to acquire shares in the Company held during the 2013 and 2012 reporting periods by each of the key management personnel of the Group, including their related parties are set out below.

Year Ended 30th June 2013	Balance at start of year	Granted as remuneration	Exercised	Other changes	Granted and exercisable at the end of the reporting period	Granted and unexercisable at the end of the reporting period
John Martin	4,273,490	-	-	-	4,273,490	-
Professor Graham Vesey	1,108,944	-	-	-	1,108,944	-
Professor Marc Wilkins	378,797	-	-	-	378,797	-
	5,761,231	-	-	-	5,761,231	-
Year Ended 30th June 2012	**Balance at s tart of year**	**Granted as remuneration**	**Exercised**	**Other changes**	**Granted and exercisable at the end of the reporting period**	**Granted and unexercisable at the end of the reporting period**
John Martin	4,620,600	500,000	847,110	-	3,241,556	1,031,934
Professor Graham Vesey	1,108,944	-	-	-	1,108,944	-
Professor Marc Wilkins	200,226	178,571	-	-	378,797	-
Thomas Mechtersheimer**	877,914	-	-	-	877,914	-
Dror Ben Ami**	-	178,571	-	-	178,571	-
	6,807,684	857,142	847,110	-	5,785,782	1,031,934

** Resigned during the June 13 financial year

29 SHARES HELD BY KEY MANAGEMENT PERSONNEL

The number of ordinary shares in the Company during the 2013 and 2012 reporting periods by each of the key management personnel of the Group, including their related parties are set out below:

Year Ended 30th June 2013	Balance at start of year	Granted as remuneration	Received on exercise	Other changes	Held at the end of the reporting period
John Martin	3,095,802	-	-	-	3,095,802
Professor Graham Vesey	13,586,408	-	-	-	13,586,408
Assoc. Professor Ben Herbert	8,689,412	-	-	-	8,689,412
Professor Marc Wilkins	9,189,413	-	-	-	9,189,413
	34,561,035	-	-	-	34,561,035
Year Ended 30th June 2012	**Balance at start of year**	**Granted as remuneration**	**Received on exercise**	**Other changes**	**Held at the end of the reporting period**
John Martin	2,633,742	-	462,060	-	3,095,802
Professor Graham Vesey	13,522,956	-	-	63,452	13,586,408
Assoc. Professor Ben Herbert	9,117,984	-	-	[428,572]	8,689,412
Professor Marc Wilkins	9,117,984	-	-	71,429	9,189,413
Thomas Mechtersheimer**	11,135,646	-	-	-	11,135,646
Dr Ben Ami**	5,112,555	-	-	47,958	5,160,513
	50,640,867	-	462,060	[245,733]	50,857,194

** Resigned during the June 13 financial year

30 CONTINGENT LIABILITIES

The Goup had no contingent liabilities as at 30 June 2013 (30 June 2012 $264,000)

31 CAPITAL EXPENDITURE COMMITMENTS

There were no capital expenditure commitments as at 30 June 2013 (30 June 2012: $nil), although the Company is moving premises in December 13. The estimated cost of the fit out of offices and laboratories is $1.3 million.

32 FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable and financial liabilities.

(b) Categories of financial instruments

The total for each category of financial instrument, measured in accordance with AASB139 as detailed in the accounting policies to these financial statement, are as follows:

	2013 $	2012 $
Financial assets		
Trade and other receivables	26,576	107,066
Cash and cash equivalents	410,658	528,225
Term Deposit	122,926	-
	560,160	635,291
Financial liabilities		
Trade and other payables	1,842,458	1,294,478
Financial Liabilities (convertible notes)	4,900,000	-
	6,742,458	1,294,478

(c) Financial risk management objectives

The Group is exposed to various risks in relation to financial instruments. The main types of risks are foreign currency risk, credit risk and liquidity risk.

The Group's risk management is coordinated in close operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below. The Group is exposed to market risk specifically interest rate risk which result from its operating activities.

(d) Foreign exchange risk

Foreign exchange risk is the risk of an adverse impact on the Group's financial performance as a result of exchange rate volatility.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group is exposed to foreign exchange risk arising primarily from transactions with foreign suppliers. Exposure to currency risk arising from foreign currency transactions is limited to trade payables. The Group does not frequently transact with foreign suppliers and the total balance of trade payables denominated in a foreign currency is not material, therefore the Group's exposure is minimal.

Management have assessed the risk of movement in interest rates, and foreign exchange, and do not believe the impact would be material to the accounts.

(e) Liquidity Risk Analysis

Liquidity risk is risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as on a basis of a rolling 30 day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period and identifies monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or an shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting periods.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables (see note 10) significantly exceed the current cash outflow requirements.

As at June 2013, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	2013 $	2012 $
	Current within 6 months	Current within 6 months
Trade and other payables	1,842,458	1,294,478
Convertible Notes	4,900,000	-
	6,742,458	1,294,478

The convertible notes were converted into share when Regeneus listed on the ASX on the 19th September 2013.

(f) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The Group has adopted a policy of only dealing with creditworthy counter parties as a means of mitigating the risk of financial loss from defaults.

(g) Liquidity risk

Liquidity risk is that the Group might be unable to meet its obligations. The Group manages its liquidity needs by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

33 PARENT ENTITY INFORMATION

Set out below is the supplementary information about Regeneus Ltd, the parent entity.

Statement of Profit or Loss and Other Comprehensive Income

	2013 $	2012 $
(Loss) after income tax	[5,195,047]	[3,261,031]
Total comprehensive (loss)	[5,195,047]	[3,261,031]
Statement of Financial Position		
Total current assets	3,370,094	2,724,386
Total assets	4,023,444	3,296,309
Total current liabilities	6,892,269	1,347,619
Total liabilities	6,892,269	1,347,619
Net (liabilities) assets	[2,868,825]	1,948,690
Equity		
Issued capital	6,651,935	6,651,935
Option Reserve	1,748,445	1,441,804
Accumulated losses	[11,269,205]	[6,145,049]
Total equity	[2,868,825]	1,948,690

34 EVENTS AFTER THE REPORTING DATE

The Company listed on the ASX on the 19th September 2013. Immediately prior to ASX listing, the Convertible Notes with a face value of $4.9m converted automatically into ordinary shares at a 12% discount to the issue price of $0.25 for Shares.

35 GROUP DETAILS

The registered office of the Group is:

77 Ridge Street
Gordon NSW 2072

The principal place of business is:

77 Ridge Street
Gordon NSW 2072

09 Directors’ declaration

The directors of the Group declare that:

1. The consolidated financial statements and notes, as set out on pages 22 to 49, are in accordance with the Corporations Act 2001:
   a. comply with Accounting Standards including the Australian Accounting Standards, and the Corporations Regulations 2001;
   b. give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the Group; and
   c. complies with International Financial Reporting Standards as disclosed in Note 1.
2. In the directors’ opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
3. The directors have been given declarations required by Section 295A of the Corporations Act 2001, from the CEO and CFO for the financial year ended 30th June 2013.

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

Executive Chairman ______________________

John Martin

Dated this 27th day of September 2013

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Independent Auditor's Report
To the Members of Regeneus Ltd

Report on the financial report

We have audited the accompanying financial report of Regeneus Ltd (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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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.

Auditor's opinion
In our opinion:

a the financial report of Regeneus Ltd is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the financial position as at 30 June 2013 and of its 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 the notes to the financial statements.

Report on the remuneration report
We have audited the remuneration report included in Section 1.3 on pages 9 to 11 of the directors' report for the year ended 30 June 2013. 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.

Auditor's opinion on the remuneration report
In our opinion the remuneration report of Regeneus Ltd for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.

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GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N J Bradley
Partner - Audit & Assurance

Sydney, 27 September 2013

11 ASX Additional Information

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 30th June 2013.

Substantial Shareholders

The number of substantial shareholders and their associates are set out below:

Shareholder	Number Shares
Vesey Investments Pty Ltd	13,586,408
Thomas Mechtersheimer	11,597,706
Professor Marc Wilkins	9,189,413
Assoc. Professor Ben Herbert	8,689,412
Dr George Miklos	9,117,984
Parros Pty Ltd atf the Parros Trust	8,055,246
Hestian Pty Ltd	5,160,514

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

Distribution of equity security holders

Holding	Shares	Options	No of Holders
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	2,706,666	156,428	39
100,001 and over	100,227,900	20,126,579	85
	102,934,566	20,283,007	124

11 ASX Additional Information

Ordinary Shares

Twenty largest shareholders	Number Held	% of Issued Shares
Vesey Investments Pty Ltd	13,215,026	12.84%
Thomas Mechtersheimer	11,135,646	10.82%
Professor Marc Wilkins	9,189,413	8.93%
Assoc. Professor Ben Herbert	8,689,412	8.44%
Parros Pty Ltd	8,055,246	7.83%
Secure Genetics Pty Ltd	6,037,584	5.87%
Hestian Pty Ltd	5,160,514	5.01%
Dr George Miklos	3,080,400	2.99%
Pierre Malou	2,803,164	2.72%
Bacau Pty Ltd	1,901,142	1.85%
Rose Martin	1,863,642	1.81%
Paul Kelly	1,299,839	1.26%
David Chee and Annette Davison	1,133,944	1.10%
Catherine Halliday	1,108,944	1.08%
Greenford Pty Ltd	1,100,000	1.07%
Ryan Scully	924,120	0.90%
Mezoli Pty Ltd	877,914	0.85%
Dr Michael Muller	795,766	0.77%
Dorothee Babeck	785,502	0.76%
David Frith	770,100	0.75%

Unissued equity securities

Options issued under the options plans total 20,283,007

Securities exchange

The Company was listed on the Australian Securities Exchange on 19th September, 2013.