



Telesso Technologies Limited ABN 96 072 178 977 and Controlled Entities

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2011



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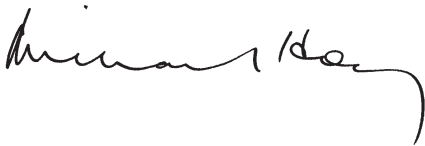
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Chairman's Report

The directors of Teleso have, during the year, continued to focus on the search for suitable business opportunities for the company. The Board continues to believe that the Australian market offers better returns to shareholders and has reviewed a substantial number of opportunities. A number of these have been taken a substantial way down the due diligence pathway. To date the Board is of the belief that none of the opportunities reviewed met the investment criteria that have been set and therefore were not suitable for investment. Further initiatives are currently under review and the company will continue to actively seek and assess opportunities as they arise.

During the period to 31 December 2010, the company's investment in Vascular Pathways Inc (VPI) converted to equity. This was a result of VPI successfully concluding a Series B capital raising whereby USD14million was raised from four U.S. based, premier venture capital firms active in medical technology. Proceeds of the raising which will be received in two tranches, will be used to complete further clinical studies and then to commercialise the technology. Under the terms of Teleso's investment, this has triggered the conversion of the note into equity ranking equal to the other investors in the Series B funding.

The financial results for the year reflect the changing nature of the company and all efforts are being made to minimise costs during this time.



Michael Hoy

Chairman

Dated this 26th day of August 2011

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Directors' Report

Your directors present their report on the company and its controlled entities (referred to as the “group” or “consolidated entity”) for the financial year ended 30 June 2011.

Directors

The names and particulars of the directors of the company who held office during or since the end of the financial year are:

Michael Hoy

*Chairman & Non-executive Director
(62 years of age)*

Qualifications and Experience:

Board member since December 2005. Mr Hoy is a businessman and company director with extensive corporate experience in Australia, the U.K, U.S.A and Asia. He is chairman of Biotron Limited; chairman of Cityprint Holdings Pty Limited; and a former director of John Fairfax Holdings Limited and FX Trust Limited.

Interest in Shares & Options:

192,358 Ordinary Shares in Telesso Technologies Limited held by Umbiram Pty Ltd as trustee for The Michael Hoy Superannuation Fund.

Dr Ross Alexander Macdonald

*Non-executive Director
(53 years of age)*

Qualifications and Experience:

PhD in Biochemistry, Monash University, Graduate Diploma in Business Administration, Swinburne University, Member, Licensing Executives Society Australia & New Zealand. Board member since February 2003. Previously Dr Macdonald has been Vice President, Business Development for Sinclair Pharmaceuticals Ltd, Vice President, Corporate Development for Stiefel Laboratories, Inc, (Coral Gables, FL, now part of GlaxoSmithKline), Vice President of Business Development for Connetics Corporation (Palo Alto, CA), Vice President of Research & Development with F.H. Faulding & Co. Limited (now part of Mayne Group/Hospira Inc) and Managing Director of Soltec Research Pty Ltd.

Interest in Shares & Options:

100,000 Ordinary Shares in Telesso Technologies Limited held by Sharon Anne Macdonald.

Lawrence Gozlan

*Non-executive Director
(32 years of age)*

Qualifications and Experience:

Bachelor of Science (Hons). Board member since April 2007. Mr Gozlan is the founder of Scientia Capital, a specialised global investment fund focusing exclusively on the life sciences. Prior to this, Mr Gozlan was responsible for the largest biotechnology portfolio in Australia as the institutional biotechnology analyst at QIC. He was also the senior biotechnology sell-side analyst in the equities team at Foster Stockbroking and has had senior corporate finance experience advising life science companies at Deloitte. He is also an investment advisor to US investment fund Innovis Investments LLC, and advisor to the Smile Foundation. He has presented at numerous international healthcare conferences and has featured in various published media as an expert in investing in life sciences.

Interest in Shares & Options:

100,000 Ordinary Shares in Telesso Technologies Limited held by Montoya Pty Limited as trustee of the Buttercup Trust.

Dr Doug Mc Taggart

*Non-executive Director
(58 years of age)*

Qualifications and Experience:

Honours Degree in Economics, Australian National University and Masters Degree and PhD from the University of Chicago. Board member appointed 1 November 2007. Councillor on the National Competition Council, a member of COAG Reform Council and a Director of CEDA. He is currently Chief Executive of QIC, a leading institutional investment manager with over \$80 billion in funds under management for a broad range of private and public sector clients. Prior to joining QIC he was the Under Treasurer and Under Secretary of the Queensland Department of Treasury.

Interest in Shares & Options: None

Dr Peter Farrell

Non-executive Director

(69 years of age)

resigned 31 December 2010

Qualifications and Experience:

DSc University of NSW, PhD in Biomedical Engineering, University of Washington, SM in Chemical Engineering, Massachusetts Institute of Technology, Bachelor of Engineering(Hons) University of Sydney. Board member appointed 1 May 2008. Fellow of the Australian Academy of Technological Sciences and Engineering, the Institution of Engineers of Australia, Australian Institute of Management and the Australian Institute of Company Directors. Dr Farrell has been the recipient of many awards among which are the Order of Australia in 2004 and National Entrepreneur of the Year for Health Sciences of America in 2005. He is the founder and Executive Chairman of Resmed Inc.

Interest in Shares & Options: None

Directorships of other listed companies

Directorships of other listed companies held by current directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
M Hoy	Biotron Limited	Since February 2000

Company Secretary

Ian Atkin:

52 years of age

Qualifications:

Bachelor of Business, University of Technology. Chartered Accountant

Experience:

Principal, Altus Financial.

Principal Activities

The consolidated entity's principal activities during the course of the financial year were the ongoing review of new business opportunities.

Operating Results

The consolidated loss of the consolidated entity amounted to \$583,349 (2010: \$1,082,212). No income tax is payable for the year.

Dividends Paid or Recommended

No dividends have been paid or are payable in respect of the financial year.

Review of Operations

The directors of Teleso have, during the year, continued to focus on the search for suitable business opportunities for the company. The board continues to believe that the Australian market offers better returns to shareholders and has reviewed a substantial number of opportunities, taking some a great way down the due diligence pathway. To date the board is of the belief that none of the opportunities reviewed meet the investment criteria that has been set and therefore are not suitable for investment. The company will continue to assess opportunities as they arise.

During the period to 31 December 2010, the company's investment in Vascular Pathways Inc (VPI) converted to equity. This was a result of VPI successfully concluding a Series B capital raising whereby USD14million was raised from four U.S. based, premier venture capital firms active in medical technology. Proceeds of the raising which will be received in two tranches, will be used to complete further clinical studies and then to commercialise the technology. Under the terms of Teleso's investment, this has triggered the conversion of the note into equity ranking equal to the other investors in the Series B funding.

Even though the directors believe that the clinical trials will be successful, they acknowledge

that there is still significant uncertainty that the carrying value capitalised at year end will ultimately be recoverable and for this reason have, in accordance with Accounting Standards made allowance for the impairment of the asset.

Significant Changes in State of Affairs

There have been no significant changes in the state of affairs of the group during the year.

Subsequent events

There have not been any matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

Future Developments

The likely developments in the operations of the group and the expected results of those operations in future financial years are as follows:

- The group will continue to vigorously pursue opportunities such that the outcome of any such transaction will create value, generate revenue, and enable the group to raise capital required in the future.
- The group is expected to continue to operate at a loss for the forthcoming year.

Environmental Issues

There are no environmental issues.

Options

During the current year there were no options issued to executives or staff.

Share options on issue at year end

At 30 June 2011, there were no (30 June 2010: nil) unissued ordinary shares for which options were outstanding.

No options have been issued since the end of the financial year.

Remuneration report (Audited)

Remuneration policy for directors and other key management personnel

The Company's policy for determining the nature and amount of emoluments of Board members and Senior Executives of the Company is as follows:

Directors' emoluments are periodically reviewed and changes, if any, are submitted to the shareholders for approval. Amounts paid to Directors and their related companies for consultancy services are based upon commercial rates having regard to the nature of the services provided. All such payments require the approval of the Board.

During the year, the remuneration of Non-Executive Directors was not performance based, the remuneration having been determined in accordance with resolutions passed at previous annual general meetings.

During the year, the remuneration of executives has been by way of salary, fees and in certain circumstances bonuses determined in accordance with employment contracts. Other than as disclosed, there have been no other payments of a bonus either by way of cash or options dependent upon the achievement of personal milestones.

Remuneration report (Audited) cont

The following table summarises the revenue and net loss of the business over the past 5 years against the share price.

	30 June				
	2011	2010	2009	2008	2007
Revenue \$	114,053	140,783	720,646	923,098	381,671
Net Loss \$	(583,349)	(1,082,212)	(1,777,323)	(1,124,703)	(1,214,156)
Share Price (Cents)	2.0	1.0	3.2	7.0	1.8

The above analysis reflects the continuing difficulty that the company experiences since changing its focus away from the SCF business and the search for new opportunities for the company. Shareholder wealth has declined during the year however, the Board continues to take steps to ensure that the interests of the staff and executives are closely aligned with the interests of shareholders. The Board continues to follow an active program attempting to identify other areas in which the value of the company's technology can be leveraged and an active program of seeking new business opportunities for the company.

The Board collectively reviews the remuneration packages and any changes in the packages of all specified directors and specified executives. Remuneration packages are determined with due regard given to current market rates and comparable industry salaries.

Directors and other key management personnel details

The specified directors of Teleso Technologies Limited during the year were:

- Michael Hoy (Non-executive Chairman)
- Ross Macdonald (Non-executive)
- Lawrence Gozlan (Non-executive)
- Douglas McTaggart (Non-executive)
- Peter Farrell (Non-executive) resigned 31 December 2010

The other key management personnel of Teleso Technologies Limited during the year were:

- Ian Atkin (Company Secretary and Chief Financial Executive)

Elements of director and other key management personnel remuneration

- Remuneration packages contain the following key elements:
 - a) Short-term benefits – salary/fees, bonuses and non-monetary benefits including the provision of motor vehicles and other benefits
 - b) Post-employment benefits – including superannuation and prescribed benefits
 - c) Share-based payments – shares and share options granted as disclosed in the notes to the financial statements; and
 - d) Other benefits

Remuneration report (Audited) cont

Directors' remuneration

The following table discloses the remuneration of the directors of the company:

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
2011	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
R. Macdonald	50,000	-	-	-	4,500	-	-	-	-	54,500
M. Hoy	75,000	-	-	-	6,750	-	-	-	-	81,750
L. Gozlan	50,000	-	-	-	4,500	-	-	-	-	54,500
D. McTaggart	50,000	-	-	-	-	-	-	-	-	50,000
P. Farrell	25,000	-	-	-	-	-	-	-	-	25,000
Total	250,000	-	-	-	15,750	-	-	-	-	265,750

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
2010	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
R. Macdonald	50,000	-	-	-	4,500	-	-	-	-	54,500
M. Hoy	75,000	-	-	-	6,750	-	-	-	-	81,750
L. Gozlan	50,000	-	-	-	4,500	-	-	-	-	54,500
D. McTaggart	50,000	-	-	-	-	-	-	-	-	50,000
P. Farrell	50,000	-	-	-	-	-	-	-	-	50,000
N. Stacks	122,224	-	-	-	-	-	6,050	(28,557)	-	99,717
Total	397,224	-	-	-	15,750	-	6,050	(28,557)	-	390,467

Other Key Management Personnel remuneration

The following discloses the remuneration of the Other Key Management Personnel of the company and the consolidated entity:

Contracts for services

- Ian Atkin
 - Commenced employment on 7 November 2005
 - Term of Employment: Ongoing fees are paid to Altus Financial Pty Ltd (formerly Kidmans Chartered Accountants) for the provision of the services of I. Atkin for one day per week or as required. During the year fees totalling \$91,332 (2010: \$90,620) were paid to Kidmans Chartered Accountants or Altus Financial Pty Ltd for the services of I. Atkin in his capacity as Company Secretary and Chief Financial Officer.
 - Base salary \$1,500 per day

Remuneration report (Audited) cont

Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year

	Options granted	Options exercised	Options lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
2011	\$	\$	\$	\$	\$	%
N/A	-	-	-	-	-	-
	-	-	-	-	-	-
2010	\$	\$	\$	\$	\$	%
N. Stacks	28,547	-	(28,547)	(28,547)	(28,547)	-
	28,547	-	(28,547)	(28,547)	(28,547)	-

(1) The total value of options vested, granted, exercised, and lapsed is calculated based on the following:

- Fair value of the option at grant date multiplied by the number of options granted during the year; plus
- Fair value of the option at the time it is exercised multiplied by the number of options exercised during the year; plus
- Fair value of the option at the time of lapse multiplied by the number of options lapsed during the year.

(2) No executive options were cancelled during the year.

(3) The value of any options included in remuneration for the year is calculated in accordance with Accounting Standard AASB 2 "Share-based Payment". This requires the following:

- The value of options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date. Where the options immediately vest the full value of the option is recognised in remuneration in the current year.

Meetings of Directors

The following table sets out the number of directors' meetings held during the financial year and the number attended by each. During the year, 6 Board meetings were held at which time any matters requiring Audit Committee attention were dealt with. No separate Audit Committee meetings were held.

Board of Directors	Held	Attended
Michael Hoy	6	6
Ross Macdonald	6	6
Lawrence Gozlan	6	6
Doug McTaggart	6	3
Peter Farrell	3	1

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Indemnifying Directors and Officers

During the year the company has paid premiums to indemnify directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of premiums paid was \$27,725.

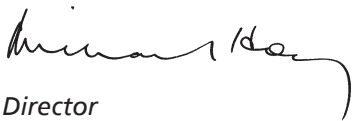
Non-Audit Services

No amounts were paid or payable to the auditor for non-audit services provided during the year by the auditor or another person or firm on behalf of the auditor. Fees were paid to HLB Mann Judd (VIC) Pty Limited, a company associated with a firm considered to be a network firm of the HLB Mann Judd (NSW Partnership) amounting to \$17,767 for tax compliance services. The provision of these services is compatible with the general standard of independence for auditors.

Auditor's Independence declaration

The independence declaration given to the company by the lead auditor for the audit undertaken by HLB Mann Judd (NSW Partnership) is included on page 16 of the financial report.

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



Director
Michael Hoy

Dated this 26th day of August 2011

Corporate Governance Statement

The board of Telesso Technologies Limited (**Company**) is committed to maintaining the highest ethical standards and best practice in the area of corporate governance within the framework of the Australian Securities Exchange Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (**ASX Guidelines**) to ensure that the Company's business is conducted in the best interests of all stakeholders. Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2011.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the Directors' Report.

The names of independent directors of the Company are:

- Mr Michael Hoy, Non-executive Director and Chairman, appointed December 2005
- Dr Ross Macdonald, Non-executive Director, appointed February 2003
- Dr Peter Farrell, Non-executive Director appointed May 2008
(*resigned 31 December 2011*)

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of Company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- none of the directors' income or the income of an individual or entity directly or indirectly associated with the director is

derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expense. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Company.

The board has not established a separate Nomination Committee. A Nomination Committee has not been established because the full board has taken responsibility for establishing criteria for board membership, reviewing board membership and identifying and nominating directors.

Ethical Standards

The board acknowledges and emphasises the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

Code of Conduct

A code of conduct has been established requiring directors and employees to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of office;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with the law;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading policy.

Directors are obliged to be independent in judgment and ensure all reasonable steps are taken to ensure due care is taken by the board in making sound decisions.

Diversity

Given the size of the Company, the size of the board and the activities of the Company, the board does not consider it practical to adopt a diversity policy at this time.

The Company comprises only the board and the chief financial executive. At this stage women are not represented on the board of the Company.

Trading Policy

The Company's policy regarding directors and employees trading in its securities, is set by the board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities price.

Audit Committee

During the year, because of the changing nature of the Company, the board made a decision not to maintain a separate Audit Committee. Instead, each director has taken an interest in the matters normally considered by a separate committee and these matters are discussed at the regular board meetings.

In addition the board has implemented a management financial reporting requirement and the Board requires the provision of written assurances in respect of the accuracy and compliance of Company finance reports by the chief financial executive as part of the management sign-off process for the half-year and full year Company financial statements. The board has received the assurance of the chief financial executive that the declaration provided in accordance with section 295A of the Corporations Act, prior to approving the financial statement in this reporting period, is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects, in relation to financial reporting risks,

Performance Evaluation

A separate independent evaluation of performance of the board was not conducted during the year.

Due to the Company's size, the board does not consider it necessary to establish a process for evaluating the performance of senior executives. A performance evaluation of the chief executive officer was not completed during the reporting period.

Board Roles and Responsibilities

The board is first and foremost accountable to provide value to its shareholders through delivery of timely and balanced disclosures.

The board strives to ensure its composition includes an appropriate mix of expertise and experience relevant to the Company's business activities conducive to making expedient decisions in the best interests of the Company. The relevant skills, experience and expertise of each board member are included in the Directors' Report.

At every Annual General Meeting (**AGM**) one third of the board of directors retires and may seek re-election to the board. New directors appointed by the board must stand for election at the Company's next AGM following their appointment.

The board recognises the importance of each director bringing independent judgement to bear in the board decision making process. Accordingly, all directors have access to independent professional advice at the Company's expense with the approval of the chair. Directors are also indemnified under the Company's constitution, and in accordance with deeds of indemnity and insurance subject to limitations imposed by the *Corporations Act 2001*.

Shareholder Rights and Communication

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual financial statements. Shareholders are strongly encouraged to attend and participate in the AGM of the Company to lodge questions to be responded by the board and/or the CEO, and are able to appoint proxies.

Due to the Company's size and the nature of the Company's activities, the board does not consider it necessary to establish a formal communications policy.

Risk Management

The risks associated with the Company's business are wide ranging and include the following:

- Reliance on key personnel
- Economic Conditions of North America and Western Europe
- Technology development
- Complexity and cost of technology transfer
- Increased competition
- Timeframes to produce revenues
- Litigation by generic manufacturers
- Regulatory approvals overseas
- Technology intellectual property rights
- Market acceptance
- Additional capital requirements
- Managing future growth
- Reliance on research and development team
- International markets

Shareholder value analysis is considered by the board to be integral to the management of the Company's business and its related risks, with the

objective of maximising shareholder returns over time.

The consideration and approval by the board each year of the Company's strategy and financial budgets involve identification of significant risks and the implementation of appropriate strategies to deal with them.

The board believes the risk management and internal control systems designed and implemented by the board and chief financial executive are adequate given the size and nature of the Company's activities. The board informally reviews the risk management and internal control system. Management has not reported to the board as to the effectiveness of the Company's management of its material business risks. Given the nature and size of the Company and the board's ultimate responsibility to manage the risks of the Company, reports from management are not considered critical.

The board receives bi-monthly detailed reports and briefings by management on the Company's financial performance and business development activities.

Remuneration Policies

During the year a separate Remuneration Committee was not maintained. The board did not consider the Company to be of a size to justify the formation of a Remuneration Committee. Further, the nature and extent of the Company's requirements in relation to remuneration issues did not warrant a Remuneration Committee. Instead the board as a whole is responsible for the remuneration review of the management team, and they will in turn be responsible for the management of all other remuneration.

The remuneration policy, which sets the terms and conditions for the key management personnel, was developed by the board. It provides for executives to receive a base salary, superannuation, fringe benefits, performance incentives and retirement benefits. The remuneration policy also provides

for the board to review executive packages annually by reference to Company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of executives is measured against agreed criteria, which is based on the forecast growth of the Company's profits and shareholders value. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

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

The amount of remuneration for all key management personnel for the Company, including all monetary and non-monetary components, is detailed in the Directors' Report under the heading key management personnel compensation. Remuneration paid to executives is valued at the cost to the Company and expensed. Shares given to executives are valued as the difference between the market price of those shares and the amount paid by the executive. Options are valued using the Black-Scholes methodology.

The board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best executives to run the consolidated group. It will also provide executives with the necessary incentives to work to grow long-term shareholder value.

The payment of bonuses, options and other incentive payments are reviewed by the board annually as part of the review of executive remuneration. All bonuses, options and incentives must be linked to predetermined performance criteria. The board can exercise its discretion in relation to approving incentives, bonuses and options.

There is no scheme for retirement benefits, other than superannuation, for non-executive directors.

Auditor's Independence Declaration



Accountants | Business and Financial Advisers

To the Directors of Teleso Technologies Limited:

As lead auditor for the audit of Teleso Technologies Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor's 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.

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

A handwritten signature in black ink, appearing to read 'A G Smith'.

A G Smith

Partner

Sydney

26th August 2011

Independence Auditor's Report



Accountants | Business and Financial Advisers

To the members of Telesso Technologies Limited:

Report on the Financial Report

We have audited the accompanying financial report of Telesso Technologies Limited ("the company"), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration for the consolidated entity as set out on pages 19 to 40. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Teleso Technologies Limited on 26th August 2011, would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

- (a) the financial report of Teleso Technologies Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

HLB MANN JUDD

Chartered Accountants

- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2011. 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

In our opinion the Remuneration Report of Teleso Technologies Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

A G Smith

Partner

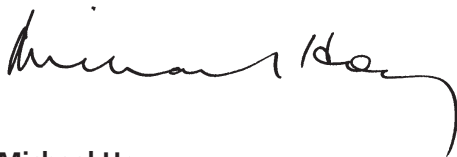
Sydney, 27 August 2010

Directors Declaration

for The Year Ended 30 June 2011

1. In the directors' opinion:
 - (a) the financial statements and notes set out on pages 20 to 40 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
 - (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.
2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.
3. The directors have been given the declarations by the chief executive officer and chief financial officer for the year ended 30 June 2011 required by section 295A of the *Corporations Act 2001*.

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



Michael Hoy

Director

Dated this 26th day of August, 2011

Consolidated Statement of Comprehensive Income

for The Year Ended 30 June 2011

	Note	Consolidated Entity	
		2011	2010
		\$	\$
Revenues from continuing operations	2	114,053	140,783
Corporate and administration expense		(697,402)	(837,678)
Impairment loss/transaction cost on convertible note		-	(385,317)
Loss from continuing operations before income tax expense	3	(583,349)	(1,082,212)
Income tax benefit relating to continuing operations	4	-	-
Loss for the year		(583,349)	(1,082,212)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	16	(583,349)	(1,082,212)
Basic earnings (loss) per share (cents per share)	7	(0.97)	(1.80)
Diluted earnings (loss) per share (cents per share)	7	(0.97)	(1.79)

Consolidated Balance Sheet

as at 30 June 2011

	Note	Consolidated Entity	
		2011	2010
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	8	2,027,570	2,535,037
Trade and other receivables	9	16,826	21,894
Other assets	12	25,415	25,581
TOTAL CURRENT ASSETS		2,069,811	2,582,512
NON-CURRENT ASSETS			
Available for sale financial assets	10	-	-
TOTAL NON-CURRENT ASSETS		-	-
TOTAL ASSETS		2,069,811	2,582,512
CURRENT LIABILITIES			
Trade and other payables	13	172,011	101,363
TOTAL CURRENT LIABILITIES		172,011	101,363
TOTAL LIABILITIES		172,011	101,363
NET ASSETS		1,897,800	2,481,149
EQUITY			
Contributed equity	14	39,783,748	39,783,748
Reserves	15	-	-
Accumulated losses	16	(37,885,948)	(37,302,599)
TOTAL EQUITY		1,897,800	2,481,149

Consolidated Statement of Cashflows

for The Year Ended 30 June 2011

	Note	Consolidated Entity	
		2011	2010
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		-	230,256
Payments to suppliers and employees (inclusive of GST)		(621,520)	(1,016,460)
Interest received		114,053	119,777
Net cash provided by (used in) operating activities	18(a)	(507,467)	(666,427)
Net increase (decrease) in cash held		(507,467)	(666,427)
Cash at the beginning of the financial year		2,535,037	3,201,464
Cash at the end of the financial year	8	2,027,570	2,535,037

Consolidated Statement of Changes in Equity

for The Year Ended 30 June 2011

	Note	Consolidated Entity	
		2011	2010
		\$	\$
Total comprehensive loss for the year		(583,349)	(1,082,212)
Transactions with shareholders in their capacity as shareholders:			
Options issued(cancelled), not yet vested	15	-	(28,559)
Total transactions with shareholders in their capacity as shareholders		-	(28,559)
Net decrease in equity for the period		(583,349)	(1,110,771)
Equity at the beginning of the period		2,481,149	3,591,920
Equity at the end of the period		1,897,800	2,481,149

Notes to The Financial Statements

for The Year Ended 30 June 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are general purpose financial statements that have been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial statements cover Telesso Technologies Limited and controlled entities as a consolidated entity.

The financial statements of Telesso Technologies Limited and controlled entities also comply with *International Financial Reporting Standards (IFRS)* as issued by the International Accounting Standards Board (IASB).

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

Basis of Preparation

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

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs, as modified by the revaluation of available for sale financial assets.

Critical accounting estimates

The preparation of the financial statements requires the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumption and estimates are significant to the financial statements are disclosed in note 10.

(a) Principles of Consolidation

A controlled entity is any entity controlled by Telesso Technologies Limited. Control exists where Telesso Technologies Limited has the power to govern the financial operating policies of another entity so as to obtain benefits from its activities. Details of the controlled entities are contained in Note 11.

All inter company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has entered or left the consolidated entity during the year its operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and

taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of transaction did not affect either accounting profit or taxable profit or loss.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investment in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Telesso Technologies Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Telesso Technologies Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured using the separate taxpayer within group method.

In addition to its own current and deferred tax amounts, Telesso Technologies Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

(c) Foreign Currency Transactions and Balances

- i. Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Telesso Technologies Limited's functional and presentation currency.
- ii. Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year end

Notes To The Financial Statements for The Year Ended 30 June 2011

exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(d) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

(e) Cash

For the purpose of the of the statement of cash flows, cash includes cash on hand and at call deposits with banks.

(f) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable

from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

(h) Available for sale financial assets

Available for sale financial assets consists of a "convertible promissory note" (note 10). Investments are initially recognised at fair value (estimated by the directors to be cost) plus transaction costs, and are subsequently measured at cost, as the Directors have assessed this as the fair value of this asset at balance date. The group assesses at each balance date whether there is any objective evidence that a financial asset is impaired (note 1(i)). If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is recognised in profit or loss.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for

possible reversal of the impairment at each reporting date.

(j) Trade receivables

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (allowance for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses.

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid.

The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Share-based payments

Share-based compensation benefits were provided to certain employees in prior years.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

(m) Earnings per share

1. Basic earnings per share

Basic earnings per share is calculated by dividing:

Notes To The Financial Statements for The Year Ended 30 June 2011

- the profit attributable to equity holders of the company
- by the weighted average number of ordinary shares outstanding during the financial year.

2. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(n) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 periods. The Group's assessment of the impact of these new standards and interpretations (to the extent relevant to the Group) is set out below.

- (i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for

trading. The amendment is not expected to have any impact on the Group's financial statements. The Group has not yet decided when to adopt AASB 9.

- (ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

- (iii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

(iv) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recover of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. There will be no impact on the Group's financial statements.

*Notes To The Financial Statements
for The Year Ended 30 June 2011*

	Consolidated Entity	
	2011	2010
	\$	\$
NOTE 2: REVENUE FROM CONTINUING OPERATIONS		
Interest revenue	114,053	140,783
	114,053	140,783
NOTE 3: LOSS FROM CONTINUING OPERATIONS		
Loss from continuing operations before income tax benefit has been determined after:		
a. Expenses		
Employee Benefits	-	99,717
Rental expenses on operating leases		
b. Other Income and Foreign Exchange Losses		
Foreign currency gains/(losses)	(99,078)	(45,786)

*Notes To The Financial Statements
for The Year Ended 30 June 2011*

	Consolidated Entity	
	2011	2010
	\$	\$
NOTE 4: INCOME TAX EXPENSE		
a) The prima facie income tax on the loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie tax payable/(recoverable) on profit/(loss)		
before income tax at 30% (2010:30%)	(175,005)	(324,664)
Add tax effect of:		
- Non-allowable items – impairment losses	-	115,595
- Non-assessable income	-	-
- Losses utilised by group companies	-	-
Tax losses not recognised	175,005	209,069
Income tax (benefit)/expense attributable to loss	-	-
b) Unused tax losses for which deferred tax assets have not been brought to account at balance date:		
Tax Losses –revenue	21,731,011	21,031,026
Tax losses – capital	3,408,863	3,408,863
	<u>25,139,874</u>	<u>24,439,889</u>
Value of tax losses at 30% - revenue	6,519,303	6,309,308
Value of tax losses at 30%- capital	1,022,659	1,022,659
	<u>7,541,962</u>	<u>7,331,967</u>

The benefit will only be obtained if:

- future assessable income is derived of a nature and an amount sufficient to enable the benefits from the deduction for the losses to be realised;
- the conditions for the deductibility imposed by the law, including the “same business test”, continue to be complied with; and
- no changes in income tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

Notes To The Financial Statements for The Year Ended 30 June 2011

Tax Consolidation

The company and all its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and is therefore taxed as a single entity from that date under Australian taxation law. Teleso Technologies Limited is the head entity of the tax-consolidated group. Income tax expense/benefit, deferred tax liabilities and deferred tax assets are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate payer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits to the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of significant losses within the group entities within the tax-consolidated group have not yet entered into a tax sharing agreement as payment of taxation is currently considered remote.

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS

The directors of Teleso Technologies Limited during the year were:

- Michael Hoy (Non-executive Chairman)
- Ross Macdonald (Non-executive)
- Lawrence Gozlan (Non-executive)
- Douglas Mc Taggart (Non-executive)
- Peter Farrell (Non-executive) resigned 31 December 2010

The other key management personnel of Teleso Technologies Limited during the year were:

- Ian Atkin (Company Secretary and Chief Financial Executive)

Other Key Management Personnel

The Board collectively reviews the remuneration packages of all specified directors and specified executives on an annual basis. Remuneration packages are reviewed and determined with due regard to current market rates. Remuneration is linked to the entity's performance through the issue of employee options and performance bonuses.

The emoluments of the Directors and Other Key Management Personnel of the parent entity and of the consolidated entity are as follows:

Specified directors' remuneration

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2011	250,000	-	-	-	15,750	-	-	-	-	265,750
2010	397,224	-	-	-	15,750	-	6,050	(28,557)	-	390,467

Notes To The Financial Statements
for The Year Ended 30 June 2011

Other Key Management Personnel remuneration

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2011	91,332	-	-	-	-	-	-	-	-	91,332
2010	90,620	-	-	-	-	-	-	-	-	90,620

Detailed remuneration disclosures are provided in the remuneration report on pages 7 to 10.

Note that remuneration paid to key management personnel includes fees paid to Altus Financial Pty Ltd (formerly Kidmans Chartered Accountants), of which Ian Atkin is a director. Fees paid are for the services of Ian Atkin in his capacity as Company Secretary and Chief Financial Officer.

	Consolidated Entity	
	2010	2009
	\$	\$
NOTE 6: AUDITOR'S REMUNERATION		
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial report	43,715	51,237
	43,715	51,237
NOTE 7: EARNINGS PER SHARE		
(a) Reconciliation of earnings to net profit or loss Loss used in the calculation of basic and diluted EPS	583,349	1,082,212
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	60,155,165	60,155,165
Weighted average number of options	-	419,505
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	60,155,165	60,574,670
NOTE 8: CASH AND CASH EQUIVALENTS		
Cash at bank	227,570	385,037
Deposits at call	1,800,000	2,150,000
	2,027,570	2,535,037
As at 30 June interest rates received on cash assets ranged from 0.00% to 5.65% (2010: 0.00% to 5.30%).		

Notes To The Financial Statements
for The Year Ended 30 June 2011

	Consolidated Entity	
	2010	2009
	\$	\$
NOTE 9: TRADE AND OTHER RECEIVABLES		
CURRENT		
Other debtors	16,826	21,894
	16,826	21,894
NOTE 10: AVAILABLE FOR SALE FINANCIAL ASSETS		
NON-CURRENT		
Convertible promissory note – unsecured - cost	-	350,100
Interest Receivable	-	35,217
Shares – Vascular Pathways Inc (convertible promissory note converted to shares)	328,863	-
	328,863	385,317
Less: Allowance for impairment	(328,863)	(385,317)
	-	-

During the year ended 30 June 2009, the consolidated entity entered into a strategic agreement with Vascular Pathways Inc. (“VPI”), a Delaware company based in California, to fund a multi-centre clinical trial of VPI’s guidewire device.

Under the terms of the Note Purchase Agreement, the consolidated entity funded US\$300,000 by way of a “convertible promissory note” (the convertible note). The convertible note was issued on 4 December 2008.

During the year ended 30 June 2010, the consolidated entity and VPI agreed to amend the terms of the Note Purchase Agreement and the convertible note. Under the terms of the Note Purchase Agreement, the convertible note and the amendments, the key terms of the convertible note were as follows:

- (i) the maturity date of the convertible note is 30 April 2011;

- (ii) interest on the convertible note accrues at 6% per annum;
- (iii) in the event that VPI consummates a sale of preferred equity securities prior to 30 April 2011, and this results in gross proceeds of at least US\$1,000,000, the outstanding balance of the convertible note (including any unpaid interest) will automatically convert into fully paid and non-assessable shares of the most senior class and series of capital stock of VPI, based upon the lowest price per share for such securities paid by the entity purchasing the preferred equity securities;
- (iv) in the event that VPI is sold prior to the conversion of the convertible note or 30 April 2011, the outstanding balance of the convertible note (including any unpaid interest) will automatically convert into fully paid and non-assessable shares of senior stock, based upon the lesser of the most

Notes To The Financial Statements for The Year Ended 30 June 2011

recent price per share of such senior stock, or the fair value per share of such senior stock (as determined by the board of directors of VPI in good faith);

- (v) if the note has not been converted under (iii) or (iv) above, the consolidated entity will have the option, prior to 30 April 2011, of converting the outstanding balance of the convertible note (including any unpaid interest) into fully paid shares of the most senior class and series of shares of VPI's capital stock, based upon the lesser of the most recent price per share of such senior stock, or the fair value per share of such senior stock (as determined by the board of directors of VPI in good faith);
- (vi) in the event that VPI raises a bridge or other debt financing prior to the conversion of the convertible note or 30 April 2011, the consolidated entity will have the option of converting the then outstanding balance on the convertible note into such debt financing on the same terms and conditions granted to other lenders in such debt financing;
- (vii) if the note has not previously been converted, all unpaid principal and unpaid accrued unpaid interest shall be due and payable in cash upon the occurrence of an Event of Default (as defined in the Note Purchase Agreement).

During the year ended 30 June 2011, VPI undertook a capital raising where approximately USD 14.0 million was raised by issuing Series B Preferred Stock to investors at a purchase price of USD 0.91 per unit. It is anticipated that proceeds of the raising, which will be received in two tranches, will be used to complete further clinical studies and then to commercialise the technology.

Under the terms of Telesso Technology Limited's convertible note, this has triggered the

conversion of the convertible note into Series B Preferred Stock. Telesso Technologies Limited received 367,279 Series B Preferred Stock, valued at USD 0.91 per share, representing less than 3% of the total Preferred Stock on issue.

Telesso Technologies Limited did not participate in the capital raising and did not contribute any further funding to VPI during the year ended 30 June 2011.

At 30 June 2010, the directors acknowledged that there was significant uncertainty that the \$385,317 of convertible notes capitalised would ultimately be recoverable, and hence made allowance for the full impairment of the asset.

As mentioned previously, during the year ended 30 June 2011, the convertible note has converted into Series B Preference Stock. The directors have assessed that as:

- the clinical trial has not yet been completed and it is not known whether or not it will be successful; and
- there is the possibility that the eventual outcomes will be different to those that are expected,

there is still significant uncertainty that the carrying value of the investment in VPI at 30 June 2011 will be recoverable. Accordingly, the directors have resolved that the investment should be continue to be valued at \$nil as at 30 June 2011. The directors will review the outcome of the clinical trial on an ongoing basis and will assess whether the carrying value of the investment in the Preferred Stock of VPI should be amended in future periods.

Notes To The Financial Statements
for The Year Ended 30 June 2011

NOTE 11: CONTROLLED ENTITIES			
(a) Controlled Entities	Country of Incorporation	Percentage	Owned
		2011	2010
Teleso Technologies Limited	Australia	%	%
Subsidiary companies	Australia		
- Eiffel Research & Development Pty Ltd	Australia	100	100
- Pharmaceutical Technologies Pty Ltd	Australia	100	100
- Bellara Medical Products Limited	Australia	-	100
- Catsell Pty Limited	Australia	-	100
- Phytochemica Pty Limited	Australia	-	100
- A.C.N. 005 648 966 Pty Limited	Australia	-	100
- A.C.N. 003 330 587 Pty Limited	Australia	-	100
- Glyzinc Pharmaceuticals Limited	Australia	-	100
- VPI Inc	USA	-	90

During the year ended 30 June 2011, in order to rationalise the group those entities that no longer traded and had no assets were deregistered.

	Consolidated Entity	
	2011	2010
	\$	\$
NOTE 12: OTHER ASSETS		
CURRENT	25,415	25,581
Pre-paid insurance	25,415	25,581
NOTE 13: TRADE AND OTHER PAYABLES		
CURRENT		
<i>Unsecured liabilities</i>	98,585	23,007
Trade creditors	73,426	78,356
Sundry creditors and accrued expenses	172,201	101,363

	Consolidated and Parent Entity			
	2011	2010	2011	2010
	No	No	\$	\$
NOTE 14: CONTRIBUTED EQUITY				
Fully Paid Ordinary Shares	60,155,165	60,155,165	39,783,748	39,783,748
(a) Movements in Ordinary Shares				
At the beginning of the financial year	60,155,165	60,155,165	39,783,748	39,783,748
Balance at the end of the financial year	60,155,165	60,155,165	39,783,748	39,783,748

*Notes To The Financial Statements
for The Year Ended 30 June 2011*

(b) Options

There were no options issued during the year and at 30 June 2011 there were no unissued ordinary shares for which options were outstanding (30 June 2010: nil).

	Consolidated Entity	
	2011	2010
	\$	\$

	Consolidated Entity	
	2011	2010
	\$	\$
NOTE 15: RESERVES		
Equity settled benefits reserve		
Opening balance	-	46,723
Expense recognised on options issued to executives - the options expenses has been determined using a Black Scholes valuation model	-	
Transfer to statement of comprehensive income on cancellation of options not vested	-	(28,559)
Transfer to retained profits on cancellation of share options	-	(18,164)
Closing balance	-	-

The equity settled benefits reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

	Consolidated Entity	
	2011	2010
	\$	\$
NOTE 16: ACCUMULATED LOSSES		
Accumulated losses at the beginning of the financial year	(37,302,599)	(36,238,551)
Transfer from reserve on cancellation of share options	-	18,164
Net loss attributable to the members of the parent entity	(583,349)	(1,082,212)
Accumulated losses at the end of the financial year	(37,885,948)	(37,302,599)
NOTE 17: SEGMENT REPORTING		
The consolidated entity operates in the one business segment i.e biotechnology research and development.		

*Notes To The Financial Statements
for The Year Ended 30 June 2011*

	Consolidated Entity	
	2011	2010
	\$	\$
NOTE 18: CASH FLOW INFORMATION		
(a) Reconciliation of cash flow from operations with loss from ordinary activities before income tax benefit	(583,349)	(1,082,212)
Loss from ordinary activities before income tax benefit		
Cash flows excluded from profit from ordinary activities attributable to operating activities		
Non-cash flows in profit from ordinary activities		
Foreign exchange loss	-	45,786
Interest on convertible note	-	(21,007)
Impairment loss	-	385,317
Share-based payment - options	-	(28,559)
(Increase)/decrease in assets:		
Current receivables	5,068	264,536
Other assets	166	544
Increase / (decrease) in liabilities:		
Trade creditors and accruals	70,648	(230,832)
Cash flow used in operations	(507,467)	(666,427)
(b) Credit Standby Arrangements with Banks		
The Company and the consolidated entity do not have any finance or loan facilities.		

NOTE 19: EVENTS SUBSEQUENT TO REPORTING DATE

There have not been any matters or circumstances other than any matter that is referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Notes To The Financial Statements
for The Year Ended 30 June 2011

	Consolidated Entity	
	2011	2010
	\$	\$
NOTE 20: RELATED PARTY TRANSACTIONS		
Share and Options Transactions of Directors Directors and Director-related entities hold directly, indirectly or beneficially as at reporting date the following equity interests in members of the consolidated entity:		
Telesso Technologies Limited		
- ordinary shares		
M Hoy	192,358	192,358
L Gozlan	100,000	100,000
R Macdonald	100,000	100,000
	392,358	392,358

	Parent Entity	
	2011	2010
	\$	\$
NOTE 21: PARENT ENTITY FINANCIAL INFORMATION		
Current Assets	2,069,812	2,141,034
Total Assets	2,069,812	2,141,034
Current Liabilities	172,014	99,055
Total Liabilities	172,014	99,055
Shareholders Equity - Issued Capital	39,783,748	39,783,748
- Accumulated Losses	(37,885,950)	(37,741,770)
Profit/(Loss) for the year	(144,180)	(1,156,611)

The parent entity has not entered into any guarantees on behalf of its subsidiaries, has no contingent liabilities and has no capital commitments.

Notes To The Financial Statements for The Year Ended 30 June 2011

NOTE 22: FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks: market risk (including interest rate risk and exchange risk). The group's overall risk management programs to minimise potential adverse affects on the financial performance of the group are performed on an ongoing basis by the Board of Directors and Senior Management.

(a) Market Risk

The significant market risks that the consolidated entity is exposed to are interest rate risk on cash and cash equivalents and exchange rate risk in relation to the shares held in Vascular Pathways Inc.

(b) Interest Rate Risk

The consolidated entity's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

Sensitivity

At reporting date if interest rates had been 25 basis points higher/lower and other variables were held constant, then the impact on the group result for the year ended 30 June 2011 would have been an increase/decrease of \$5,680 in the Consolidated Entity.

(c) Exchange Rate Risk

The consolidated entity's exposure to exchange rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in exchange rates. The group's exposure to exchange rate risk at year end is in relation to the investment in Vascular Pathways Inc at year end (Note 10).

Sensitivity

At reporting date if exchange rates had been 25 points higher/lower and other variables were held constant, then there would be no impact on the group result for the year ended 30 June 2010.

(d) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date for recognised financial assets is the carrying amount, net of any allowance for doubtful debts, of those assets in the balance sheet.

The fair value of financial assets approximates their fair value after allowances for impairment.

(e) Liquidity Risk

The directors ensure that Teleso is in a position where it can pay its debts as and when they become due and payable.

NOTE 23: COMPANY DETAILS

Teleso Technologies Limited is a listed public company, incorporated and operating in Australia.

Registered Office and principal place of business

C/- Altus Financial

Lvl 12,10 Spring Street

Sydney, New South Wales, 2000

Stock Exchange Information

as at 2 August 2011

1. Shareholding

a. Distribution of Shareholders Number

Category (size of Holding)	Number of Shareholders
1 - 1,000	224
1,001 – 5,000	243
5,001 - 10,000	147
10,001 - 100,000	172
100,001 - and over	48

b. The number of shareholdings held in less than marketable parcels is 713.

c. The names of the substantial shareholders listed in the holding company's register are:

Shareholder	Number of ordinary shares
Queensland Investment Corporation	29,896,059
Jagen Nominees Pty Limited	7,013,443

d. Voting Rights The voting rights attached to each class of equity security are as follows:
 Ordinary shares - Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Stock Exchange Information as at 2 August 2011

e. 20 Largest Shareholders - Ordinary Shares

Name	Number of ordinary fully paid shares held	% Held of Issued Ordinary Capital
1. Queensland Investment Corporation	29,896,059	49.70
2. Jagen Nominees Pty Ltd	7,013,443	11.66
3. Reef Securities Ltd	2,956,597	4.91
4. Mr P & Mrs M Stawski	1,000,000	1.66
5. Troon Securities Pty Ltd	735,867	1.22
6. Ms C Mignacca	700,000	1.16
7. Regans Express Pty Ltd	592,000	0.98
8. Kinetic Investments Co Pty Ltd	506,129	0.84
9. Serlett Pty Ltd	482,100	0.80
10. JP Morgan Nominees Australia Ltd	478,240	0.80
11. Jestar Pty Ltd	470,000	0.78
12. F N L Investments Pty Ltd	442,036	0.73
13. F N L Investments Pty Ltd (Super Fund)	411,670	0.68
14. Mrs Maria Beatrix Sandbach	391,000	0.65
15. Mr N Glick	300,000	0.50
16. Mr T Hay	289,204	0.48
17. Taefu Pty Ltd	288,685	0.48
18. Vagg Investment Management Services Pty Ltd	288,278	0.48
19. Enniswood Investments Pty Ltd	279,840	0.47
20. Kefu Underwriters Pty Ltd	268,516	0.45

2. Company Secretary
The name of the Company Secretary is Ian A. Atkin

3. Registered Office The address of the principal registered office in Australia is
C/_ Altus Financial
Lvl 12, 10 Spring Street
Sydney NSW 2000
Telephone +61 2 8908 3444

4. Share Registry
The register of securities is held at the following address Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
GPO Box 2975 Melbourne
Victoria 3001 Australia

Toll free within Australia 1300 850 505

Outside Australia 61 3 9415 4000

Facsimile 61 3 9473 2500

Website: www.computershare.com.au

5. Stock Exchange Listing
Quotation has been granted for all the ordinary shares of the Company on the Australian Securities Exchange.

6. Difference in Results Reported to Australian Securities Exchange
The results reported to the Australian Securities Exchange in the preliminary final report do not differ from those reported in the annual accounts.

7. Unlisted Securities
There are no unlisted options issued over ordinary shares.

Telesso Technologies Limited

TELESSO TECHNOLOGIES LIMITED
ABN 96 072 178 977
AND CONTROLLED ENTITIES
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2011

Registered office and principal place of business

Telesso Technologies Limited
C/- Altus Financial Pty Limited
Level 12
10 Spring Street
Sydney NSW 2000

Directors

Michael Hoy (Chairman)
Dr Ross Macdonald
Dr Doug McTaggart
Lawrence Gozlan

Secretary

Ian Atkin

Auditors

HLB Mann Judd (NSW Partnership)
Chartered Accountants
Level 19, 207 Kent Street
Sydney, New South Wales, 2000

Bankers

Australia and New Zealand Banking Group Limited
Macquarie Shopping Centre
Herring Road,
North Ryde, New South Wales, 2113

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria, 3067

Solicitors

Lander & Rogers
Bourke Place
600 Bourke Street Melbourne
Victoria 3000
GPO Box 1842Q Melbourne
Victoria 3001

