

DIRECTORS' REPORT

Your Directors present their report on Tissue Therapies Limited ("the Company") for the year ended 30 June 2010.

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, RBS Morgans Limited Chairman of NextDC Limited and MTQ Insurance Ltd and Director of Trojan Equity Limited, and Maverick Drilling and Exploration Limited
Former ASX entity Directorships	— PIPE Networks Limited (February 2005 to March 2010) and White Sands Petroleum Limited (November 2005 to December 2007)
Special Responsibilities	— Member of the Audit and Risk Management Committee
Interest in Shares and Options	— 5,058,000 Ordinary Shares

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, NextDC Limited and Diversa Limited
Former ASX entity Directorships	— PIPE Networks Limited (December 2004 to March 2010)
Special Responsibilities	— Member of the Audit and Risk Management Committee
Interest in Shares and Options	— 612,500 Ordinary Shares are held by Orbit Capital, which is a related entity of Gregory Baynton

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 Chairman of Alchemia Limited and ImpediMed Limited, Director of Benitec Limited, Campbell Brothers Limited and Genera Biosystems Limited
Former ASX entity Directorships	— Incitive Limited (November 2007 to June 2010) and Peptech Limited (December 2002 to October 2007)
Special Responsibilities	— Chairman of the Audit and Risk Management Committee
Interest in Shares and Options	— 68,200 Ordinary Shares

Cherrell 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 Medibank Private 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
- Former ASX entity Directorships — Peplin Inc. (August 2000 to November 2009) and Suncorp-Metway
Limited (February 2002 to April 2010)
- Special Responsibilities — Nil
- 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 prior 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
- Former ASX entity Directorships — Nil
- Special Responsibilities — Chief Executive Officer, and appointed Executive Director on 10
May 2006
- Interest in Shares and Options — 1,025,750 Ordinary Shares and options to acquire a further 675,000
Ordinary Shares

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 15 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.

There were no significant changes in the nature of the Company's principal activities during the year.

Operating results

The loss of the Company after tax amounted to \$3,486,399 (2009 : loss \$4,473,196).

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 2009-2010 financial year:

Tissue Therapies recorded an after-tax loss of \$3,486,399 in line with budget expectations. This loss includes non-cash expenses of \$695,955 relating to usage of VitroGro® during the year in clinical trials.

Net assets increased by \$4,254,206 to \$7,942,395 and at 30 June 2010 the Company had cash resources of \$5,500,285.

In October and December 2009 the Company conducted successful placements of 33,333,334 ordinary shares with institutional and sophisticated investors at \$0.15 per share to raise \$5,000,000, and 3,288,513 ordinary shares at \$0.1184 to raise \$389,360. In December 2009 the Company issued 23,441,445 ordinary shares under a Share Purchase Plan at \$0.1184 per share to raise \$2,775,467.

The Company's contributed equity following the share issues and after transaction costs arising from the issues was \$25,276,808.

Tissue Therapies is converting more than 10 years of scientific research, protein engineering, preclinical, and now, exceptional clinical trial results into powerful, effective, new wound healing treatments for diabetic, venous and pressure ulcers. End user pricing based on human trial data indicates VitroGro® will be more cost effective than existing treatments.

Highlights

1. During the 2009 - 2010 financial year additional exceptional clinical results were released from the Australian clinical study of VitroGro® for the treatment of chronic venous ulcers. Further excellent results for the final cohort of patients were released on 13 July 2010.

Some of the exceptional results from this 24-day VitroGro® human venous ulcer trial include:

- Complete healing of 4 ulcers out of 22.
- Average reduction of ulcer area of 40% in 24 days ($p < 0.0001$).
- This study also found that VitroGro® is safe and well tolerated in humans.
- These results were obtained in patients who had not healed despite expert compression therapy for up to 24 months. (Compression therapy is the current best practice treatment for venous ulcers).
- Average age of the patients was 68 years,
- Average duration of venous ulcer prior to VitroGro® treatment was 13 months.
- Average duration of compression therapy (the current gold standard of care) prior to joining the VitroGro® trial was 12 months.

These clinical results are in addition to the positive results achieved in the previously announced Canadian human VitroGro® trial of 10 patients all of whom were extremely medically challenging and were in the most difficult hard-to-heal category. (Please see ASX: TIS CEO AGM Presentation 27 November 2009.)

2. During January 2010 Tissue Therapies executed a contract with Cardiff University for Professor Keith Harding to conduct a human trial of VitroGro® for completion at the end of December 2010.

This clinical trial will be used to produce the final data necessary for the approval of VitroGro® for sale in Europe, Britain, Canada, Australia and New Zealand, with subsequent rollout planned for the rest of the world.

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 healing 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) Consumer, retail and acute wound care products offer a substantially larger opportunity.
 - 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. Commercialisation Strategy

Tissue Therapies:

- Is already using the exceptional clinical trial data in formal negotiations with identified potential healthcare partners.
- Has successfully completed commercial scale GMP manufacturing.
- Is proceeding with the final clinical trial necessary for approval for sale in most territories outside the United States.
- Is proceeding with development of other commercial applications for VitroGro® and other technologies for the treatment of psoriasis, scar prevention and treatment and potential treatments for various cancers including those of the breast, colon and prostate.

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, in October and December 2009 the Company conducted successful placements of 33,333,334 ordinary shares with institutional and sophisticated investors at \$0.15 per share to raise \$5,000,000, and 3,288,513 ordinary shares at \$0.1184 to raise \$389,360. In December 2009 the Company issued 23,441,445 ordinary shares under a Share Purchase Plan at \$0.1184 per share to raise \$2,775,467.

Matters Subsequent to the End of the Financial Year

- a) Excellent additional clinical results from the last 5 patients in the 22 patient Australian venous ulcer VitroGro® study were released on 13 July 2010. These results are included in the clinical trial results of VitroGro® summarised in the Highlights section above.
- b) Successful completion of the first commercial scale manufacturing of VitroGro® to Good Manufacturing Practice (GMP) standards was also announced on 13 July 2010.
- c) As part of the campaign to increase international awareness and the profile of Tissue Therapies Ltd and VitroGro®, Tissue Therapies listed on the Berlin Stock Exchange in Germany. This is in addition to the earlier listing of Tissue Therapies Ltd stock on the Frankfurt Exchange.

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
Successful commercial scale GMP manufacture of VitroGro®.	Q2 2010	Completed July 2010.
Strategic partnership agreement for international sales of new VitroGro® wound care products.	Q4 2010	Negotiations progressing well with multiple potential commercialisation partners.
Complete EU compliant human clinical trial of VitroGro®.	Q4 2010	Contracts executed and clinical trial sites selected.
Proceed with regulatory application for approval of VitroGro® for sale in Canada, European Union and mutual recognition countries.	Q2 2011	Planned.

Options

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

Grant date	Date of Expiry	Exercise price	Number under option
29/11/2007	2 years from each milestone achieved*	\$0.64	350,000 *
27/11/2008	2 years from each milestone achieved*	\$0.15	325,000 **
9/3/2010	31 March 2012	\$0.26	1,250,000 ***
			<hr/> 1,925,000 <hr/>

* Options issued to the CEO under the Company's Equity Option Plan in lieu of cash bonus. 400,000 options were originally issued which vest on the achievement of certain Key Events. As at 30 June 2010, 50,000 of the options issued had expired.

** 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 2010, 175,000 of the options issued had expired.

*** Options issued to key management personnel and QUT Research Staff.

No ordinary shares were issued on the exercise of options during the year ended 30 June 2010, or up until the date of this report.

During the year 455,000 options expired.

Option holders do not have any rights to participate in any issues of ordinary shares or other interests in the Company.

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 the 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.

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 the Company encompasses a total remuneration package of \$223,226 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. These options have since expired.

Dr Mercer was awarded 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 at an exercise price of 64c within two years of each tranche of options vesting, however 50,000 of these options had expired by the end of the financial year.

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 exercisable at an exercise price of 15c within two years of each tranche of options vesting, however 175,000 of these options had expired by the end of the 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 2010 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)	2010	45,000	-	4,050	-	-	49,050	-
	2009	37,500	-	3,375	-	-	40,875	-
G. Baynton	2010	40,000	-	-	-	-	40,000	-
	2009	17,500	-	-	-	-	17,500	-
Prof. D. Gardiner [1]	2010	-	-	-	-	-	-	-
	2009	15,000	-	-	-	-	15,000	-
D. Home [2]	2010	-	-	-	-	-	-	-
	2009	11,667	-	1,050	-	6,049	18,766	32.2%
M.Bridges [3]	2010	40,000	-	-	-	-	40,000	-
	2009	13,333	-	-	-	-	13,333	-
C. Hirst [4]	2010	40,000	-	3,600	-	-	43,600	-
	2009	-	-	-	-	-	-	-
Executive Directors								
G. Baynton [5]	2010	-	-	-	-	-	-	-
	2009	49,500	-	-	-	-	49,500	-
Dr S. Mercer (CEO)	2010	198,857	-	17,606	-	2,256	218,719	1.0%
	2009	175,625	-	15,806	-	27,566	218,997	12.6%
Other Key Management Personnel								
D. McKenzie	2010	45,804	-	-	-	3,646	49,450	7.4%
	2009	49,325	-	-	-	-	49,325	-
Total								
Total		2010	409,661	-	25,256	-	5,902	440,819
Total		2009	369,450	-	20,231	-	33,615	423,296

[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 Key Management Personnel

During the year 1,250,000 options were issued under the Company's Equity Option Plan, of which 250,000 (2009 : 500,000) options were issued to Key Management Personnel. No options were exercised during the year. A further 750,000 options are to be issued to Directors subject to shareholder approval.

The value of options issued to Key Management Personnel have been partly amortised during the year with \$20,488 (2009 : \$33,615) being included in Administration expense in the statement of comprehensive income.

Options Granted as Remuneration

Key Management Personnel	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
2010							
D. McKenzie	- *	250,000	9/3/2010	0.0467	0.26	**	31/3/2012
2009							
Dr. S Mercer	100,000	500,000	27/11/08	0.0179	0.15	***	***

* These options will vest on 9/3/2011.

** These options cannot be exercised unless the exercise price is less than the share price on the exercise date.

*** 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 2010, 175,000 (2009 : 175,000) of these options had expired.

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

Key Management Personnel	Options granted as part of remuneration	Total remuneration represented by options
	\$	%
Dr S. Mercer	2,256	1.0
D. McKenzie	3,646	7.4
	<u>5,902</u>	<u>1.3</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 and Risk Management Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended
R. Clarke	10	9	3	3
G. Baynton	10	9	3	2
M. Bridges	10	10	3	3
C. Hirst	10	10	n/a	n/a
Dr. S Mercer	10	10	n/a	n/a

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.

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 S237 of the *Corporations Act 2001*.

Auditor

Lawler Hacketts Audit (formerly Hacketts DFK) has been appointed as the Company's auditor.

There is no former partner or director of Lawler Hacketts Audit who is or was at any time during the year an officer of the Company.

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 and Risk Management 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 2010:

Non-audit services	30 June 2010 \$	30 June 2009 \$
Audit or review of regulatory returns and due diligence services	-	10,800
Taxation compliance services	6,500	7,603
	<u>6,500</u>	<u>18,403</u>

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.

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



Greg Baynton
Director

Brisbane, 10 August 2010



Steven Mercer
CEO & Director

10 August 2010

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 2010, I declare that to the best of my knowledge and belief, there have been:

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

Yours faithfully

Lawler Hacketts Audit



L J Murphy
Partner

FINANCIAL STATEMENTS

TISSUE THERAPIES LIMITED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	30 June 2010 \$	30 June 2009 \$
Continuing operations			
Revenue	2(a)	229,484	252,948
Other income	2(b)	151,221	25,580
		<u>380,705</u>	<u>278,528</u>
Research and development expenses		(996,004)	(1,022,600)
Clinical trials expenses		(841,627)	(2,244,456)
Occupancy expenses		(18,902)	(17,391)
Administration expenses		(911,311)	(972,536)
Marketing, business development and patent protection		(285,062)	(206,366)
Laboratory expenses		(21,342)	(8,190)
Depreciation		(8,561)	(12,215)
Inventory write down to net realisable value		(348,209)	(348,209)
Finance costs		(7,178)	(87,608)
Loss on foreign exchange		(374,458)	-
Other expenses		(263,626)	(100,321)
Loss before income tax benefit	3	(3,695,575)	(4,741,364)
Income tax benefit	4(b)	209,176	268,168
Loss from continuing operations after income tax benefit		<u>(3,486,399)</u>	<u>(4,473,196)</u>
Other comprehensive income/(loss) items			
Other comprehensive income items		-	-
Income tax relating to components of other comprehensive income items		-	-
Other comprehensive income/(loss) after income tax benefit		<u>-</u>	<u>-</u>
Total comprehensive income/(loss)		<u>(3,486,399)</u>	<u>(4,473,196)</u>
Loss attributable to members of the Company		<u>(3,486,399)</u>	<u>(4,473,196)</u>
Total comprehensive income/(loss) attributable to member of the Company		<u>(3,486,399)</u>	<u>(4,473,196)</u>

The accompanying notes form part of these statements.

		Cents	Cents
Overall Operations			
Basic earnings per share	23	(3.08)	(7.25)
Diluted earnings per share	23	(3.08)	(7.25)

TISSUE THERAPIES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	30 June 2010 \$	30 June 2009 \$
CURRENT ASSETS			
Cash and cash equivalents	5	5,500,285	791,369
Trade and other receivables	6(a)	242,564	268,730
Inventories	7(a)	335,528	988,282
Current tax assets	4(d)	189,807	249,028
Other current assets	6(b)	739,698	6,704
TOTAL CURRENT ASSETS		7,007,882	2,304,113
NON-CURRENT ASSETS			
Inventories	7(b)	1,043,005	1,398,375
Property, plant and equipment	8	105,142	91,680
Intangible assets	9	342,250	342,250
TOTAL NON-CURRENT ASSETS		1,490,397	1,832,305
TOTAL ASSETS		8,498,279	4,136,418
CURRENT LIABILITIES			
Trade and other payables	10	555,884	448,229
TOTAL CURRENT LIABILITIES		555,884	448,229
TOTAL LIABILITIES		555,884	448,229
NET ASSETS		7,942,395	3,688,189
EQUITY			
Contributed equity	11(a)	25,276,808	17,556,691
Reserves	12	173,406	152,918
Accumulated losses		(17,507,819)	(14,021,420)
TOTAL EQUITY		7,942,395	3,688,189

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	30 June 2010	30 June 2009
	\$	\$
CONTRIBUTED EQUITY		
Ordinary shares at beginning of period	17,556,691	13,187,979
Shares issued	8,164,828	4,601,463
Transaction costs	(444,711)	(232,751)
Dividend paid	-	-
Balance of issued capital at end of period	<u>25,276,808</u>	<u>17,556,691</u>
RESERVES		
Reserves at beginning of period	152,918	119,303
Share options expensed	20,488	33,615
Balance of options reserve at end of period	<u>173,406</u>	<u>152,918</u>
ACCUMULATED LOSSES		
Accumulated losses at beginning of period	(14,021,420)	(9,548,224)
Loss from continuing operations after income tax benefit	(3,486,399)	(4,473,196)
Other comprehensive income/(loss) after income tax benefit	-	-
Total comprehensive income/(loss)	<u>(3,486,399)</u>	<u>(4,473,196)</u>
Accumulated losses at end of period	<u>(17,507,819)</u>	<u>(14,021,420)</u>
Total equity at the end of the period	<u>7,942,395</u>	<u>3,688,189</u>

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	30 June 2010 \$	30 June 2009 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		299,367	154,163
Payments to research facilities (inclusive of goods and services tax)		(1,337,381)	(1,624,775)
Payments to suppliers (inclusive of goods and services tax)		(2,059,894)	(1,335,653)
Interest received		151,221	25,580
Finance costs		(7,178)	(1,578)
Income tax rebate received		268,397	308,733
Net cash provided by (used in) operating activities	22(b)	(2,685,468)	(2,473,530)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(22,023)	-
Net cash provided by (used in) investing activities		(22,023)	-
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issues		8,164,828	2,988,681
Costs of share issue		(444,711)	(243,348)
Net cash provided by (used in) financing activities		7,720,117	2,745,333
Net increase in cash held		5,012,626	271,803
Cash at beginning of year		791,369	519,566
Unrealised foreign currency movement		(303,710)	-
Cash at end of year	22(a)	5,500,285	791,369

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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.

The financial report was authorised for issue on 10 August 2010 by the Board of Directors.

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. Significant 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 a going concern and accrual basis, 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.

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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 with consideration given to employees wages increases and the probability that the employees may satisfy vesting requirements.

Equity-settled Compensation

The Company 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 statement of financial position.

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.

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 Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 initially 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income 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 statement of comprehensive income. 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 statement of comprehensive income. 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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 Company 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 Company 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 statement of comprehensive income.

o. Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transactions and Balances

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

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. 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 Company 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 2010.

Key Judgements - Inventory

The Company assessed the valuation of protein inventory on hand at 30 June 2010. 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 (2009 : \$348,209). This is shown in the statement of comprehensive income for the current year.

	30 June 2010	30 June 2009
	\$	\$

NOTE 2: REVENUE / OTHER INCOME

a) Operating activities

Research grants	229,484	252,948
Total revenue from operating activities	229,484	252,948

b) Non operating activities

Interest received	151,221	25,580
Total income from non operating activities	151,221	25,580

NOTE 3: LOSS FOR THE YEAR

Expenses

Research and development expenses	996,004	1,022,600
Inventory write down to net realisable value	348,209	348,209
Loss on foreign exchange	374,458	-
Finance costs – external	7,178	87,608
Rental expense on operating leases – minimum lease payments	5,292	5,292
Depreciation expense	8,561	12,215
Loss on disposal of property, plant and equipment	-	3,853

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

30 June 2010 **30 June 2009**
\$ \$

NOTE 4: INCOME TAX

a) The components of income tax benefit comprises

Current tax	189,806	268,168
Under provision in respect of prior years	19,370	-
Total tax benefit	209,176	268,168

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% (2009 : 30%)	1,108,673	1,422,410
Tax effect of:		
Business related capital expenditure	(43,076)	1,479
(Increase)/ decrease in accruals	(8,451)	(7,901)
Non-deductible entertainment	(146)	(557)
R&D expenditure taken as a cash offset	(151,845)	(214,534)
Tax losses available	905,154	1,200,897
Tax losses utilised by:		
Income tax benefit attributable to R&D tax offset receivable	209,176	268,168
Income tax benefit attributable to R&D tax offset overstated in prior year	-	-
Income tax benefit relating to entity	209,176	268,168
The applicable weighted average effective tax rates are as follows:	(5.6%)	(5.6%)

c) Deferred Tax Asset

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	355,711	314,338
Tax losses – operating losses	4,302,096	3,396,941
	4,657,807	3,711,279

d) Current Tax Asset

Opening balance of R&D tax offset concession claimed	249,028	290,456
Less - R&D tax offset understated/ (overstated) in prior year	19,370	(863)
Less- Income tax benefit attributable to R&D tax offset received	(268,397)	(308,733)
Add - Income tax benefit attributable to R&D tax offset receivable	189,806	268,168
Closing balance of research and development tax offset concession claimed	189,807	249,028

TISSUE THERAPIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

	30 June 2010	30 June 2009
	\$	\$

NOTE 5: CASH AND CASH EQUIVALENTS

Cash at bank	98,952	24,849
Short term bank deposits - at call *	5,401,333	766,520
	<hr/> 5,500,285	<hr/> 791,369

* The deposits were in interest bearing floating rate accounts. Interest rates varied between 0.0% and 6.02% (2009 : 0.0% to 7.1%).

NOTE 6: TRADE AND OTHER RECEIVABLES & OTHER CURRENT ASSETS**a) Trade and other receivable**

Trade debtors	129,427	199,310
GST receivable	113,137	69,420
	<hr/> 242,564	<hr/> 268,730

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'.

b) Other current assets

Prepayments	<hr/> 739,698	<hr/> 6,704
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NOTE 7: INVENTORIES**a) Current assets**

VitroGro® protein – at cost	<hr/> 335,528	<hr/> 988,282
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b) Non-current assets

VitroGro® Protein Components – at net realisable value	<hr/> 1,043,005	<hr/> 1,398,375
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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 statement of comprehensive income.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

30 June 2010 **30 June 2009**
\$ **\$**

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

Plant and equipment – at cost	136,830	82,009
Less: Accumulated depreciation	(44,077)	(35,516)
	92,753	46,493
 Capital works in progress – at cost	 12,389	 45,187
Total property, plant and equipment	105,142	91,680

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.

	Plant and equipment	Capital works in progress	Total
	\$	\$	\$
Carrying amount at 1 July 2009	46,493	45,187	91,680
Additions	22,023	-	22,023
Transfers	32,798	(32,798)	-
Disposals	-	-	-
Depreciation expense	(8,561)	-	(8,561)
Carrying amount at 30 June 2010	92,753	12,389	105,142

Based on the methodology applied in Note 11 to the financial statements, there were no impairment gains or losses recorded during the current financial year.

30 June 2010 **30 June 2009**
\$ **\$**

NOTE 9: INTANGIBLE ASSETS

Licenses and patents - at cost	342,250	342,250
	342,250	342,250

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.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

30 June 2010 **30 June 2009**
\$ **\$**

NOTE 10: TRADE AND OTHER PAYABLES

Trade creditors	36,608	316,359
Other creditors and accruals	519,276	131,870
	555,884	448,229

NOTE 11: ISSUED CAPITAL

a) Share capital

138,201,447 (2009 : 78,138,155) fully paid ordinary shares	25,276,808	17,566,691
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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.

c) Movements in ordinary share capital

Date	Details	No. Shares	Issue price	\$
01/07/09	Balance at beginning of year	78,138,155		17,556,691
23/10/09	Ordinary shares issued by Placement	11,720,723	15 c	1,758,108
4/12/09	Ordinary shares issued by Placement	21,612,611	15 c	3,241,892
14/12/09	Ordinary shares issued under Share Purchase Plan	23,441,445	11.84 c	2,775,468
14/12/09	Ordinary shares issued by Placement	3,288,513	11.84 c	389,360
	Transaction costs arising from share issues			(444,711)
30/06/10	Balance at end of year	138,201,447		25,276,808

d) Options

For information relating to options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 16: Share-based Payments.

e) 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.

TISSUE THERAPIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

	30 June 2010	30 June 2009
	\$	\$

NOTE 12: RESERVES

Option reserve

173,406	152,918
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a) Option Reserve

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

b) Movement

Balance at beginning of year

152,918	119,303
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Cost of options issued

20,488	33,615
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Balance at end of year

173,406	152,918
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NOTE 13: REMUNERATION OF AUDITORS

Audit services – Lawler Hacketts Audit

Audit and review of financial reports and other audit work under the Corporations Act 2001

30,025	28,128
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Non-audit services

Audit / review of regulatory returns and due diligence services – Hacketts Corporate Advisory

-	10,800
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Taxation compliance services – Lawler Hacketts

6,500	7,603
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36,525	46,531
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TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 14: 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, liquidity risk and foreign currency risk.

Credit risk exposures

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company. The credit risk on financial assets of the Company which have been recognised on the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

Interest rate risk exposures

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Company is also exposed to earnings volatility on floating rate instruments. The Company's exposure to interest rate risk and the effective weighted average interest rate is set out in the relevant note.

Liquidity risk

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate facilities or financing options are maintained.

Foreign currency risk

Exposure to foreign currency risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Company holds financial instruments which are other than the functional currency of the Company. The Company manages foreign currency risk by monitoring forecast foreign currency commitments and foreign exchange rates. The Company's exposure to foreign currency risk arises from the holding of €1,168,356 (2009 : nil) and £148,185 (2009 : nil) at exchange rates of 1.4247 and 1.7588 respectively.

c) 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.

d) Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to interest rate and foreign currency exchange rate risks, to assess the effect on reported results and equity which could result from a change in these risks.

Management have determined that, at 30 June 2010, the effect on profit and equity as a result of changes in the interest rate by +1% or -1% would be immaterial at \$2,051pa.

Management have determined that, at 30 June 2010, the effect on profit and equity as a result of changes in foreign currency exchange rates by +1% or -1% would be \$19,252 (2009 : nil).

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: KEY MANAGEMENT PERSONNEL COMPENSATION

a) Key Management Personnel

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 R Clarke	Chairman – Non-executive
Mr G Baynton	Director – Non-executive
Mr M Bridges	Director – Non-executive
Dr C Hirst	Director – Non-executive
Dr S 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 30.06.2009	Granted as compensation	Options expired	Balance 30.06.2010	Total Vested 30.06.2010	Total Exercisable 30.06.2010	Total Unexercisable 30.06.2010
Mr R Clarke	-	-	-	-	-	-	-
Mr G Baynton	-	-	-	-	-	-	-
Mr M Bridges	-	-	-	-	-	-	-
Dr C Hirst	-	-	-	-	-	-	-
Dr S Mercer	825,000	-	150,000	675,000	240,000	240,000	435,000
Mr D McKenzie	-	250,000	-	250,000	-	-	250,000
Total	825,000	250,000	150,000	925,000	240,000	240,000	685,000

c) Share Holdings

Number of Shares held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2009	Acquired on Market and Other Purchases	Disposals to Key Management Personnel and QUT Research Staff	Balance 30.06.2010
Mr R Clarke	6,790,950	-	(1,732,950)	5,058,000
Mr G Baynton [1]	612,500	-	-	612,500
Mr M Bridges	-	68,200	-	68,200
Dr C Hirst	-	-	-	-
Dr S. Mercer	300,750	725,000	-	1,025,750
Mr D McKenzie	-	200,000	-	200,000
Total	7,704,200	993,200	(1,732,950)	6,964,450

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

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 16: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2010:

- 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. At 30 June 2010, 50,000 of these options had expired.
- 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. At 30 June 2010, 175,000 of these options had expired.
- On 9 March 2010 1,250,000 share options were granted to key management personnel, and research staff employed by the Queensland University of Technology, to take up ordinary shares at an exercise price of \$0.26 each. The options cannot be exercised unless the exercise price is less than the share price on the exercise date. The options expiry on 31 March 2012.

The options hold no voting or dividend rights and are not transferable.

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the year	1,130,000	0.55	2,020,000	0.61
Granted	1,250,000	0.26	500,000	0.15
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(455,000)	0.76	(1,390,000)	0.50
Outstanding at year-end	1,925,000	0.31	1,130,000	0.55
Exercisable at year-end	675,000	0.40	675,000	0.65

There were no options exercised during the year ended 30 June 2010.

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.40 and a weighted average remaining contractual life of 1.4 (2009 : 0.64) years. Exercise prices range from \$0.15 to \$0.64 in respect of options outstanding at 30 June 2010.

Included under Administration expense in the statement of comprehensive income is \$20,488 (2009 : \$39,775) which relates, in full, to equity-settled share-based payment transactions.

TISSUE THERAPIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

	30 June 2010	30 June 2009
	\$	\$

NOTE 17: COMMITMENTS FOR EXPENDITURES**a) Commitments**

Commitments for consultancy services contracted for at the reporting date but not recognised as liabilities payable:

Within one year	587,995	302,655
Later than one year but not later than 5 years	184,140	134,877
Later than 5 years	-	-
	<hr/> 772,135	<hr/> 437,532

NOTE 18: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has entered into a Deed of Assignment of Intellectual Property Rights with Queensland University of Technology ("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 19: 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 paid a fee of \$365,080 (2009 : \$44,105) to RBS Morgans Corporate Limited primarily for its part in the share placement and share purchase plan during the year. Roger Clarke is associated with RBS Morgans Corporate Limited.

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 \$nil (2009 : \$50,666).

During the year ended 30 June 2009 convertible loans held by Roger Clarke (Director) and QUT of \$500,000 each, together with capitalised interest, were converted to ordinary share capital in accordance with the agreement.

NOTE 20: SEGMENT INFORMATION

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Company's chief operating decision maker which, for the Company, is the Board of Directors. In this regard, the Board of Directors confirms that the Company continues to operate in one operating segment, being biotechnology, with its revenue being predominantly sourced in Australia.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

a) Excellent additional clinical results from the last 5 patients in the 22 patient Australian venous ulcer VitroGro® study were released on 13 July 2010. These results are included in the exceptional clinical trial results of VitroGro® summarised in the Directors' Report.

b) Successful completion of the first commercial scale manufacturing of VitroGro® to Good Manufacturing Practice standards was also announced on 13 July 2010.

c) As part of the campaign to increase international awareness and the profile of Tissue Therapies Ltd and VitroGro®, Tissue Therapies listed on the Berlin Stock Exchange in Germany. This is in addition to the earlier listing of Tissue Therapies Ltd stock on the Frankfurt Exchange.

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.

NOTE 22: CASH FLOW INFORMATION

	30 June 2010	30 June 2009
	\$	\$

a) Reconciliation of Cash

Cash at end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents

5,500,285	791,369
<u>5,500,285</u>	<u>791,369</u>

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	30 June 2010	30 June 2009
	\$	\$
NOTE 22: CASH FLOW INFORMATION (Continued)		
b) Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax benefit	(3,486,399)	(4,473,196)
Non-cash flows in profit from ordinary activities		
Depreciation	8,561	12,215
Unrealised exchange loss	303,710	-
Inventory write down to net realisable value	348,209	348,209
Loss on disposal of property, plant and equipment	-	3,853
Share based payments	20,488	39,775
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	(706,828)	206,809
(Increase) / decrease in inventory	659,915	1,747,159
(Increase) / decrease in tax recoverable	59,221	41,428
Increase / (decrease) in payables and provisions	107,655	(485,812)
Cash outflows from operations	<u>(2,685,468)</u>	<u>(2,473,530)</u>

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	112,982,362	61,684,861
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>112,982,362</u>	<u>61,689,766</u>

The diluted EPS calculation includes that portion of these options considered to be potentially dilutive, weighted with reference to the date of conversion.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 24: 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 and interpretations. A discussion of those future requirements and their impact on the Company follows:

- (a) AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
 - a. the objective of the entity's business model for managing the financial assets; and
 - b. the characteristics of the contractual cash flows.

- (b) AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Company.

- (c) AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards 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.

- (d) AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Company.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 24: CHANGE IN ACCOUNTING POLICY (Continued)

- (e) AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Company.

- (f) AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Company.

- (g) AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Company.

- (h) AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

- (i) AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- (j) AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Company.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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 33, 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 2010 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

Brisbane, 10 August 2010

Steven Mercer

CEO & Director

INDEPENDENT AUDITOR'S 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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF TISSUE THERAPIES LIMITED
(continued)**

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 2010 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 6 to 8 of the Directors' Report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.



Lawler Hacketts Audit

Brisbane, 10 August 2010



**L J Murphy
Partner**