Living Cell Technologies Limited

Consolidated Financial Report

31 December 2010

Living Cell Technologies Limited

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Living Cell Technologies Limited

Directors' Report

31 December 2010

Your directors present their report on the company and its controlled entities for the financial half year ended 31 December 2010.

1. General information

(a) Directors

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

Names	Appointed/Resigned
David Brookes	Not re-elected at AGM - 18 November 2010
Robert Elliott	Elected Chairman - 18 November 2010
Robert Finder	
Laurie Hunter	
Ross Macdonald	Appointed CEO - 2 August 2010
David McAuliffe	Resigned - 18 November 2010
Simon O'Loughlin	Not re-elected at AGM - 18 November 2010
Paul Tan	Resigned - 23 September 2010

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

Company Secretary

The following person held the position of company secretary at the end of the financial half year ended 31 December 2010:

Nick Geddes, FCA, FCIS

2. Business review

(a) Operating Results

The consolidated loss for the half year amounted to $4,276,463. (2009: Loss of $3,335,062).

(b) Review of operations

Living Cell Technologies Limited ('LCT') develops live cell based therapy products to treat life threatening human diseases. LCT's encapsulation technology enables healthy living cells of animals to be implanted into humans who have deficient cells or organs. Due to the proprietary coating technology used with the cells, LCT's products do not require the use of immunosuppression to prevent rejection.

LCT's most advanced product is a treatment for Type 1 diabetes to regulate blood glucose levels and avoid long term complications created by the disease. In addition, the company owns specialised pig breeding facilities that enable the use of pig cells and tissues for human medicinal purposes. The Company is also developing a suite of products for neurological disorders, which are at various stages of pre clinical development and discovery.

Living Cell Technologies Limited

Directors' Report

31 December 2010

2. Business review continued

(b) Review of operations continued

The Company has developed a good manufacturing practice (GMP) manufacturing unit for the production of cell based therapeutics, as well as an internationally accredited diagnostic laboratory for monitoring potential viruses. This integrated infrastructure enables the Company to manufacture and supply cell based products directly to the market upon commercialisation.

LCT's competitive advantages in the field of transplantation of living cells for the controlled, long term delivery of therapeutic proteins include:

- a unique, fully owned, specialised source of cells from a designated pathogen free pig herd, which have been internationally and independently reviewed;
- patented proprietary encapsulation technology to enable transplants without rejection;
- a GMP cell processing and manufacturing facility to enable the production of human medicines for clinical trials;
- international IANZ accredited diagnostic facilities for monitoring of implant recipients; and
- a strong international intellectual property position.

In addition, LCT is the only company world wide to have met the necessary capabilities and current criteria for human clinical trials of a xenotransplant product.

The Company is carrying out clinical trials of DIABECELL® its product for treating insulin dependent diabetes in Russia and New Zealand. Nine patients have been treated in Russia with up to three low and medium doses of DIABECELL with promising early results. Twelve patients in the New Zealand trial have received a range of doses in this Phase II dose finding trial.

3. Financial Review

(a) Financial Position

The net assets of the consolidated group have decreased by $2,020,044 from $6,239,622 to $4,219,578 as at 31 December 2010. The decrease was largely due to the continuing development cost of the promising lead product DIABECELL.

(b) Cash from Operations

Net cash outflow from operating activities moved from $3,338,818 in the previous year to $3,005,838.

(c) Liquidity and Funding

As at 31 December 2010 the consolidated group had $1,822,653 cash in the bank, compared to $3,121,524 as at 30 June 2010 and $5,494,840 at 31 December 2009, which based on current levels of operational cash flow requirements would allow the Group to fund current operations for approximately 3 months. Since 31 December 2010 the company has signed a $5,750,000 funding agreement with SpringTree Special Opportunities Fund, LP and a $1,720,000 subscription agreement with ASK.

Living Cell Technologies Limited

Directors' Report

31 December 2010

3. **Financial Review continued**

(c) **Liquidity and Funding continued**

The directors have prepared the report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. This is not withstanding that the consolidated entity incurred losses for the period of $4,276,463 (2009: $3,335,062). The losses have negatively impacted the consolidated entity's cash balances. On 4 January 2011 the parent company closed a $5,750,000 funding facility raising $650,000 on closing and at least $150,000 per month thereafter during the term of the facility. The cash balance has now decreased to $1.6 million at the date of this report. However, unless further new funds are raised or expenditure curtailed there is material uncertainty which may cast significant doubt on the ability of the consolidated entity to continue as a going concern and pay its debts as and when they fall due and to realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the half year financial report. Whilst the directors acknowledge that there are credit and liquidity risks due to the current economic market, they still consider that there is good reason to believe that additional cash will be sourced by the consolidated entity. Recently directors have received a fundraising proposal from a broker and management are in discussions with other financiers.

4. **Other Items**

(a) **Significant Events during the period**

(i) 13 July 2010 — $2m received from underwriting expiring options

9,523,810 shares were issued to underwriters of expiring options to raise $2m.

(ii) 13 July 2010 — Consistent benefit shown in DIABECELL NZ trial

8 patients with unstable diabetes have received DIABECELL implants. All 4 patients in the first group of 4 showed a significant reduction in episodes of clinically significant low blood glucose while improving blood glucose control and reducing insulin injections.

(iii) 4 August 2010 — Approval to expand DIABECELL NZ trial

The New Zealand Minister of Health approved the addition of 4 more patients to the NZ Phase II trial. The new patients will add further rigour to the study and may provide valuable additional information.

(iv) 10 October 2010 — Sustained improvement from DIABECELL NZ trial

10 patients enrolled in the Phase II trial in NZ have received DIABCELL implants according to schedule. Patients in the first group of 4 showed an average reduction of 76% in episodes of life-threatening unaware blood glucose. Improved blood glucose control is shown with reduced insulin requirements.

(v) 10 November 2010 — Promising preclinical results with NTCELL in Parkinson's disease

Two animal models for the neurodegenerative condition Parkinson's disease showed significant improvement in motor activity when implanted with NTCELL. The affected brain area showed

Living Cell Technologies Limited

4. **Other Items continued**

(a) **Significant Events during the period continued**
dramatic restoration of brain cell numbers.

(vi) 10 December 2010 DIABECELL registered for sale and use in Russia

Russian subsidiary LCT Biomedical Limited received registration of DIABECELL as a marketable medical technology in Russia, allowing the sale and use of the DIABECELL technology in the treatment of Type 1 diabetes in Russia.

(vii) 20 December 2010 Approval to further expand DIABECELL NZ trial

The New Zealand Minister of Health approved the addition of 2 patients to the NZ Phase II trial. The new patients will receive 5000 islet equivalents per kilogram of body weight. This brings the total to 14 patients across 4 dose groups. The fourth group receiving this low dose will help build the dose range data needed to define the target product profile for Phase III trials.

(viii) 31 December 2010 $5,750,000 funding agreement signed

SpringTree Special Opportunities Fund, LP agreed to purchase up to $5,250,000 worth of shares over 18 months and a $500,000 convertible security to be converted to shares within 24 months. At the first closing SpringTree are to be granted 3,500,000 options exercisable at 130% of recent share prices within 3 years. A fee is also payable at the first closing, satisfied by the issue of 1,682,692 shares.

Subsequent Events

(i) 4 January 2011 Completion of First Closing of SpringTree funding agreement.

The Company has completed the first closing and received $650,000 being the $500,000 convertible security and $150,000 first tranche of share purchase facility. 3,500,000 options have been issued with an exercise price of $0.1989 and 1,682,692 shares issued to satisfy the fee.

(ii) 31 January 2011 ASK subscribes for 5% of LCT shares.

Jiangsu Aosaikang Pharmaceutical (ASK) has agreed to subscribe for 14,334,030 shares at $0.12 raising $1.72 million. LCT and ASK intend to negotiate a collaborative research agreement with a right of first refusal for ASK to negotiate a licence to commercialise the use of DIABECELL in China.

(iii) 16 February 2011 Foundations Grant USD280,000 for NZ Clinical Trial

Cure Kids and The Children with Diabetes Foundation have agreed to provide a grant of USD 280,000 to sponsor the two patients recently added to the Phase II clinical trial of DIABECELL in New Zealand.

Living Cell Technologies Limited

Directors' Report

31 December 2010

4. **Other Items continued**

(b) **Auditors Independence Declaration**

The lead auditor's independence declaration as required under section 307c of the Corporations Act 2001 for the half year ended 31 December 2010 has been received and can be found on page 6 of the financial report.

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

Director: R.B. Elliott

Dated this 25th day of February 2011

PKF

Chartered Accountants
& Business Advisers

Auditor's Independence Declaration

As lead auditor for the review of Living Cell Technologies Limited for the half year ended 31 December 2010, 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Living Cell Technologies Limited and the entities it controlled during the half year.

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Tim Sydenham
Partner

Sydney, 25 February 2011

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Living Cell Technologies Limited

Consolidated Statement of Comprehensive Income

For the half year to 31 December 2010

	Note	31 December 2010 $	31 December 2009 $
REVENUE			
Sale of goods		**310**	275
Service fees		**164,070**	111,912
Grant income		**803,215**	111,477
Interest received		**72,682**	52,891
Dividend income		**371**	391
Total revenue		**1,040,648**	276,946
EXPENSES			
Research & development costs	2	**(2,804,607)**	(1,997,838)
Administrative costs	2	**(1,624,965)**	(1,316,432)
Occupancy costs	2	**(290,727)**	(237,448)
Finance costs	2	**(84)**	(24,475)
Net foreign exchange loss		**(596,728)**	(35,815)
Total expenses		**(5,317,111)**	(3,612,008)
Loss before income tax		**(4,276,463)**	(3,335,062)
Income tax		-	-
Loss attributable to members of the parent entity		**(4,276,463)**	(3,335,062)
Other comprehensive income			
Exchange differences on translating foreign operations net of tax		**251,485**	3,572
Other comprehensive income		**251,485**	3,572
Total comprehensive income		**(4,024,978)**	(3,331,490)
Earnings per share:			
From continuing operations:			
Basic & diluted earnings per share (cents per share)	5	**(1.51)**	(1.28)

The above Statement should be read in conjunction with the accompanying notes and the 30 June 2010 Annual Report.

Living Cell Technologies Limited

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	31 December 2010 $	30 June 2010 $
ASSETS			
CURRENT ASSETS			
Cash & cash equivalents		1,822,653	3,121,524
Trade & other receivables		158,452	711,256
Other assets		31,851	11,925
TOTAL CURRENT ASSETS		2,012,956	3,844,705
NON-CURRENT ASSETS			
Property, plant & equipment	3	2,459,960	2,793,819
Biological assets		283,702	304,842
TOTAL NON-CURRENT ASSETS		2,743,662	3,098,661
TOTAL ASSETS		4,756,618	6,943,366
LIABILITIES			
CURRENT LIABILITIES			
Trade & other payables		351,609	411,111
Short-term finance liabilities		-	7,383
Provisions		185,431	285,250
TOTAL CURRENT LIABILITIES		537,040	703,744
NON-CURRENT LIABILITIES			
TOTAL LIABILITIES		537,040	703,744
NET ASSETS		4,219,578	6,239,622
EQUITY			
Share capital	4	54,322,958	52,430,728
Reserves		1,125,028	1,473,708
Accumulated losses		(51,228,408)	(47,664,814)
TOTAL EQUITY		4,219,578	6,239,622

The above Statement should be read in conjunction with the accompanying notes and the 30 June 2010 Annual Report.

Living Cell Technologies Limited

Consolidated Statement of Changes in Equity

For the half year to 31 December 2010

31 December 2010

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
	$	$	$	$	$
Balance at 1 July 2010	52,430,728	(47,664,814)	(91,721)	1,565,429	6,239,622
Loss attributable to members of the parent entity	-	(4,276,463)	-	-	(4,276,463)
Exchange differences on translating foreign operations net of tax	-	-	251,485	-	251,485
Total comprehensive loss	-	(4,276,463)	251,485	-	(4,024,978)
Share based payment expense	-	-	-	147,384	147,384
Shares issued during the period	2,000,000	-	-	-	2,000,000
Share issue transaction costs	(142,450)	-	-	-	(142,450)
Options Expired during the period	34,680	712,869	-	(747,549)	-
Balance at 31 December 2010	54,322,958	(51,228,408)	159,764	965,264	4,219,578

31 December 2009

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
	$	$	$	$	$
Balance at 1 July 2009	46,049,170	(41,990,755)	123,201	1,345,774	5,527,390
Loss attributable to members of the parent entity	-	(3,335,062)	-	-	(3,335,062)
Translation differences of translating foreign operations net of tax	-	-	3,572	-	3,572
Total comprehensive (loss)	-	(3,335,062)	3,572	-	(3,331,490)
Shares issued during the period	6,388,401	-	-	-	6,388,401
Share based payment expense	-	-	-	82,004	82,004
Share issue transaction costs	(267,158)	-	-	-	(267,158)
Balance at 31 December 2009	52,170,413	(45,325,817)	126,773	1,427,778	8,399,147

The above Statement should be read in conjunction with the accompanying notes and the 30 June 2010 Annual Report.

Living Cell Technologies Limited

Consolidated Statement of Cash Flows

For the half year to 31 December 2010

	Note	31 December 2010 $	31 December 2009 $
Cash from operating activities:			
Receipts from customers		268,326	309
Payments to suppliers & employees		(4,693,755)	(3,392,409)
Grants received		1,230,100	-
Interest received		127,029	52,891
Dividends received		378	391
Net cash used in operating activities		(3,067,922)	(3,338,818)
Cash flows from investing activities:			
Payments for purchase of property, plant & equipment		(62,440)	(143,762)
Proceeds from sale of property, plant & equipment		800	2,325
Net cash used in investing activities		(61,640)	(141,437)
Cash flows from financing activities:			
Proceeds from issue of shares		2,000,000	6,388,401
Payment of Share Capital Raising Costs		(142,450)	(267,158)
Repayment of borrowings		(7,383)	(14,630)
Net cash provided by financing activities		1,850,167	6,106,613
Net increase / (decreases) in cash and cash equivalents		(1,279,395)	2,626,358
Cash and cash equivalents at beginning of financial year		3,121,524	2,868,482
Exchange rate changes on cash and cash equivalents		(19,476)	-
Cash and cash equivalents at end of financial year		1,822,653	5,494,840

The above Statement should be read in conjunction with the accompanying notes and the 30 June 2010 Annual Report.

Living Cell Technologies Limited

Notes to the Consolidated Financial Statements

For the 6 months to 31 December 2010

1 Statement of Significant Accounting Policies

(a) Basis of preparation

This general purpose financial report for the interim half-year ending 31 December 2010 has been prepared in accordance with Corporations Act 2001, Australian Accounting Standards, Australian Accounting Standards AASB134 Interim Financial reporting, Australian Accounting Interpretations, other authoritive pronouncements of the Australian Accounting Standards Board.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report made by Living Cell Technologies Limited during the interim reporting period in accordance with the disclosure requirements of the Corporations Act 2001. The same accounting policies have been followed as those applied in the financial report for the year ended 30 June 2010.

(b) Going concern

The directors have prepared the report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The loss has negatively impacted the consolidated entity's cash balances. Unless further new funds are raised or expenditure curtailed there is material uncertainty which may cast significant doubt on the ability of the consolidated entity to continue as a going concern and pay its debts as and when they fall due and to realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the half year financial report. Whilst the directors acknowledge that there are credit and liquidity risks due to the current economic market, they still consider that there is good reason to believe that additional cash will be sourced by the consolidated entity. Recently directors have received a fundraising proposal from a broker and management are in discussions with other financiers.

Initiatives already taken include:

- Entering into a two year research collaboration with Centocor and granting an option to licence.
- Approval of grant funding of NZD4m over two years.
- Offering an incentive to investment banks to source funding.
- Entering into a private funding facility for AUD5.75m over 18 months (AUD 850,000 received since year end)
- Entering into a binding subscription agreement for AUD1.72m (to be received by March 4 2011)

Planned initiatives include:

- Negotiation with parties to provide additional capital.
- Application for grants to fund clinical trials.
- Other opportunities to increase cash are being actively explored.

After taking into account all available information, the directors have concluded that there are reasonable grounds to believe:

- There will be a cash injection from potential investors and grantors;
- The group will be able to pay its debts as and when they become due and payable; and
- The basis of preparation of the financial report on a going concern basis is appropriate.

Living Cell Technologies Limited

Notes to the Consolidated Financial Statements

For the 6 months to 31 December 2010

2 Expenses from continuing operations

	31 December 2010 $	31 December 2009 $
The following expense items are relevant in explaining the financial performance for the interim period:		
Finance costs		
Interest paid on finance lease	**84**	1,025
Other expenses		
Share based payments	**147,383**	82,004
Depreciation & amortisation of property, plant & equipment	**174,127**	140,268

3 Property, plant and equipment

During the half-year ended 31 December 2010, the group acquired assets with a cost of $48,680 (2009: $143,762)

Living Cell Technologies Limited

Notes to the Consolidated Financial Statements

For the 6 months to 31 December 2010

4 Issued capital

Ordinary shares

	No.	$
Balance as at 1 July 2010	274,266,196	52,430,728
Shares issued during the period	9,523,810	2,000,000
Costs associated with shares issued	-	(142,450)
Options expired	-	34,680
Balance as at 31 December 2010	283,790,006	54,322,958

5 Earnings per share

The following reflects the income and share information used in the calculation of basic and diluted earnings per share:

	31 December 2010	31 December 2009
Earnings used to calculate basic EPS	$ (4,276,463)	$ (3,335,062)
Weighted average number of ordinary shares outstanding during the year - No. used in calculating basic EPS	283,242,061	259,999,665

6 Net asset backing

	31 December 2010	30 June 2010
Net tangible assets per ordinary share (cents per share)	1.49	2.28

7 Segment reporting

The consolidated entity only operates one business segment being the research and development and product development into living cell technologies, predominantly in New Zealand.

8 Contingent liabilities and contingent assets

There were no contingent liabilities or contingent assets at the reporting date.

Living Cell Technologies Limited

Notes to the Consolidated Financial Statements

For the 6 months to 31 December 2010

9 Company details

The registered office of the company is:

Living Cell Technologies Limited
Level 9
20 Hunter Street
Sydney NSW 2001

The principal place of business is:

PO Box 23566
Hunters Corner
Manukau 2155
Auckland, New Zealand

Living Cell Technologies Limited

Directors' Declaration

The directors of Living Cell Technologies limited declare that:

(a) The financial statements and note, as set out on pages 7 to 14 are in accordance with the Corporations Act 2001 including that they:

(i) give a true and fair view of the financial position as at 31 December 2010 and the performance for the half year ended on that date of the consolidated entity; and

(ii) comply with AASB 134 Interim Financial Reporting and the Corporations Regulations 2001

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors, and is signed for and on behalf of the directors;

Dated at Auckland 25th day of February 2011

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Director

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Living Cell Technologies Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of Living Cell Technologies Limited, which comprises the statements of financial position as at 31 December 2010, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises Living Cell Technologies Limited (the company) and the entities it controlled at 31 December 2010 or from time to time during the half-year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Living Cell Technologies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the consolidated entity is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

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

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(b) in the half-year financial report which states that the consolidated entity incurred a net loss of $4,276,463 (2009: loss $3,335,062) during the half year ended 31 December 2010. These losses have had a negative impact on the cash resources of the consolidated entity. This gives rise to a material uncertainty which may cast doubt regarding the ability of the consolidated entity to continue as a going concern and pay their debts as and when they fall due, and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the half-year financial report.

The half-year financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary if the consolidated entity does not continue as a going concern or pay its debts as and when they fall due.

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PKF

Tim Sydenham
Partner

Sydney, 25 February 2011