

Appendix 4E

Preliminary Final Report to the Australian Stock Exchange

Name of Entity	Tissue Therapies Limited
ABN	45 101 955 088
Financial Year Ended	30 June 2008
Previous Corresponding Reporting Period	30 June 2007

Results for Announcement to the Market

	\$	\$ Movement over previous corresponding period	Percentage increase /(decrease) over previous corresponding period
Revenue from ordinary activities	222,053	62,029	38.76%
Profit / (loss) from ordinary activities after tax attributable to members	(4,865,418)	(3,155,138)	(184.48%)
Net profit / (loss) for the period attributable to members	(4,865,418)	(3,155,138)	(184.48%)

Dividends (distributions)	-	Franked amount per security
Final Dividend	-	-
Interim Dividend	-	-
Record date for determining entitlements to the dividends (if any)		-
Brief explanation of any of the figures reported above necessary to enable the figures to be understood: Refer to the accompanying director's report, financial statements and notes.		

Tissue Therapies Limited – Appendix 4E Preliminary Final Report

Ratios

	Current period	Previous corresponding period
Profit/(loss) before tax / revenue Profit (loss) from ordinary activities before tax as a percentage of revenue	(2,329.3%)	(1,308.0%)
Profit after tax / equity interests Net profit (loss) from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	(129.43%)	(25.69%)

NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	11.03 cents	23.45 cents

Commentary on the Results for the Period

Refer to the accompanying director's report, financial statements and notes.

Audit/Review Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been have been audited and the audit report contains no qualifications	X	The accounts have been subject to review	
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	

Financial Statements

Refer to the accompanying director's report, financial statements and notes.

By Order of the Board



Gregory Baynton
Director
18 August 2008

DIRECTORS' REPORT

Your Directors present their report on Tissue Therapies Limited (the Company) for the year ended 30 June 2008.

DIRECTORS

The names of Directors at any time during or since the end of the year, and their qualifications are detailed below:

Roger Clarke – Chairman (appointed 6 November 2003)

- Qualifications* — Bachelor of Commerce
Chartered Accountant
- Experience* — Chairman of Board of Advice, ABN AMRO Morgans Limited
Chairman of PIPE Networks Limited
Director of MTQ Insurance Ltd and Trojan Equities Limited
- Special Responsibilities* — Member of the Audit Committee
- Interest in Shares and Options* — 370,000 Ordinary Shares and options to acquire a further 150,000 ordinary shares

Professor David Gardiner - Director (appointed 12 November, 2003)

- Qualifications* — Bachelor of Laws
Bachelor of Arts
Master of Laws (Hons.)
- Experience* — Deputy-Vice Chancellor of QUT
Professor of Law, QUT
Director of several R & D and commercialisation companies, including biotechnology company, Farmacule BioIndustries Pty Ltd
- Interest in Shares and Options* — 2,255,000 Ordinary Shares and options to acquire a further 100,000 ordinary shares are held by QUT, which is a related entity of Professor David Gardiner

Gregory Baynton – Executive Director (appointed 6 September 2002)

- Qualifications* — Master of Business Administration
Master of Economic Studies
Post Graduate Diploma in Applied Finance and Investment
Bachelor of Business
Fellow of the Australian Institute of Company Directors
Fellow of the Financial Services Institute of Australia
- Experience* — Director of Lodestone Exploration Limited and PIPE Networks Limited
- Special Responsibilities* — Member of the Audit Committee
- Interest in Shares and Options* — 520,000 Ordinary Shares and options to acquire a further 600,000 ordinary shares are held by Orbit Capital, which is a related entity of Gregory Baynton

Donald Home – Director (appointed 14 November 2006)

- Qualifications* — Bachelor of Science (Hons.)
Member of the Australian Institute of Company Directors
- Experience* — More than 20 years high technology health industry experience including sales, marketing, licencing, acquisitions and international marketing and strategic planning in private and public companies.
- Special Responsibilities* — Chairman of the Audit & Risk Management Committee
- Interest in Shares and Options* — No shares currently held but options to acquire 100,000 ordinary shares are held

Steven Mercer – Chief Executive Officer and Executive Director (appointed 10 May 2006)

- Qualifications* — Bachelor of Medical Science, Bachelor of Medicine, Bachelor of Surgery, Fellow of the Australian Institute of Management, Fellow of the Australian Institute of Company Directors, Registered Medical Practitioner.
- Experience* — Significant medical and commercial experience, most recently as Managing Director of Mercy Tissue Engineering, a successful tissue engineering company. Significant international expertise to Tissue Therapies following a successful career with multinational companies, including six years with Smith & Nephew as General Manager, Smith & Nephew Surgical and seven years with IBM Health Industry Centre in Australia and New York.
- Special Responsibilities* — Chief Executive Officer, and appointed Executive Director on 10 May 2006.
- Interest in Shares and Options* — 138,000 Ordinary Shares and options to acquire a further 640,000 ordinary shares.

Information on Company Secretary:

The following person held the position of company secretary at the end of the financial year:

Drummond McKenzie – Company Secretary

- Qualifications* — Bachelor of Science (Economics) (Hons.)
Chartered Accountant
Fellow of the Institute of Chartered Secretaries
- Experience* — Over 13 years experience in the financial management and administration of public companies

Principal activities

During the year the principal activities of the Company consisted of the research, development and commercialisation of the Company's exclusive international intellectual property in wound healing and tissue regeneration.

Operating results

The loss of the Company after tax amounted to \$4,865,418 (2007: loss \$1,710,280).

Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Review of operations

During the 2007-2008 financial year:

Tissue Therapies recorded an after-tax loss of \$4,865,418 in line with budget expectations.

Net assets decreased by \$2,899,252 to \$3,759,058 and at 30 June 2008 the Company had cash resources of \$519,566.

During July 2007, Tissue Therapies closed a placement of 4,040,000 new ordinary shares with institutional and sophisticated investors at \$0.50/share to raise \$2,020,000 before costs of the issue. The placement of new shares was conducted in accordance with ASX Listing Rule 7.1 and represented an additional 15.00% of the Company's existing issued capital. The Company's contributed equity following the share issue and after transaction costs arising from the issue of shares, was \$13,187,979.

Tissue Therapies is ready to convert more than 10 years of scientific research, protein engineering, preclinical and now, clinical trials into powerful, effective, new wound healing treatments for diabetic, venous and pressure ulcers, at an end user price that preclinical data indicates will be more cost effective than existing treatments. Approval has been received for a human trial of VitroGro® which started in Perth, Australia, on Monday 11 August 2008, with results expected within 6 months. These results will complement the human data from the Canadian clinical trial, for which approval is pending.

Highlights

1. **During July 2008 approval was received for a human trial of VitroGro® which started in Perth on Monday 11 August 2008**
 - Approval is pending for a clinical trial of VitroGro® for the treatment of diabetic, venous and pressure ulcers in Toronto, Canada.
 - Results from each site of the multicentre clinical trial of VitroGro® will be released progressively with final evaluation expected within 6 months of first patient treatment.
 - Positive data from human clinical trials is expected to be the catalyst for formal partnership negotiations with international wound and healthcare companies.
 - Successful classification of VitroGro® for wound treatment as a device (rather than a drug) substantially reduces the time and costs of clinical trial and regulatory approval.
 - 40 patients are scheduled to be treated for 4 - 6 weeks each.
 - Device classification also allows future sales through a far broader range of outlets and partners than would be possible if VitroGro® were classified as a pharmaceutical.
 - The approved trial protocol will allow periodic release of results to Tissue Therapies during the clinical trial and production of a final report within 1 month of trial completion.

2. **Lead product VitroGro® addresses a significant and growing unmet medical need**
 - VitroGro® has been designed to provide simple, effective and affordable new treatments for diabetic, venous and pressure ulcers. This is backed by ten years of substantial laboratory and preclinical data, including multiple publications in peer-reviewed, scientific journals.
 - Current treatments for diabetic, venous and pressure ulcers are costly and are only moderately effective. These include compression dressings, moist wound healing products, vacuum dressings and antimicrobial dressings to limit infection. Complete healing rates for diabetic, venous and pressure ulcers remain at approximately 25 – 50% following up to 20 weeks of treatment. (9, 10) Our target is to increase the incidence of complete healing substantially reduce the treatment time with VitroGro®.
 - Worldwide, it is estimated that patients suffering diabetic, venous and pressure ulcers spent USD\$4 billion in 2007 on wound dressings, with a compound annual growth rate of 11% – 15%. (1, 2) World market growth is being driven by aging population, increased incidence of diabetes and increasing affordability of health care in developing countries. (1, 2)
 - Up to 70% of all lower limb amputations in the world are related to diabetic ulcers. A lower limb is lost to diabetic ulcers every 30 seconds. This represents more than 1 million amputations globally each year. (5)

3. **Preclinical Results: Deep Excisional Wound Treated with VitroGro®**

Preclinical trial data shows that VitroGro® produces exceptional wound healing in only 13 days that:

 - is scarless
 - is almost indistinguishable from uninjured surrounding skin
 - exhibits restoration of normal skin pigmentation and regeneration of normal hair distribution and direction

4. Potential Strategic Partners

- A number of international wound and healthcare companies have expressed commercial interest in VitroGro®. Identification of promising new technologies must be verified by human trial results. Candidate strategic partner companies have indicated they are waiting for clinical trial results before proceeding with formal partnership negotiations.
- Tissue Therapies' strategy is to use positive human clinical trial results to leverage interest from international wound and healthcare companies to negotiate a strategic partnership agreement for the international sale and distribution of new VitroGro® wound healing products, with an initial focus on venous, diabetic and pressure ulcers.

5. Commercialisation Strategy

- With available funding, completion of each human clinical trial is anticipated within 6 months of commencement, with periodic disclosure to Tissue Therapies of results during the course of each trial.
- With positive human clinical trial results, Tissue Therapies intends to:
 - use clinical trial data to proceed with formal partnership negotiations with identified potential healthcare partners.
 - apply for regulatory approval of original formulation VitroGro® for sale as a wound care treatment in Canada and countries with mutual recognition agreements with Canada including most of the European Union, Switzerland, Australia and New Zealand.
 - proceed with large scale manufacturing of new formulation VitroGro®, to provide simpler, faster and cheaper manufacturing.
 - repeat a small clinical trial of new formulation VitroGro® using the same protocol as the current clinical trial.
 - apply for regulatory approval of new formulation VitroGro® on the basis of equivalency in Canada and mutual recognition countries and leverage the world-wide sales and distribution capabilities of an appropriate commercial partner for international sales of VitroGro®, including in the USA.

References:

1. Primary research, Frost & Sullivan and CanCare Consultancy Services
2. Clinical Guide to Wound Care, 6th Ed. 2008, Hess CT, Lippincott, Williams & Wilkins
3. Amos AF, McCarty DJ, Zimmet P. The rising global burden of diabetes and its complications: estimates and projections to the year 2010. *Diabet Med* 1997; 14 Suppl 5: S1-85
4. Sorenson TI. The changing lifestyle in the world. Body weight and what else? *Diabetes Care* 2000; 23 Suppl 2: B1-4
5. Diabetes in North America: millions of feet at risk of amputations. 65th Annual Sessions of the American Diabetes Association, International Diabetes Federation. San Diego, 11 June 2005.
6. Campbell LV, Graham AR, Kidd RM, Molloy HF, O'Rourke SR, Colagiuri S. Position statement of the Australian Diabetes Society. *MJA* 2000; 173: 369-372
7. Boyle JP, Honeycutt AA, Narayan KM, Hoerger TJ, Geiss LS, Chen H, et al. Projection of diabetes burden through 2050: impact of changing demography and disease prevalence in the U.S. *Diabetes Care* 2001; 24 (11): 1936-40
8. Apelqvist J, Larsson J, Agardh, CD. Long term prognosis for diabetic patients with foot ulcers. *J Intern Med* 1993; 233: 483-491
9. Margolis, DJ, Allen-Taylor L, HOffstad O, Berlin JA. Healing diabetic neuropathic foot ulcers: are we getting better? *Diabet Med.* 2005; 22 (2): 172-176
10. Franks PJ, Moffatt CJ. Health related quality of life in patients with venous ulceration: use of the Nottingham health profile. *Qual Life Res.* 2001;10 (8): 693-700
11. Winter GD. Formation of the Scab and the Rate of Epithelialisation of Superficial Wounds in the Skin of the Young Domestic Pig. *Nature* Jan 1962; 193: 293-294
12. Stuart M. Advanced Wound Care: The Device Industry's New Billion Dollar Product Market. *Start-Up*, Nov 2007: 20-26
13. Chronic Wound Care. 4th Ed HMP Communications 2007. Co-editors; Krasner DL, Rodeheaver GT, Sibbald RG.

Significant Changes in State of Affairs

As outlined above, during July 2007, Tissue Therapies closed a placement of 4,040,000 new ordinary shares with institutional and sophisticated investors at \$0.50/share to raise \$2,020,000 before costs of the issue. The placement of new shares was

conducted in accordance with the ASX Listing Rule 7.1 and represented an additional 15.00% of the Company's existing issued capital.

Matters Subsequent to the End of the Financial Year

- a) The Company conducted a Share Purchase Plan, announced on 21 July 2008, which will close on 25 August 2008, with share allotment on 29 August and planned quotation date of 3 September 2008; and
- b) The clinical trial of VitroGro® for the treatment of venous ulcers started in Perth, Australia on Monday 11 August 2008. This study is being conducted at the Wound Care Clinic of Prof. Michael Stacey at Fremantle Hospital. The results of this trial in Perth will complement the human data from the Canadian clinical trial of VitroGro® for the treatment of venous, diabetic and pressure ulcers, for which approval is pending.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Future Developments, Prospects and Business Strategies

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

Key Achievement / Indicative Milestone	Target	Status
Complete clinical trial of VitroGro® to treat venous ulcers, Perth Australia.	Q1 2009	Study started Mon 11 August 2008.
Start clinical trial of VitroGro® to treat diabetic, venous and pressure ulcers, Toronto, Canada.	Q4 2008	Awaiting final approval from Health Canada
Complete human clinical trial of VitroGro® for treatment of diabetic, venous & pressure ulcers, Perth and Canada.	Q1 2009	Planned
Continue commercial negotiations with international wound and health care companies for the use of VitroGro® in new wound care products with clinical trial data.	Q4. 2009	Planned.
Proceed with regulatory application for approval of VitroGro® for treatment of human diabetic, venous and pressure ulcers with Health Canada (and other territories covered by mutual recognition agreements with Canada).	Q2 2009	Planned.
Continued granting of three core VitroGro® patents in worldwide territories	Ongoing	Granted Aust. & NZ; pending USA, Canada, EU, Asia.

Options

At the date of this report, options over the un-issued share of the Company are as follows:

Grant date	Date of Expiry	Exercise price	Number under option
29/01/2004	30/11/2008	\$0.50	1,075,000
10/03/2006	27/09/2008	\$0.95	100,000
10/03/2006	27/09/2009	\$0.95	100,000
10/03/2006	2 years from each milestone achieved *	\$0.80 (at least)	40,000 *
29/08/2007	29/08/2009	\$0.64	205,000
29/11/2007	2 years from each milestone	\$0.64	400,000 **

	achieved		
29/11/2007	29/11/2009	\$0.64	100,000
			2,020,000

* Options issued to the CEO under the Company's Equity Option Plan in lieu of cash bonus. Options issued will vest on the achievement of certain Key Events.

No ordinary shares were issued on the exercise of options during the year ended 30 June 2008, or up until the date of this report.

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for the directors and executives of Tissue Therapies Limited.

The Company's Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer (CEO) and others involved in the operation of the Company.

The Board assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Non-executive Director Remuneration

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

Structure: The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at a General Meeting of members held on 29 January 2004 when shareholders approved an aggregate remuneration of \$250,000 per year, with remuneration for the first year after listing being \$55,000.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned among directors is reviewed annually. Each director receives an annual fee for being a director of the company. No incentive payments are included.

Executive Director Remuneration

Objective: The Company aims to reward the Executive Directors with remuneration commensurate with their position and responsibilities. The CEO, Dr Steven Mercer does not receive additional remuneration above his CEO salary to act as an Executive Director.

Structure: The Executive Directors receive a fixed annual amount in remuneration. No incentive payments are included.

Executive Remuneration

Chief Executive Officer

Objective: The Company aims to reward the CEO with remuneration commensurate with his position and responsibilities.

Structure: The CEO, Dr Steven Mercer is employed under contract. The current contract commenced on 27 September 2004. Dr Mercer's employment contract with Tissue Therapies encompasses a total remuneration package of \$191,279 per annum plus a share option package of 200,000 options to acquire shares in the Company at a 20 per cent premium to the Company's share price on 27 September 2004.

The initial tranche of 100,000 options vested one year from the commencement of his employment, and the second 100,000 options vested two years from the commencement date. Each tranche of options will expire three years from their vesting date and no further options will vest if the Executive resigns or is terminated for any reason. Any vested options must be exercised within 30 days from the date of termination of the employment agreement. Under the employment agreement, the employment arrangements may be terminated by either party at any time by with not less than two months' written notice. Dr Mercer was awarded 300,000 performance based options in 2006 in lieu of a cash bonus. The 40,000 of these options which remain exercisable will vest on the achievement of a series of specific performance milestones and are exercisable within two years of each tranche of options vesting. Dr Mercer was awarded a further 400,000 performance based options in 2007 in lieu of a cash bonus. These options will vest on the achievement of a series of specific performance milestones and are exercisable within two years of each tranche of options vesting.

Company Secretary

Objective: The Company aims to reward the Company Secretary with remuneration commensurate with his position and responsibilities.

Structure: The Company Secretary receives remuneration based on an hourly rate for his services. No incentive payments are included.

Key Management Personnel Remuneration

Details of the nature and amount of each element of the emoluments to key management personnel of Tissue Therapies Limited for the year ended 30 June 2008 are set out as follows:

Key Management Personnel		Primary		Post Employment	Share-based payment		Total	Performance-related
		Cash Salary and fees	Bonus / Non-monetary benefits	Super-annuation	Equity	Options (a)		
		\$	\$	\$	\$	\$	\$	%
Non-Executive Directors								
R. Clarke (Chairman)	2008	35,000	-	3,150	-	-	38,150	-
	2007	35,000	-	3,150	-	-	38,150	-
G. Baynton	2008	10,000	-	-	-	-	10,000	-
	2007	10,000	-	-	-	-	10,000	-
Prof. D. Gardiner [1]	2008	20,000	-	-	-	-	20,000	-
	2007	20,000	-	-	-	-	20,000	-
D. Home [2]	2008	20,000	-	1,800	-	7,049	28,849	-
	2007	12,611	-	1,135	-	-	13,746	-
N. Reinhardt [3]	2008	-	-	-	-	-	-	-
	2007	7,222	-	650	-	-	7,872	-
Executive Directors								
G. Baynton	2008	66,000	-	-	-	-	66,000	-
	2007	66,000	-	-	-	-	66,000	-
Dr S. Mercer (CEO)	2008	173,276	-	18,003	-	28,197	219,476	12.7%
	2007	167,000	-	17,658	-	29,550	214,208	13.8%
Other Key Management Personnel								
D. McKenzie	2008	51,266	-	-	-	-	51,266	-
	2007	48,000	-	-	-	-	48,000	-
Total	2008	375,542	-	22,953	-	35,246	433,741	
Total	2007	365,833	-	22,593	-	29,550	417,976	

[1] Professor D Gardiner has instructed that all fees payable to him are to be paid into The QUT Endowment Equity Fund.

[2] Appointed 14 November 2006

[3] Resigned 14 November 2006

(a) Options issued to Directors & Specified Executives as part of remuneration for the year ended 30 June 2008

500,000 options were issued as part of remuneration during the year ended 30 June 2008 and no options were exercised during the year. The value of options to Steven Mercer (Director / CEO) and Donald Home (Director) during the year as

part of his remuneration package were partly amortised during the year with \$35,246 (2007: \$29,550) included under administration expense.

There are no other executives of the Company requiring remuneration disclosure under the Corporations Act 2001.

Options Granted as Remuneration

	Vested no.	Granted no.	Grant date	Terms and conditions for each grant			
				Value per option at grant date \$	Exercise price \$	First exercise date	Last exercise date
Dr. S Mercer	-	400,000	29/11/07	0.12	0.64	*	*
D. Home	-	100,000	29/11/07	0.12	0.64	29.11.07	29.11.09
Total		<u>500,000</u>					

* These options will vest on the achievement of a series of specific performance milestones and are exercisable within two years of each tranche of options vesting

The total remuneration represented by options granted during the financial year:

Directors	Options granted as part of remuneration \$	Total remuneration represented by options %
Dr S. Mercer	28,197	12.7
D. Home	7,049	24.4
	<u>35,246</u>	<u>37.1</u>

No shares were issued on the exercise of options during the financial year, or up to the date of this report.

Directors' and Officers' Indemnification

The Company has indemnified directors and officers to the maximum extent permitted by law, against any liability incurred by them as, or by virtue of their holding office as and acting in the capacity of, an officer of the Company.

Insurance premiums have been paid during the year in respect of a contract insuring directors and officers against legal costs incurred in defending proceedings against them. Details of the nature of liabilities covered or the amount of premiums paid are not disclosed as such disclosure is prohibited in terms of the contract.

Directors' Meetings

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

	Directors Meetings		Audit Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended
R. Clarke	11	10	3	3
G. Baynton	11	11	3	3
Prof. D. Gardiner	11	9	-	-
D. Home	11	11	3	3
Dr. S. Mercer	11	11	-	-

Environmental Regulation

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Non-audit Services

The Board of Directors, in accordance with advice from the Audit and risk Management Committee, is satisfied that the provision of the non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid / payable to the external auditors during the year ended 30 June 2008:

Non-audit services	30 June 2008
	\$
Audit or review of regulatory returns & due diligence services	8,000
Taxation services	5,956
	<hr/>
	13,956
	<hr/>

Auditor's Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached to this Directors' Report.

Proceedings on Behalf of the Company

No proceedings have been brought, or intervened in, on behalf of the company with leave of the Court under s.237 of the *Corporations Act 2001*.

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



Greg Baynton
Director



Steven Mercer
CEO & Director

Dated at Brisbane, this 18th Day of August 2008

18th August 2008

The Chairman
The Board of Directors
Tissue Therapies Limited
GPO Box 1596
Brisbane QLD 4001

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Tissue Therapies Limited

As lead audit partner for the audit of the financial report of Tissue Therapies Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully



Hacketts DFK



**Shaun Lindemann
Audit Partner**

FINANCIAL STATEMENTS

TISSUE THERAPIES LIMITED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	30 June 2008 \$	30 June 2007 \$
Revenues	2	222,053	160,024
Research and development expenses		(1,351,941)	(902,652)
Occupancy expenses		(17,521)	(42,410)
Administration expenses		(978,612)	(921,363)
Marketing, business development and patent protection		(96,134)	(81,961)
Laboratory expenses		(88,098)	(119,736)
Manufacturing process development expenditure		(2,473,874)	-
Finance costs		(27,527)	(607)
Other expenses		(355,552)	(184,384)
Loss before income tax benefit	3	(5,172,206)	(2,093,089)
Income tax benefit	4(b)	306,788	382,809
Loss from continuing operations after income tax benefit		(4,865,418)	(1,710,280)
Loss attributable to members of the entity		(4,865,418)	(1,710,280)
		Cents	Cents
Overall Operations			
Basic earnings per share	23	(15.82)	(7.93)
Diluted earnings per share	23	(15.82)	(7.92)

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
BALANCE SHEET AS AT 30 JUNE 2008

	Note	30 June 2008 \$	30 June 2007 \$
CURRENT ASSETS			
Cash and cash equivalents	5	519,566	1,911,919
Trade and other receivables	6(a)	184,152	109,161
Inventories	7	4,482,025	716,820
Current tax assets	4(d)	290,456	366,619
Other current assets	6(b)	298,091	3,739,641
TOTAL CURRENT ASSETS		5,774,290	6,844,160
NON-CURRENT ASSETS			
Property, plant and equipment	8	107,748	111,988
Intangible assets	9	342,250	342,250
TOTAL NON-CURRENT ASSETS		449,998	454,238
TOTAL ASSETS		6,224,288	7,298,398
CURRENT LIABILITIES			
Trade and other payables	10	965,230	640,088
Financial liabilities – convertible loans	11	1,500,000	-
TOTAL CURRENT LIABILITIES		2,465,230	640,088
TOTAL LIABILITIES		2,465,230	640,088
NET ASSETS		3,759,058	6,658,310
EQUITY			
Issued Capital	12(a)	13,187,979	11,275,677
Reserves		119,303	65,439
Accumulated losses		(9,548,224)	(4,682,806)
TOTAL EQUITY		3,759,058	6,658,310

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2008

	30 June 2008	30 June 2007
	\$	\$
Contributed equity		
Ordinary shares at beginning of period	11,275,677	8,177,366
Shares issued during period	2,020,000	3,367,265
Transaction costs	(107,698)	(268,954)
Balance of ordinary shares at end of period	<u>13,187,979</u>	<u>11,275,677</u>
Options reserve		
Options reserve at beginning of period	65,439	22,354
Share options expensed during the period	53,864	43,085
Balance of options reserve at end of period	<u>119,303</u>	<u>65,439</u>
Accumulated losses		
Accumulated losses at beginning of period	(4,682,806)	(2,972,526)
Loss attributable to members of the entity	(4,865,418)	(1,710,280)
Accumulated losses at end of period	<u>(9,548,224)</u>	<u>(4,682,806)</u>
Total equity at the end of the period	<u><u>3,759,058</u></u>	<u><u>6,658,310</u></u>

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	30 June 2008 \$	30 June 2007 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		80,732	18,756
Payments to research facilities (inclusive of goods and services tax)		(1,367,738)	(1,126,345)
Payments to suppliers (inclusive of goods and services tax)		(3,960,791)	(4,465,400)
Interest received		66,413	122,880
Finance costs		(2,281)	(607)
Income Tax rebate received		382,951	336,347
Net cash provided by (used in) operating activities	22(b)	<u>(4,800,714)</u>	<u>(5,114,369)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,941)	(12,903)
Net cash provided by (used in) investing activities		<u>(3,941)</u>	<u>(12,903)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issues		2,020,000	3,367,265
Costs of share issue		(107,698)	(268,954)
Proceeds from borrowings		1,500,000	-
Net cash provided by (used in) financing activities		<u>3,412,302</u>	<u>3,098,311</u>
Net increase (decrease) in cash held		(1,392,353)	(2,028,961)
Cash at beginning of year		1,911,919	3,940,880
Cash at end of year	22(a)	<u>519,566</u>	<u>1,911,919</u>

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers Tissue Therapies Limited, which is a listed public company, incorporated and domiciled in Australia.

Basis of preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting Policies

a. Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income). Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

b. Research and Development Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

c. Intangibles

Licenses and Patents

Licenses and patents are recognised at cost of acquisition. Licenses, patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Licenses and patents are amortised over their useful life, which has been assessed as ten years from the date the intangible asset is in its intended use.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. 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.

Equity-settled Compensation

The Company operates an option based compensation plan. The bonus element over the exercise price of the employee services rendered in exchange for the grant of options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

e. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

f. Revenue recognition

Revenues are recognised at fair value of the consideration received net of any applicable taxes.

Interest revenue is recognised as it accrues taking into account the interest rates applicable to the financial assets.

Government research and development grant income is recognised as and when the relevant research expenditure is incurred. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

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

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 statement of financial position are shown inclusive of GST.

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

h. Property, plant and equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Property, plant and equipment (Continued)

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Company commencing from the time the asset is held ready for use. The expected useful life for plant and equipment is 3 to 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

i. Inventory

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads.

j. Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

k. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

l. Impairment of assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

m. Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. **Financial Instruments**

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

o. **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key Estimates — Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

No impairment has been recognised in respect of licenses and trademarks for the year ended 30 June 2008.

The financial report was authorised for issue on 18 August 2008 by the board of directors.

p. **Going concern**

Notwithstanding that the Company has recorded an operating loss of \$4,865,418, has future expenditure commitments of \$681,394 and remaining cash balances at 30 June 2008 of \$519,566, the financial report has been prepared on a going concern basis.

The company's ability to continue as a going concern is contingent upon raising additional capital to fund planned research and development expenditure and for use as working capital. The Directors believe that the Company will be successful in raising further funds and accordingly, have prepared the financial statements on a going concern basis.

The Company announced a Share Purchase Plan on 21st July, 2008 which is expected to provide the Company with working capital and it is anticipated that further fund raising will be conducted by Tissue Therapies during the current year and as soon as definite decisions are made regarding fund raising, the market will be informed.

However, if additional capital is not raised, the going concern basis may not be appropriate with the result that the company may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different from those stated in the financial statements. No adjustments have been made relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	30 June 2008	30 June 2007
	\$	\$
NOTE 2: REVENUE		
Operating activities:		
Product sales	80,732	37,144
Interest received	66,413	122,880
Research grants	74,908	-
Total revenue from ordinary activities	222,053	160,024

NOTE 3: LOSS FOR THE YEAR

Expenses

Finance costs – external	27,527	607
Rental expense on operating leases – minimum lease payments	5,809	31,314
Research & development costs	1,356,941	902,652
Depreciation expense	8,181	7,258

NOTE 4: INCOME TAX

a. The components of income tax benefit comprises

Current tax	306,788	366,619
Over provision in respect of prior years	-	16,190
Total tax benefit	306,788	382,809

b. The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:

Tax benefit on loss from ordinary activities at 30% (2006 – 30%)	1,551,662	627,927
Tax effect of:		
Business related capital expenditure	(14,879)	24,863
(Increase)/ decrease in accruals	(5,947)	833
Non-deductible entertainment	(399)	(454)
R&D expenditure taken as a cash offset	(246,994)	(270,796)
Tax Losses available	1,283,443	382,588

Tax losses utilised by:

Income tax benefit attributable to R&D tax offset receivable	306,788	366,619
Income tax benefit attributable to R&D tax offset overstated in prior year	-	16,190
Income tax benefit relating to entity	306,788	382,809

The applicable weighted average effective tax rates are as follows:

(6%)	(18%)
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The decrease in the weighted average effective tax rate is a result of a decrease in tax deductible R&D expenditure relative to total expenditure.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	30 June 2008	30 June 2007
	\$	\$

NOTE 4: INCOME TAX (continued)

c. Deferred Tax Asset - not brought to account

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1a occur:

Temporary differences	206,997	151,083
Tax losses – operating losses	2,185,960	526,103
	2,446,957	677,186

d. Current Tax Asset

Opening balance of R&D tax offset concession claimed	366,619	320,165
Less - R&D tax offset understated/ (overstated) in prior year	-	16,182
Less- Income tax benefit attributable to R&D tax offset received	(382,951)	(366,347)
Add - Income tax benefit attributable to R&D tax offset receivable	306,788	366,619
Closing balance of Research and Development tax offset concession claimed	290,456	366,619

NOTE 5: CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank	-	88,768
Short term bank deposits - at call *	519,566	1,823,151
	519,566	1,911,919

* The deposits were in interest bearing floating rate accounts. Interest rates varied between 5.9% and 7.1%.

NOTE 6: TRADE AND OTHER RECEIVABLES & OTHER CURRENT ASSETS

(a)

Trade debtors	82,407	25,000
GST receivable	101,745	84,161
	184,152	109,161

Current trade and term receivables are non-interest bearing loans and generally on 30 day terms. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. There are no balances within trade debtors which are 'past due'.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

30 June 2008 30 June 2007
\$ \$

NOTE 6: TRADE AND OTHER RECEIVABLES & OTHER CURRENT ASSETS (continued)

(b) Other Current Assets

Deposits held	298,091	-
Prepayments – VitroGro® Protein Components *	-	3,739,641
	<u>298,091</u>	<u>3,739,641</u>

* Payments to the manufacturer for the production of VitroGro® Protein Components were recognised in the prior year as a prepayment as production of inventory had not yielded an inventory of protein components at 30 June 2007. Upon subsequent completion of the project and successful delivery of the quality and quantity of VitroGro® Protein Components ordered, the prepayments were transferred to inventory and recognised as the cost of inventory acquired during the current period.

NOTE 7: INVENTORIES

VitroGro® and VitroGro® Protein Components – at cost	4,482,025	716,820
	<u>4,482,025</u>	<u>716,820</u>

NOTE 8: NON-CURRENT ASSETS - PROPERTY, PLANT & EQUIPMENT

Plant and equipment – at cost	35,141	31,200
Less: Accumulated depreciation	(19,448)	(11,267)
	<u>15,693</u>	<u>19,933</u>

Capital Works in progress	<u>92,055</u>	<u>92,055</u>
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Total property, plant and equipment	<u>107,748</u>	<u>111,988</u>
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	Plant & Equipment \$	Capital Works in progress \$	Total
Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.			
Carrying amount at 1 July 2007	19,933	92,055	111,988
Additions	3,941	-	3,941
Transfers	-	-	-
Depreciation expense	(8,181)	-	(8,181)
Carrying amount at 30 June 2008	<u>15,693</u>	<u>92,055</u>	<u>107,748</u>

Based on the methodology applied in Note 1 to the financial statements, there were no impairment gains or losses recorded during the current financial year.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

30 June 2008	30 June 2007
\$	\$

NOTE 9: NON-CURRENT ASSETS - INTANGIBLE ASSETS

Licenses and Patents - at cost

342,250	342,250
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Licences and patents are assessed to have finite useful lives. Amortisation shall begin when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. There are no amortisation charges for licenses and patents for the current or prior financial periods.

NOTE 10: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

Trade creditors

447,284	620,774
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Other creditors and accruals

517,946	19,314
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965,230	640,088
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NOTE 11: CURRENT LIABILITIES – FINANCIAL LIABILITIES

Unsecured liabilities:

Convertible loans

1,500,000	-
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Convertible loans payable have been obtained as a source of working capital. The total is made up of three convertible notes issued (\$500,000 each), bearing interest of 10% payable quarterly in arrears, with the three notes maturing on 31 March 2009.

The three loans are convertible to share capital at the option of the lender or borrower, at any time after 30 June 2008, subject to shareholder approval if required. If Tissue Therapies Limited elects to convert, a declaration of solvency must be provided to the lender. The conversion rate is calculated as a 10% discount to the 10 day volume weighted average share price prior to conversion.

NOTE 12: ISSUED CAPITAL

a. Share capital

30,978,122 (30 June 2007: 26,938,122) fully paid ordinary shares

13,187,979	11,275,677
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b. Fully paid ordinary shares

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

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

TISSUE THERAPIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

	30 June 2008	30 June 2007
	\$	\$

NOTE 12: ISSUED CAPITAL (Continued)**c. Movements in ordinary share capital:**

Date	Details	No. Shares	Issue price	\$
01/07/07	Balance at beginning of year	26,938,122		11,275,677
26/07/07	4,040,000 ordinary shares issued by placement	4,040,000	\$0.50	2,020,000
	Transaction costs arising from the issue of shares by rights issue			(107,698)
30/06/08	Balance at end of year	<u>30,978,122</u>		<u>13,187,979</u>

Options

For information relating to options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 17: Share-based Payments.

Capital Management

Management controls the capital of the group in order to maintain an appropriate debt to equity ratio, and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital, convertible loans and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

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

NOTE 13: RESERVES**Option Reserve**

The option reserve records items recognised as expenses on valuation of employee share options.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	30 June 2008	30 June 2007
	\$	\$
NOTE 14: REMUNERATION OF AUDITORS		
<i>Remuneration of Hacketts Chartered Accountants for:</i>		
Audit services		
Audit and review of financial reports and other audit work under the Corporations Act 2001.	25,400	23,860
<i>Non-audit services</i>		
Audit or review of regulatory returns and due diligence services	9,600	6,250
Taxation services	5,956	5,619
	40,956	35,729

NOTE 15: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and convertible loans.

a. Treasury Risk Management

The Board, at each of its meetings, analyses financial risk exposure and evaluates treasury management strategies in the context of the most recent economic conditions and forecasts. The Board's overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed on a regular basis.

b. Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are credit risk, interest rate risk and liquidity risk.

Credit risk exposures

The credit risk on financial assets of the company which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

Interest rate risk exposures

The company's exposure to interest rate risk and the effective weighted average interest rate is set out in the relevant note.

Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate facilities or financing options are maintained.

d. Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and the financial liabilities of the company approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

e. Sensitivity Analysis

The group has performed a sensitivity analysis relating to its exposure to interest rate risk, to assess the effect on the current year results and equity which could result from a change in these risks.

Management have determined that, at 30 June 2008, the effect on profit and equity as a result of changes in the interest rate of +2% or -2% would be immaterial

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 16: KEY MANAGEMENT PERSONNEL COMPENSATION

a. Names and positions held of the Company's key management personnel in office at any time during the financial year are:

Key Management Person	Position
Mr Roger Clarke	Chairman – Non-executive
Professor David Gardiner	Director – Non-executive
Mr Greg Baynton	Executive Director
Mr Don Home	Director – Non-executive
Dr Steven Mercer	Chief Executive Officer and Executive Director
Mr D McKenzie	Company Secretary

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

b. Option Holdings

Number of options held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2007	Granted as Compensation	Options Expired	Balance 30.06.2008	Total Vested 30.06.08	Total Exercisable 30.06.08	Total Unexercisable 30.06.08
R. Clarke	150,000	-	-	150,000	-	150,000	-
G. Baynton [2]	600,000	-	-	600,000	-	600,000	-
Prof. D. Gardiner [1]	100,000	-	-	100,000	-	100,000	-
D Home	-	100,000	-	100,000	-	100,000	-
Dr S. Mercer	240,000	400,000	-	640,000	-	640,000	-
D. McKenzie	25,000	-	-	25,000	-	25,000	-
Total	1,115,000	500,000	-	1,615,000	-	1,615,000	-

[1] A total of 2,255,000 shares and 100,000 options are held by QUT, which is a related entity of Professor David Gardiner.

[2] Orbit Capital, a related entity of Gregory Baynton holds 520,000 shares and 600,000 options.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 16: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

c. Share Holdings

Number of Shares held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2007	Received as Compensation	Acquired Under Rights Issue and Other Purchases	Balance 30.06.2008
R. Clarke	370,000	-	-	370,000
G. Baynton [2]	520,000	-	-	520,000
Prof. D. Gardiner [1]	2,255,000	-	-	2,255,000
Dr S. Mercer	69,379	-	68,621	138,000
Total	3,214,379	-	68,621	3,283,000

[1] A total of 2,255,000 shares and 100,000 options are held by QUT, which is a related entity of Professor David Gardiner.

[2] Orbit Capital, a related entity of Gregory Baynton holds 520,000 shares and 600,000 options.

NOTE 17: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2008:

- On 10 March 2006 100,000 share options were granted to the CEO to take up ordinary shares at an exercise price of \$0.95 each. The options are exercisable on or before 27 September 2008.
- On 10 March 2006 100,000 share options were granted to the CEO to take up ordinary shares at an exercise price of \$0.95 each. The options are exercisable after 27 September 2006 and on or before 27 September 2009.
- On 10 March 2006 300,000 share options were granted to the CEO to take up ordinary shares at an exercise price of at least \$0.80 each. The 40,000 of these options which remain exercisable will vest on the achievement of a series of specific performance milestones and are exercisable within two years of each tranche of options vesting
- On 29 August 2007, 205,000 share options were granted to key research staff employed by the Queensland University of Technology to take up ordinary shares at an exercise price of \$0.64 each. The options are exercisable on or before 29 August 2009
- On 29 November, 2007, 400,000 share options were granted to the CEO to take up ordinary shares at an exercise price of \$0.64 each. These options which remain exercisable will vest on the achievement of a series of specific performance milestones and are exercisable within two years of each tranche of options vesting.
- On 29 November, 2007, 100,000 share options were granted to Mr Donald Home to take up ordinary shares at an exercise price of \$0.64 each. The options are exercisable on or before 29 November 2009

The options hold no voting or dividend rights and are not transferable. At balance date no options had been exercised.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 17: SHARE-BASED PAYMENTS (Continued)

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the year	1,465,000	0.60	1,765,000	0.63
Granted	705,000	0.64	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(150,000)	0.80	(300,000)	(0.80)
Outstanding at year-end	2,020,000	0.61	1,465,000	0.60
Exercisable at year-end	2,020,000	0.61	1,465,000	0.55

There were no options exercised during the year ended 30 June 2008.

The options outstanding at 30 June 2008 had a weighted average exercise price of \$0.61 and a weighted average remaining contractual life of 0.79 years. Exercise prices range from \$0.50 to \$0.95 in respect of options outstanding at 30 June 2008.

Included under administration expense in the income statement is: \$53,864 (2007- \$43,085) which relates, in full, to equity-settled share-based payment transactions.

NOTE 18: COMMITMENTS FOR EXPENDITURES

a. Commitments for consultancy services contracted for at the reporting date but not recognised as liabilities, payable

	30 June 2008	30 June 2007
	\$	\$
Within one year	625,606	1,722,885
Later than one year but not later than 5 years	55,788	-
Later than 5 years	-	-
	681,394	1,722,885

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has entered into a Deed of Assignment of Intellectual Property Rights with QUT, under which QUT will assign the Intellectual Property to the Company on the payment of \$100,000 by the Company and the satisfaction of certain preconditions regarding, among other things, its level of cash reserves, the Company's share price and a minimum level of expenditure under the R&D Agreement.

Directors are not aware of any other contingent liabilities or assets that are likely to have a material effect on the results of the Company as disclosed in these financial statements.

NOTE 20: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Key Management Personnel

The Company entered into a R&D Agreement with Queensland University of Technology (QUT) to undertake R&D Projects as requested by the Company during the term of the Intellectual Property Licence Agreement (refer Note 19) and on normal terms and conditions. During the year \$ 926,815 (2007: \$712,646) was paid to QUT in accordance with the R&D Agreement. QUT is a related entity of a Director, Professor David Gardiner.

The Company has entered into a Corporate and Commercial Services Advisory Agreement with Orbit Capital. Orbit Capital is a related entity of a Director, Gregory Baynton. Under the terms of this Agreement, Orbit Capital receives remuneration of \$5,500 per month (plus GST).

The Company paid a fee of \$101,000 to ABN AMRO Morgans Corporate Limited for its part in the rights issue of 2,020,000 ordinary shares. Roger Clarke is a director of ABN AMRO Morgans Corporate Limited.

The company arranged a convertible loan from Roger Clarke (Director) of \$500,000 in March, 2008. The loan matures on 31st March 2009 and interest of 10% per annum is paid quarterly in arrears.

The company arranged a convertible loan from QUT of \$500,000 in May 2008. The loan matures on 31st March 2009 and interest of 10% per annum is paid quarterly in arrears.

NOTE 20: SEGMENT INFORMATION

Tissue Therapies Limited operates predominantly in one business segment being biotechnology. Tissue Therapies customers and clients are located predominantly in Australia.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

- a) The Company conducted a Share Purchase Plan, announced on 21 July 2008, which will close on 25 August 2008, with share allotment on 29 August and planned quotation date of 3 September 2008; and
- b) The clinical trial of VitroGro® for the treatment of venous ulcers started in Perth, Australia on Monday 11 August 2008. This study is being conducted at the Wound Care Clinic of Prof. Michael Stacey at Fremantle Hospital. The results of this trial in Perth will complement the human data from the Canadian clinical trial of VitroGro® for the treatment of venous, diabetic and pressure ulcers, for which approval is pending.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

NOTE 22: CASH FLOW INFORMATION

	30 June 2008	30 June 2007
	\$	\$
a. Reconciliation of Cash		
Cash at end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	519,566	1,911,919
	<hr/> 519,566	<hr/> 1,911,919
b. Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(4,865,418)	(1,710,280)
Non-cash flows in profit from ordinary activities		
Depreciation	8,181	7,258
Research grants included in cash flows from financing activities	-	(14,405)
Amortisation of share based payments	53,864	43,085
Changes in assets and liabilities		
(Increase)/ decrease in receivables and prepayments	3,397,765	(442,496)
Increase / (decrease) in payables	293,936	16,811
(Increase) / decrease in tax recoverable	76,163	(9,005)
(Increase) / decrease in inventory	(3,765,205)	(107,640)
Cash outflows from operations	<hr/> (4,800,714)	<hr/> (5,114,369)

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	30 June 2008	30 June 2007
	\$	\$
NOTE 23: EARNINGS PER SHARE		
Weighted average number of shares used as the denominator	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculation of Basic EPS	30,757,357	21,565,693
Weighted average number of options outstanding which are considered potentially dilutive	-	20,665
Weighted average number of potential ordinary shares outstanding during the year used in calculation of Dilutive EPS	<u>30,757,357</u>	<u>21,586,358</u>

The diluted EPS calculation includes that portion of these options considered to be potentially dilutive, weighted with reference to the date of conversion. The weighted average number included is nil (2007: 20,665).

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 24: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Company
AASB 2007–3 Amendments to Australian Accounting Standards	AASB 5 Non-current Assets Held for Sale and Discontinued Operations AASB 102 Inventories AASB 107 Cash Flow Statements AASB 119 Employee Benefits AASB 127 Consolidated and Separate Financial Statements AASB 134 Interim Financial Reporting AASB 136 Impairment of Assets AASB 1023 General Insurance Contracts AASB 1038 Life Insurance Contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts.	1 January 2009	1 July 2009
AASB 8 Operating Segments	AASB 114 Segment Reporting	As above.	1 Jan 2009	1 July 2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 107 Cash Flow Statements AASB 111 Construction Contracts AASB 116 Property, Plant and Equipment AASB 138 Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. No impact noted on the Company.	1 Jan 2009	1 July 2009
AASB 123 Borrowing Cost	AASB 123 Borrowing Costs	As above.	1 Jan 2009	1 July 2009
AASB 2007–8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity.	1 January 2009	1 July 2009
AASB 101 Presentation of Financial Statements	AASB 101 Presentation of Financial Statements	As above.	1 January 2009	1 July 2009

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25: COMPANY DETAILS

The registered office of the Company is:

Tissue Therapies Limited
c/o McCullough Robertson Lawyers
Level 11
Central Plaza Two
66 Eagle Street
Brisbane QLD 4000
Australia

The principal place of business of the Company is:

Tissue Therapies Limited
6th Floor
Institute of Health and Biomedical Innovation
60 Musk Avenue
Kelvin Grove
QLD 4059
Australia

DIRECTORS DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 11 to 32, are in accordance with the Corporations Act 2001; and
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the year ended on that date.
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. having regard to those matters referred to in Note 1(p), in the directors' opinions 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.



Greg Baynton
Director

Dated at Brisbane, this 18th Day of August 2008



Steven Mercer
CEO & Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TISSUE THERAPIES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Tissue Therapies Limited (the Company) which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the company.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards (IFRS).

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 judgment, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's Opinion

In our opinion:

- a) the financial report of Tissue Therapies Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the financial report also complies with International financial Reporting Standards as disclosed in Note 1.

**INDEPENDENT AUDIT REPORT TO THE
MEMBERS OF TISSUE THERAPIES LIMITED (Continued)**

Going Concern Assumption Appropriate but a Material Uncertainty Exists

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(p) to the financial statements, there is material uncertainty whether Tissue Therapies Limited will be able to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 – 8 of the directors' report for the year ended 30 June 2008. 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 Tissue Therapies Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



HACKETTS DFK

Dated at Brisbane this 18th day of August 2008



Shaun Lindemann
Partner