

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 2009
Previous Corresponding Reporting Period	30 June 2008

Results for Announcement to the Market

	\$	\$ Movement over previous corresponding period	Percentage increase /(decrease) over previous corresponding period
Revenue from ordinary activities	278,528	56,475	25.43%
Profit / (loss) from ordinary activities after tax attributable to members	(4,473,196)	392,222	8.06%
Net profit / (loss) for the period attributable to members	(4,473,196)	392,222	8.06%

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	(1,702.30%)	(2,329.27%)
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	(121.28%)	(129.43%)

NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	4.28cents	11.03 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
4th August 2009

DIRECTORS' REPORT

Your Directors present their report on Tissue Therapies Limited (the Company) for the year ended 30 June 2009.

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 and MTQ Insurance Ltd and
Director of Trojan Equities Limited
- Special Responsibilities — Member of the Audit Committee
- Interest in Shares and Options — 6,790,950 Ordinary Shares

Professor David Gardiner - Director (appointed 12 November, 2003 and resigned 6 April 2009)

- 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 — 8,087,010 Ordinary Shares are held by QUT, which was a related
entity of Professor David Gardiner

Gregory Baynton – 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 Energy Limited, PIPE Networks Limited and
Diversa Limited
- Special Responsibilities — Member of the Audit Committee
- Interest in Shares and Options — 612,500 Ordinary Shares are held by Orbit Capital, which is a
related entity of Gregory Baynton

Donald Home – Director (appointed 14 November 2006 and resigned 23 January 2009)

- Qualifications — Bachelor of Science (Hons.)
Associate 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

Melvyn Bridges – Director (appointed 12 March 2009)

- Qualifications — Bachelor of Science (Chemistry),
Fellow of the Australian Institute of Company Directors
- Experience — Extensive experience as a CEO and Company Director in Healthcare, Agricultural Technology, Drug Development, Pathology, Diagnostics and Medical Devices. Related experience in Retail. Has successfully raised in excess of \$300M investment capital in the healthcare/biotech sector and been directly involved in over \$1B in M&A and related transactions.
Director of Campbell Brothers Limited
- Special Responsibilities — Chairman of the Audit & Risk Management Committee
- Interest in Shares and Options — Nil

Cherrel Hirst – Director (appointed 30 June 2009)

- Qualifications — Bachelor of Medicine, Bachelor of Surgery
Bachelor of Education Studies
Honorary Doctorates from Queensland University of Technology, Griffith University and Southern Cross University
Fellow of the Australian Institute of Company Directors
Deputy Chair and CEO (part time) of Queensland Biocapital Funds and a Director of Peplin Inc, Suncorp Metway Limited, Avant Mutual Group, Avant Insurance Limited, Impedimed Limited and Xenome Limited
- Experience — Distinguished clinical career in the detection and treatment of breast cancer and extensive and respected achievements as Director and Chair of multiple in commercial, government and not-for-profit organisations.
- Interest in Shares and Options — Nil

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 — 300,750 Ordinary Shares purchased on market and options to acquire a further 825,000 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 14 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 \$4,473,196 (2008: loss \$4,865,418).

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 2008-2009 financial year:

Tissue Therapies recorded an after-tax loss of \$4,473,196 in line with budget expectations. This loss includes non-cash expenses of \$2,244,456 relating to usage of VitroGro[®] during the year in clinical trials.

Net assets decreased by \$70,869 to \$3,688,189 and at 30 June 2009 the Company had cash resources of \$791,369.

During August 2008, Tissue Therapies closed a placement of 4,625,000 new ordinary shares with institutional and sophisticated investors at \$0.08 per share to raise \$370,000 before costs of the issue and issued 9,288,450 new ordinary shares under a Share Purchase Plan at \$0.08/share to raise \$743,076 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.

During January 2009 11,707,529 new ordinary shares and in March 2009 a further 5,832,010 new ordinary shares were issued under Redeemable Convertible Note Deeds at \$0.09 per share as approved by shareholders at the 2008 Annual General Meeting.

During March 2009, Tissue Therapies closed a placement of 15,630,044 new ordinary shares with institutional and sophisticated investors at \$0.12 per share to raise \$1,875,605 before costs of the issue. Shareholders had ratified the August 2008 share placement under Listing Rule 14.4 at the 2008 Annual General Meeting.

The Company's contributed equity following the share issue and after transaction costs arising from the issues of shares, was \$17,556,691.

Tissue Therapies is converting 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 and now human trial data indicates will be more cost effective than existing treatments.

Highlights

1. **During July 2008 approval was received for an 8 patient human trial of VitroGro[®] for the treatment of venous ulcers. This clinical study started in Western Australia on Monday 11 August 2008 and the final results which were reported on 19 January 2009 showed:**
 - reduction in median wound area from 9.2 to 5.2 square centimetres in 24 days with twice weekly VitroGro[®] treatment.
 - this reduction in chronic wound area was highly statistically significant ($p < 0.01$).
 - this study also found that VitroGro[®] is safe and well tolerated.
 - these results were obtained in patients who had not healed despite expert compression therapy for up to 24 months. (Compression therapy is the best practice treatment for venous ulcers.

2. During November 2008 approval was received from Health Canada for a human trial of VitroGro® for the treatment of diabetic, venous and pressure ulcers. This clinical study started on 17 November 2008 and subsequent to the end of the 2008 – 2009 reporting period, progressive results for the first 6 patients were released on 23 July 2009. In this clinical trial, patients were treated with VitroGro® once per week for 6 weeks. Once again VitroGro® showed excellent wound healing results in a group of patients who clinically are at the most extreme end of difficulty and for whom the best currently available treatments had failed. There were no adverse reactions to VitroGro®. The following table summarises the results:

Patient	Ulcer Pathology	Age (yrs)	Gender	Result	Medical / Other Complicating Factors
1	Diabetic	73	M	29% ulcer healing	High blood pressure, smoker, previous toe amputation
2	Diabetic	60	M	32% ulcer healing	Kidney dialysis, right below knee amputation, artificial leg complicates treatment of new ulcer on left foot
3	Diabetic	22	M	Healing from base	Started full time work 1 week after joining clinical trial, congenital neuropathy and bilateral leg braces complicate ulcer treatment
4	Diabetic	70	M	15% ulcer healing	Ulcer over old scar for correction of club foot in childhood, shoes & socks creating pressure and friction on ulcer slowing healing
5	Venous	49	F	Healing from base	Ulcer in area of scarring, computer operator who sits most of the day at work
6	Venous	52	F	26% ulcer healing	Severe auto-immune disease (lupus erythematosus), work requires standing and walking most of the day

3. **Lead product VitroGro® addresses a significant and growing unmet medical need**
- VitroGro® has been designed to provide simple, cost effective 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 and 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 an 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)
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 positive human clinical trial results, Tissue Therapies intends to:
 - use clinical trial data to proceed with formal partnership negotiations with identified potential healthcare partners.
 - With available funding, Tissue Therapies intends to:
 - proceed with large scale manufacturing of single-protein New Formulation VitroGro® 1, to provide simpler, faster and cheaper manufacturing, clinical trial and regulatory approval for sale.

- o repeat a small clinical trial of new formulation VitroGro® 1 using the same protocol as the current clinical trial.
- o apply for regulatory approval of new formulation VitroGro® in Canada, European Union 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 August 2008, Tissue Therapies closed a placement of 4,625,000 new ordinary shares with institutional and sophisticated investors at \$0.08 per share to raise \$370,000 before costs of the issue and issued 9,288,450 new ordinary shares under a Share Purchase Plan at \$0.08/share to raise \$743,076 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.

During January 2009 11,707,529 new ordinary shares and in March 2009 a further 5,832,010 new ordinary shares were issued under Redeemable Convertible Note Deeds at \$0.12 per share as approved by shareholders at the 2008 Annual General Meeting.

During March 2009, Tissue Therapies closed a placement of 15,630,044 new ordinary shares with institutional and sophisticated investors at \$0.09 per share to raise \$1,875,605 before costs of the issue. Shareholders had ratified the August 2008 share placement under Listing Rule 14.4 at the 2008 Annual General Meeting.

Matters Subsequent to the End of the Financial Year

- a) Progressive results from the Canadian clinical trial of VitroGro® were released on 23 July 2009, as summarised in the Highlights section above.
- b) To accelerate patient recruitment and increase the number of patients with chronic skin ulcers more representative of the market, the Australian human trial of VitroGro® is being extended to include up to an additional 24 venous ulcer patients. Venous ulcers represent the majority of the chronic wound care market and increasing the number of venous ulcer patients will produce more representative data for commercial negotiations.
- c) Excellent preclinical results for new single-protein formulations of VitroGro® were also released on 23 July 2009. The 2 new single-protein formulations of VitroGro® pack into a single protein the same wound healing biology as the original multi-protein VitroGro®. The new formulation known as VitroGro® 1 was the more efficient and it is this formulation that Tissue Therapies will proceed to manufacture for clinical trial and regulatory approval for sale.

The commercial benefits of the new single-protein formulation include:

- Reduced cost and time of manufacture
- Reduced cost and time of preparation and testing for clinical trial approval
- Reduced cost and time for regulatory approval
- Reduced cost and time of incorporation into wound dressings
- Reduced patient cost of VitroGro® wound dressing products, for faster and wider market penetration
- Improved margins to Tissue Therapies and collaboration partners

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 company, the results of those operations, or the state of affairs of the company 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
Assemble clinical trial data required to negotiate a strategic partnership agreement for international sale of new VitroGro® wound healing products.	Q3 2009	Canadian and extended Australian studies expected to provide data on the required number of patients (ie. 30) by 30 Sep. 2009.
Finalise strategic partnership agreement for international sales of new VitroGro® wound care products.	Q3 2010	Shortlist of potential strategic partners identified and commercial discussions started with most likely partners.
Proceed with large scale manufacturing of single-protein New Formulation VitroGro® 1	Q2 2010	Selection of manufacturing system and contract manufacturer complete
Gain approval for a human trial of VitroGro 1	Q2 2010	Planned
Complete a clinical trial of new formulation VitroGro® 1	Q4 2010	Planned
Proceed with regulatory application for approval of VitroGro® for treatment of human diabetic, venous and pressure ulcers in Canada, European Union and mutual recognition countries.	Q2 2011	Planned.
Continued granting of VitroGro® patent family in worldwide territories	Ongoing	Patents granted in USA, South Korea, South Africa, Aust. & NZ; pending, 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
10/03/2006	27/09/2009	\$0.95	100,000
29/08/2007	29/08/2009	\$0.64	205,000
29/11/2007	2 years from each milestone achieved*	\$0.64	400,000 *
29/11/2007	29/11/2009	\$0.64	100,000
27/11/2008	2 years from each milestone achieved*	\$0.15	325,000**
			1,130,000

* 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.

** Options issued to the CEO under the Company's Equity Option Plan in lieu of cash bonus. 500,000 options were originally issued which vest on the achievement of certain Key Events. As at 30 June 2009, 175,000 of the options issued expired.

No ordinary shares were issued on the exercise of options during the year ended 30 June 2009, 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 vested on the achievement of a series of specific performance milestones have expired. 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. In 2008, in lieu of a cash bonus, Dr Mercer was awarded a further 500,000 performance based options. These options will also vest on the achievement of specific performance milestones and are also exercisable within two years of each tranche of options vesting, however 175,000 of these options expired during the current financial year.

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 2009 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)	2009	37,500	-	3,375	-	-	40,875	-
	2008	35,000	-	3,150	-	-	38,150	-
G. Baynton	2009	17,500	-	-	-	-	17,500	-
	2008	10,000	-	-	-	-	10,000	-
Prof. D. Gardiner [1]	2009	15,000	-	-	-	-	15,000	-
	2008	20,000	-	-	-	-	20,000	-
D. Home [2]	2009	11,667	-	1,050	-	6,049	18,766	-
	2008	20,000	-	1,800	-	7,049	28,849	-
M.Bridges [3]	2009	13,333	-	-	-	-	13,333	-
	2008	-	-	-	-	-	-	-
C. Hirst [4]	2009	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-
Executive Directors								
G. Baynton [5]	2009	49,500	-	-	-	-	49,500	-
	2008	66,000	-	-	-	-	66,000	-
Dr S. Mercer (CEO)	2009	175,625	-	15,806	-	27,566	218,997	12.6%
	2008	173,276	-	18,003	-	28,197	219,476	12.8%
Other Key Management Personnel								
D. McKenzie	2009	49,325	-	-	-	-	49,325	-
	2008	51,266	-	-	-	-	51,266	-
Total	2009	369,450	-	20,231	-	33,615	423,296	
Total	2008	375,542	-	22,953	-	35,246	433,741	

[1] Professor D Gardiner has instructed that all fees payable to him are to be paid into The QUT Endowment Equity Fund. Resigned 6 April 2009.

[2] Resigned 23 January 2009

[3] Appointed 12 March 2009

[4] Appointed 30 June 2009.

[5] Gregory Baynton became a non-executive Director effective 31 December 2008.

(a) Options issued to Directors & Specified Executives as part of remuneration for the year ended 30 June 2009

500,000 options were issued as part of remuneration during the year ended 30 June 2009 and no options were exercised during the year. The value of options to Steven Mercer (Director / CEO) and Donald Home (former Director) during the year as part of his remuneration package were partly amortised during the year with \$33,615 (2008: \$35,246) 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	100,000	500,000	27/11/08	0.002	0.15	*	*

* 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. As at 30 June 2009, 1750,000 of these options had expired.

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	27,566	12.6
D. Home	6,049	32.2
	<u>33,615</u>	<u>7.9</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	9	8	3	3
G. Baynton	9	8	3	2
Prof. D. Gardiner	7	4	-	-
D. Home	5	5	1	1
Dr. S. Mercer	9	9	-	-
M. Bridges	3	3	1	1
C Hirst (appointed 30 June 2009)	-	-	-	-

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 or related entities of the external auditors during the year ended 30 June 2009:

Non-audit services	30 June 2009
	\$
Audit or review of regulatory returns & due diligence services	10,800
Taxation services	7,603
	<hr/>
	18,403
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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

Dated at Brisbane, this 4th Day of August 2009



Steven Mercer
CEO & Director

4 August 2009

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 2009, 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 2009

	Note	30 June 2009 \$	30 June 2008 \$
Revenues	2	278,528	222,053
Research and development expenses		(1,022,600)	(1,356,941)
Clinical trials expenses		(2,244,456)	-
Occupancy expenses		(17,391)	(17,521)
Administration expenses		(972,536)	(978,612)
Marketing, business development and patent protection		(206,366)	(96,134)
Laboratory expenses		(8,190)	(88,098)
Manufacturing process development expenditure		-	(2,473,874)
Inventory write down to net realisable value		(348,209)	-
Finance costs		(87,608)	(27,527)
Other expenses		(112,536)	(355,552)
Loss before income tax benefit	3	(4,741,364)	(5,172,206)
Income tax benefit	4(b)	268,168	306,788
Loss from continuing operations after income tax benefit		(4,473,196)	(4,865,418)
Loss attributable to members of the entity		(4,473,196)	(4,865,418)
		Cents	Cents
Overall Operations			
Basic earnings per share	24	(7.25)	(13.29)
Diluted earnings per share	24	(7.25)	(13.29)

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
BALANCE SHEET AS AT 30 JUNE 2009

	Note	30 June 2009	30 June 2008
			\$
CURRENT ASSETS			
Cash and cash equivalents	5	791,369	519,566
Trade and other receivables	6(a)	268,730	184,152
Inventories	7(a)	988,282	4,482,025
Current tax assets	4(d)	249,028	290,456
Other current assets	6(b)	6,704	298,091
TOTAL CURRENT ASSETS		<u>2,304,113</u>	<u>5,774,290</u>
NON-CURRENT ASSETS			
Inventories	7(b)	1,398,375	-
Property, plant and equipment	8	91,680	107,748
Intangible assets	9	342,250	342,250
TOTAL NON-CURRENT ASSETS		<u>1,832,305</u>	<u>449,998</u>
TOTAL ASSETS		<u>4,136,418</u>	<u>6,224,288</u>
CURRENT LIABILITIES			
Trade and other payables	10	448,229	965,230
Financial liabilities – convertible loans	11	-	1,500,000
TOTAL CURRENT LIABILITIES		<u>448,229</u>	<u>2,465,230</u>
TOTAL LIABILITIES		<u>448,229</u>	<u>2,465,230</u>
NET ASSETS		<u>3,688,189</u>	<u>3,759,058</u>
EQUITY			
Issued Capital	12(a)	17,556,691	13,187,979
Reserves		152,918	119,303
Accumulated losses		(14,021,420)	(9,548,224)
TOTAL EQUITY		<u>3,688,189</u>	<u>3,759,058</u>

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2009

	30 June 2009	30 June 2008
	\$	\$
Contributed equity		
Ordinary shares at beginning of period	13,187,979	11,275,677
Shares issued during period	4,601,463	2,020,000
Transaction costs	(232,751)	(107,698)
Balance of issued capital at end of period	<u>17,556,691</u>	<u>13,187,979</u>
Options reserve		
Options reserve at beginning of period	119,303	65,439
Share options expensed during the period	33,615	53,864
Balance of options reserve at end of period	<u>152,918</u>	<u>119,303</u>
Accumulated losses		
Accumulated losses at beginning of period	(9,548,224)	(4,682,806)
Loss attributable to members of the entity	(4,473,196)	(4,865,418)
Accumulated losses at end of period	<u>(14,021,420)</u>	<u>(9,548,224)</u>
Total equity at the end of the period	<u><u>3,688,189</u></u>	<u><u>3,759,058</u></u>

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	30 June 2009 \$	30 June 2008 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		154,163	80,732
Payments to research facilities (inclusive of goods and services tax)		(1,624,775)	(1,367,738)
Payments to suppliers (inclusive of goods and services tax)		(1,335,653)	(3,960,791)
Interest received		25,580	66,413
Finance costs		(1,578)	(2,281)
Income Tax rebate received		308,733	382,951
Net cash provided by (used in) operating activities	23(b)	<u>(2,473,530)</u>	<u>(4,800,714)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		-	(3,941)
Net cash provided by (used in) investing activities		<u>-</u>	<u>(3,941)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issues	23(c)	2,988,681	2,020,000
Costs of share issue		(243,348)	(107,698)
Proceeds from borrowings		-	1,500,000
Net cash provided by (used in) financing activities		<u>2,745,333</u>	<u>3,412,302</u>
Net increase (decrease) in cash held		271,803	(1,392,353)
Cash at beginning of year		519,566	1,911,919
Cash at end of year	23(a)	<u>791,369</u>	<u>519,566</u>

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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 Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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 grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Property, plant and equipment (Continued)

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.

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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Comparative figures

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

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 2009.

Key Judgements - Inventory

The Company assessed the valuation of protein inventory on hand at 30 June 2009. Based on the outcome of research and development activities to date and anticipated future events and use of protein on hand, the Company has written down the value of protein components on hand by \$348,209. This is shown in the income statement for the current year.

The financial report was authorised for issue on 4th August 2009 by the board of directors.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	30 June 2009	30 June 2008
NOTE 2: REVENUE	\$	\$
Operating activities:		
Product sales	-	80,732
Interest received	25,580	66,413
Research grants	252,948	74,908
Total revenue from ordinary activities	<u>278,528</u>	<u>222,053</u>
NOTE 3: LOSS FOR THE YEAR		
Expenses		
Finance costs – external	1,578	27,527
Rental expense on operating leases – minimum lease payments	5,292	5,809
Depreciation expense	12,215	8,181
Loss on disposal of property, plant and equipment	3,853	-
NOTE 4: INCOME TAX		
a. The components of income tax benefit comprises		
Current tax	268,168	306,788
Over provision in respect of prior years	-	-
Total tax benefit	<u>268,168</u>	<u>306,788</u>
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% (2008 – 30%)	1,422,410	1,551,662
Tax effect of:		
Business related capital expenditure	1,479	(14,879)
(Increase)/ decrease in accruals	(7,901)	(5,947)
Non-deductible entertainment	(557)	(399)
R&D expenditure taken as a cash offset	(214,534)	(246,994)
Tax Losses available	<u>1,200,897</u>	<u>1,283,443</u>
Tax losses utilised by:		
Income tax benefit attributable to R&D tax offset receivable	268,168	306,788
Income tax benefit attributable to R&D tax offset overstated in prior year	-	-
Income tax benefit relating to entity	<u>268,168</u>	<u>306,788</u>
The applicable weighted average effective tax rates are as follows:	(6%)	(6%)

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	30 June 2009	30 June 2008
	\$	\$

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	314,338	206,997
Tax losses – operating losses	3,396,941	2,185,960
	3,711,279	2,392,957

d. Current Tax Asset

Opening balance of R&D tax offset concession claimed	290,456	366,619
Less - R&D tax offset understated/ (overstated) in prior year	(863)	-
Less- Income tax benefit attributable to R&D tax offset received	(308,733)	(382,951)
Add - Income tax benefit attributable to R&D tax offset receivable	268,168	306,788
Closing balance of Research and Development tax offset concession claimed	249,028	290,456

NOTE 5: CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank	24,849	-
Short term bank deposits - at call *	766,520	519,566
	791,369	519,566

* The deposits were in interest bearing floating rate accounts. Interest rates varied between 3.0% and 7.1%.

NOTE 6: TRADE AND OTHER RECEIVABLES & OTHER CURRENT ASSETS

(a)

Trade debtors	199,310	82,407
GST receivable	69,420	101,745
	268,730	184,152

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 2009

30 June 2009 30 June 2008
\$ \$

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

(b) Other Current Assets

Prepayments	6,704	19,361
Deposits held	-	278,730
	<u>6,704</u>	<u>298,091</u>

NOTE 7: INVENTORIES

a) Current assets

VitroGro® protein – at cost	<u>988,282</u>	<u>4,482,025</u>
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b) Non-current assets

VitroGro® Protein Components – at net realisable value	<u>1,398,375</u>	-
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Based on research and development activities to date and the timing of future expected events, the Directors are of the opinion that the classification of the protein components above as non-current is more appropriate. The Directors believe that the value of these proteins may not be recovered through further conversion or sale within 12 months. The amount of the write-down of these proteins to net realisable value during the year is shown in the income statement.

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

Plant and equipment – at cost	82,009	35,141
Less: Accumulated depreciation	<u>(35,516)</u>	<u>(19,448)</u>
	46,493	15,693
Capital Works in progress	<u>45,187</u>	<u>92,055</u>
Total property, plant and equipment	<u>91,680</u>	<u>107,748</u>

	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 2008	15,693	92,055	107,748
Additions	-	-	-
Transfers	46,868	(46,868)	-
Disposals	(3,853)	-	(3,853)
Depreciation expense	(12,215)	-	(12,215)
Carrying amount at 30 June 2009	<u>46,493</u>	<u>45,187</u>	<u>91,680</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 2009

30 June 2009	30 June 2008
\$	\$

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	316,359	447,284
Other creditors and accruals	131,870	517,946
	448,229	965,230

NOTE 11: CURRENT LIABILITIES – FINANCIAL LIABILITIES

Unsecured liabilities:

Convertible loans	-	1,500,000
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Convertible loans payable which were obtained as a source of working capital have now been converted into ordinary shares.

NOTE 12: ISSUED CAPITAL

a. Share capital

78,138,155 (30 June 2008: 30,978,122) fully paid ordinary shares	17,566,691	13,187,979
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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 2009

30 June 2009 30 June 2008
\$ \$

NOTE 12: ISSUED CAPITAL (Continued)

c. Movements in ordinary share capital:

Date	Details	No. Shares	Issue price	\$
01/07/08	Balance at beginning of year	30,978,122		13,187,979
15/9/08	Ordinary shares issued under Share Purchase Plan	9,288,450	8 c	743,076
15/9/08	Ordinary shares issued by Placement	4,625,000	8 c	370,000
7/1/09	Ordinary shares issued for consultancy services	77,000	8 c	6,160
22/1/09	Ordinary shares issued on conversion of Convertible Notes	11,707,529	9.16 c	1,072,410
4/3/09	Ordinary shares issued under Rights Issue	15,630,044	12 c	1,875,605
18/3/09	Ordinary shares issued on conversion of Convertible Notes	5,832,010	9.16 c	534,212
	Transaction costs arising from share issues			(232,751)
30/06/09	Balance at end of year	<u>78,138,155</u>		<u>17,556,691</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 company in order to maintain an appropriate debt to equity ratio, and ensure that the company can fund its operations and continue as a going concern.

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

There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company'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 company 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 2009

	30 June 2009	30 June 2008
	\$	\$
NOTE 14: REMUNERATION OF AUDITORS		
Audit services – Hacketts DFK		
Audit and review of financial reports and other audit work under the Corporations Act 2001	28,128	25,400
Non-audit services		
Audit or review of regulatory returns and due diligence services – Hacketts Corporate Advisory	10,800	9,600
Taxation services – Hacketts Chartered Accountants	7,603	5,956
	46,531	40,956

NOTE 15: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

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

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 company 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 company 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 2009, 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 2009

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	Director – Non-executive
Mr Don Home	Director – Non-executive
Mr Mel Bridges	Director – Non-executive
Dr Cherrell Hirst	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 30.06.2008	Granted as Compensation	Options Expired	Balance 30.06.2009	Total Vested 30.06.09	Total Exercisable 30.06.09	Total Unexercisable 30.06.09
R. Clarke	150,000	-	150,000	-	-	-	-
G. Baynton [2]	600,000	-	600,000	-	-	-	-
Prof. D. Gardiner [1]	100,000	-	100,000	-	-	-	-
D Home	100,000	-	-	100,000	100,000	100,000	-
Dr S. Mercer	640,000	500,000	315,000	825,000	370,000	370,000	455,000
D. McKenzie	25,000	-	25,000	-	-	-	-
Total	1,615,000	500,000	1,190,000	925,000	470,000	470,000	455,000

[1] A total of 2,255,000 shares 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.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 16: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

c. Share Holdings

Number of Shares held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2008	Received as Compensation	Acquired Under Rights Issue, Conversion of Notes and Other Purchases	Balance 30.06.2009
R. Clarke	370,000	-	6,420,950	6,790,950
G. Baynton [2]	520,000	-	92,500	612,500
Prof. D. Gardiner [1]	2,255,000	-	5,832,010	8,087,010
Dr S. Mercer	138,000	-	162,750	300,750
Total	3,283,000	-	12,508,210	15,791,210

[1] A total of 8,087,010 shares are held by QUT, which is a related entity of Professor David Gardiner.

[2] Orbit Capital, a related entity of Gregory Baynton holds 612,500 shares.

NOTE 17: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2009:

- 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.
- On 27 November, 2008, 500,000 share options were granted to the CEO to take up ordinary shares at an exercise price of \$0.15 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. During the year ended 30 June 2009, 175,000 of these options expired.

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 2009

NOTE 17: SHARE-BASED PAYMENTS (Continued)

	2009		2008	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the year	2,020,000	0.61	1,465,000	0.60
Granted	500,000	0.15	705,000	0.64
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(1,390,000)	0.50	(150,000)	0.80
Outstanding at year-end	1,130,000	0.55	2,020,000	0.61
Exercisable at year-end	675,000	0.65	2,020,000	0.61

There were no options exercised during the year ended 30 June 2009.

The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.55 and a weighted average remaining contractual life of 0.64 years. Exercise prices range from \$0.15 to \$0.95 in respect of options outstanding at 30 June 2009.

Included under administration expense in the income statement is: \$39,775 (2008- \$53,864) 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 2009	30 June 2008
	\$	\$
Within one year	302,655	625,606
Later than one year but not later than 5 years	134,877	55,788
Later than 5 years	-	-
	437,532	681,394

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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. The Directors are not able to reasonably determine at this point in time when the above pre-conditions are likely to be satisfied.

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 \$ 914,084 (2008: \$926,815) was paid to QUT in accordance with the R&D Agreement. QUT is a related entity of a former 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. The total remuneration received under the terms of the agreement during the year was \$50,666.

The Company paid a fee of \$44,105 (2008: \$101,000) to ABN AMRO Morgans Corporate Limited primarily for its part in the share placement during the year. Roger Clarke is a director of ABN AMRO Morgans Corporate Limited.

During the period, a convertible loan held by Roger Clarke (Director) of \$500,000, and capitalised interest, was converted to ordinary share capital in accordance with the agreement.

During the period, a convertible loan held by QUT of \$500,000, and capitalised interest, was converted to ordinary share capital in accordance with the agreement. QUT is a related entity of a former Director as outlined above.

NOTE 21: 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 2009

NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE

a) Progressive results from the Canadian clinical trial of VitroGro® were released on 23 July 2009, as summarised in the Highlights section of the Director's report.

b) To accelerate patient recruitment and increase the number of patients with chronic skin ulcers more representative of the market, the Australian human trial of VitroGro® is being extended to include up to an additional 24 venous ulcer patients. Venous ulcers represent the majority of the chronic wound care market and increasing the number of venous ulcer patients will produce more representative data for commercial negotiations.

c) Excellent preclinical results for new single-protein formulations of VitroGro® were also released on 23 July 2009. The 2 new single-protein formulations of VitroGro® pack into a single protein the same wound healing biology as the original multi-protein VitroGro®. The new formulation known as VitroGro® 1 was the more efficient and it is this formulation that Tissue Therapies will proceed to manufacture for clinical trial and regulatory approval for sale.

The commercial benefits of the new single-protein formulation include:

- Reduced cost and time of manufacture
- Reduced cost and time of preparation and testing for clinical trial approval
- Reduced cost and time for regulatory approval
- Reduced cost and time of incorporation into wound dressings
- Reduced patient cost of VitroGro® wound dressing products, for faster and wider market penetration
- Improved margins to Tissue Therapies and collaboration partners

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

NOTE 23: CASH FLOW INFORMATION

	30 June 2009	30 June 2008
	\$	\$

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

	791,369	519,566
	<hr/>	<hr/>
	791,369	519,566

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	30 June 2009	30 June 2008
	\$	\$
NOTE 23: CASH FLOW INFORMATION (Continued)		
b. Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(4,473,196)	(4,865,418)
Non-cash flows in profit from ordinary activities		
Depreciation	12,215	8,181
Loss on disposal of property, plant and equipment	3,853	-
Share based payments	39,775	53,864
Finance costs for convertible notes converted to share capital, included in financing activities	86,030	-
Changes in assets and liabilities		
(Increase)/ decrease in receivables and prepayments	206,809	3,397,765
Increase / (decrease) in payables	(485,812)	293,936
(Increase) / decrease in tax recoverable	41,428	76,163
(Increase) / decrease in inventory	2,095,368	(3,765,205)
Cash outflows from operations	<u>(2,473,530)</u>	<u>(4,800,714)</u>

c. Cash flows from financing activities

Proceeds from share issues in the statement of cash flows is currently shown net of the transactions for the conversion of notes (borrowings) outstanding into share capital during the period. The amount of the conversions is shown in Note 12(c) to the financial statements.

NOTE 24: 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	61,684,861	36,613,741
Weighted average number of options outstanding which are considered potentially dilutive	4,905	-
Weighted average number of potential ordinary shares outstanding during the year used in calculation of Dilutive EPS	<u>61,689,766</u>	<u>36,613,741</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 4,905 (2008: nil).

The prior year weighted average number of shares used in the calculation of both basic and diluted EPS has been restated to include the bonus element from the various share issues during the current financial year. The amount shown in the prior year financial statements which has been restated was 30,757,357.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 25: CHANGE IN ACCOUNTING POLICY

New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

- (a) AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and any consolidations occurring from the date of application. In this regard, its impact on the Company will be unable to be determined. The Company is not currently within a consolidated group.
- (b) AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's Board for the purposes of decision making. The Company does not currently operate outside of one business and geographic segment and as such is not required to provide segment disclosures. The Board will review the impact of this standard once these circumstances change.
- (c) AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Company. If there is a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.
- (d) AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Company as a policy of capitalising qualifying borrowing costs has been maintained by the Company.
- (e) AASB 2008-1: Amendments to Australian Accounting Standard — Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- (f) AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 25: CHANGE IN ACCOUNTING POLICY (Continued)

New Accounting Standards for Application in Future Periods

The following amendments have been assessed as either not being relevant to the operations or having no impact on Tissue Therapies Limited:

- (a) AASB 2008-2: Amendments to Australian Accounting Standards — Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2]
- (b) AASB 2008-8: Amendments to Australian Accounting Standards — Eligible Hedged Items [AASB 139]
- (c) AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 — Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]
- (d) AASB Interpretation 15: Agreements for the Construction of Real Estate
- (e) AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation
- (f) AASB Interpretation 17: Distributions of Non-cash Assets to Owners

NOTE 26: 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 13 to 34, are in accordance with the *Corporations Act 2001*; and
 - a. comply with Accounting Standards; and
 - b. give a true and fair view of the Company's financial position as at 30 June 2009 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. 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



Steven Mercer
CEO & Director

Dated at Brisbane, this 4th Day of August 2009

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 2009, 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 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*.

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

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 2009 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 – 10 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

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HACKETTS DFK

Dated at Brisbane this 4th day of August 2009



**Shaun Lindemann
Partner**