

DIRECTORS' REPORT

Your Directors present their report on Tissue Therapies Limited ("the Company") for the year ended 30 June 2011.

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, Coalbank Limited (formerly Lodestone Energy Limited) and MTQ Insurance Ltd, Director of Trojan Equity Limited, and Maverick Drilling and Exploration Limited
- Former ASX entity Directorships — PIPE Networks Limited (February 2005 to March 2010)
- Special Responsibilities — Member of the Audit and Risk Management Committee, Member of Remuneration Committee and Nomination Committee
- Interest in Shares and Options — 5,200,000 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 Coalbank Limited (formerly 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, Member of Remuneration Committee and Nomination Committee
- Interest in Shares and Options — 764,780 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, ImpediMed Limited and Leaf Energy Limited (formerly AquaCarotene Limited), Director of Benitec Limited, Campbell Brothers Limited and Genera Biosystems Limited
- Former ASX entity Directorships — Incitive Limited (November 2007 to June 2010), Peptech Limited (December 2002 to October 2007) and Genera Biosystems Limited (December 2008 to November 2010)
- Special Responsibilities — Chairman of the Audit and Risk Management Committee, Member of Remuneration Committee and Nomination Committee
- Interest in Shares and Options — 147,299 Ordinary Shares and options to acquire a further 250,000 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 screening and diagnosis of breast cancer and extensive and respected achievements as Director and Chair of multiple 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 — Member of the Remuneration Committee and Nomination Committee
- Interest in Shares and Options — 281,250 Ordinary Shares

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 — 1,125,750 Ordinary Shares and options to acquire a further 705,000 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.)
Fellow of the Institute of Chartered Accountants
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 \$5,340,548 (2010: loss \$3,486,399).

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 2010-2011 financial year:

Tissue Therapies recorded an after-tax loss of \$5,340,548 in line with budget expectations. This loss includes non-cash expenses of \$1,693,969 relating to usage of VitroGro® during the year in clinical trials.

Net assets increased by \$9,091,041 to \$17,033,436 and at 30 June 2011 the Company had cash resources of \$15,416,321.

- In April and May 2011 the Company conducted successful rights issue of 18,632,464 ordinary shares, and placements of 11,500,000 ordinary shares with institutional and sophisticated investors at \$0.50 per share to raise \$15,066,232 before issue costs.
- The Company's contributed equity following the share issues and after transaction costs arising from the issues were \$39,525,004.

VitroGro® has been developed from a profound set of discoveries by the Chief Scientific Officer, Professor Zee Upton, described in more than eight years of peer reviewed, published scientific papers. VitroGro® is a new type of wound care treatment, being a synthetic biomimetic fusion protein.

All current data including sophisticated health economics modelling indicates that VitroGro® may offer significant cost effectiveness, particularly in the treatment of venous ulcers which represent 70% of all chronic skin wounds.

Part of the cost effectiveness of VitroGro® for the treatment of diabetic, venous and pressure ulcers is due to the fact that it can be used easily, quickly, conveniently and consistently, as has been demonstrated in the human trials.

VitroGro® is protected by a family of international patent applications with patents already granted in the EU, US, China, Japan, South Korea, South Africa, Australia and New Zealand.

Highlights

1. During the 2010 - 2011 financial year strong clinical results were released from the Australian human trial of VitroGro® for the treatment of chronic venous ulcers.

This clinical trial produced exceptional results even though patients only received VitroGro® twice per week for 3 weeks. Some of the results from this 24-day VitroGro® human venous ulcer trial include:

- Complete healing of 5 out of 30 ulcers or 16.7%.
- Average reduction of ulcer area of 43% in 24 days ($p < 0.0001$).
- 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 11 months. (Compression therapy is the current best practice treatment for venous ulcers).
- Average age of the patients was 71 years,
- Average duration of venous ulcer prior to VitroGro® treatment was 11 months.
- Average time the venous ulcer was unresponsive to compression therapy (the current gold standard of care) prior to joining the VitroGro® trial was 9 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 18 November 2009.)

2. During the last financial year Tissue Therapies was also successful in achieving a medical device classification in the EU. VitroGro® was already classified as a medical device in Canada and the preparation for a USA FDA request for classification was also undertaken. A formal classification has not yet been received from the FDA but the American FDA consultants working on behalf of Tissue Therapies are confident that this will also be successful.
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®.
 - 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 using the exceptional clinical trial data in formal negotiations with identified potential healthcare partners.
- Is proceeding with regulatory approvals and reimbursement approvals in the Company's name, further enhancing Tissue Therapies' position in negotiations with potential commercial partners.
- Has successfully completed commercial scale GMP manufacturing and larger scale manufacturing is on schedule to deliver increased output late in 2011.
- Will proceed with application for approval for sale in the EU late in 2011.
- 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 April and May 2011 the Company conducted successful rights issue of 18,632,464 ordinary shares, and placements of 11,500,000 ordinary shares with institutional and sophisticated investors at \$0.50 per share to raise \$15,066,232 before issue costs.

Matters Subsequent to the End of the Financial Year

During July 2011 the Company received compelling new human trial data from the multi-centre international wound healing study led by key opinion leader Professor Keith Harding. (Please see ASX: TIS "Strong New Clinical Trial Data", 14 July 2011.)

The data shows that for the 24 evaluated venous ulcer patients treated with VitroGro® to date:

- 8 patients achieved complete healing and an additional 2 patients achieved $\geq 98\%$ healing
- out of 24 evaluable patients, 22 (92%) were partially or completely healed in 12 weeks. (One patient was unchanged and 1 patient worsened.)
- The average reduction in wound size was 65% with a median of 72% after 12 weeks of treatment
- The average time venous ulcers had not responded to expert care before VitroGro® treatment was 37 months with a median of 10 months
- The average age of patients that have completed treatment so far is 71 years with a median of 73

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 planned developments in the operations of the Company in future financial years are as follows:

Key Achievement / Indicative Milestone	Target	Status
Completion of larger commercial scale GMP manufacture of VitroGro®.	Q3 2011	On schedule.
Strategic partnership for international sales of new VitroGro® wound care products.	Q3 2011	Negotiations progressing well with multiple international potential commercialisation partners.
Approval for sale of VitroGro® in the EU	Q1 2012	Submission planned for late 2012 when manufacturing stability data available.
First sales of VitroGro® in EU.	Q2 2012	Planned.
US Approval of VitroGro® for the treatment of venous ulcers	Q2 2013	Planned
First sales of VitroGro® in USA for treatment of venous ulcers	Q3 2013	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	230,000 *
27/11/2008	2 years from each milestone achieved*	\$0.15	225,000 **
9/3/2010	31 March 2012	\$0.26	1,250,000 ***
9/3/2010	31 October 2012	\$0.26	500,000 *v
			2,205,000

* 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 2011, 170,000 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 2011, 175,000 of the options issued had expired and 100,000 had been exercised by 30 June 2011.

*** Options issued to Key Management Personnel and QUT Research Staff.

*v Options issued to Directors. 750,000 options were issued of which 250,000 had been exercised by 30 June 2011.

350,000 ordinary shares were issued on the exercise of options during the year ended 30 June 2011.

During the year 120,000 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 current total remuneration package of \$299,750 per annum.

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 have an exercise price of 64c within two years of each tranche of options vesting, however 170,000 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 have an exercise price of 15c within two years of each tranche of options vesting, however 175,000 of these options had expired and 100,000 had been exercised by the end of the financial year.

During 2010 a further 250,000 options were awarded to Dr Mercer as part of the options issued at that time to key management personnel. These options are exercisable at \$0.26 and are included in the following section, "Key Management Personnel Remuneration".

During June 2011 Dr Mercer was awarded a performance based cash bonus of \$25,000. Achievement of this bonus is dependent on successful completion of the international multicentre venous ulcer trial, successful completion of larger scale manufacturing and successful designation by the FDA of VitroGro® as appropriate for a device PMA approval process.

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.

During 2010, 250,000 options were awarded to the Company Secretary as part of the options issued at that time to key management personnel. These options are exercisable at \$0.26 and are included in the following section, "Key Management Personnel Remuneration".

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 2011 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)	2011	45,000	-	4,050	-	-	49,050	-
	2010	45,000	-	4,050	-	-	49,050	-
G. Baynton	2011	40,000	-	-	-	-	40,000	-
	2010	40,000	-	-	-	-	40,000	-
M. Bridges	2011	40,000	-	-	-	47,750	87,750	54.4%
	2010	40,000	-	-	-	-	40,000	-
C. Hirst	2011	40,000	-	3,600	-	47,750	91,350	52.3%
	2010	40,000	-	3,600	-	-	43,600	-
Executive Directors								
Dr S. Mercer (CEO)	2011	205,620	-	18,505	-	47,750	271,875	17.6%
	2010	198,857	-	17,606	-	2,256	218,719	1.0%
Other Key Management Personnel								
D. McKenzie	2011	84,065	-	-	-	8,061	92,126	8.7%
	2010	45,804	-	-	-	3,646	49,450	7.4%
Total								
	2011	454,685	-	26,155	-	151,311	632,151	
	2010	409,661	-	25,256	-	5,902	440,819	

(a) Options issued to Key Management Personnel

During the year 750,000 (2010: 1,250,000) options were issued under the Company's Equity Option Plan, of which 250,000 (2010 : 250,000) options were issued to Key Management Personnel. 350,000 options were exercised during the year.

The value of options issued to Key Management Personnel have been partly amortised during the year with \$183,393 (2010: \$20,488) 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
2011							
M Bridges	250,000	250,000	9/3/2010	0.191	0.26	31/03/2011	31/10/2012
Dr C Hirst	250,000	250,000	9/3/2010	0.191	0.26	31/03/2011	31/10/2012
Dr S Mercer	250,000	250,000	9/3/2010	0.191	0.26	31/03/2011	31/10/2012
2010							
D McKenzie	- *	250,000	9/3/2010	0.046	0.26	31/03/2011	31/3/2012

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 %
M Bridges	47,750	54.41
Dr C Hirst	47,750	52.27
Dr S Mercer	47,750	17.56
D McKenzie	8,061	8.75
	<u>151,311</u>	

350,000 shares were issued on the exercise of options during the financial year.

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		Remuneration Committee		Nomination Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
R Clarke	10	9	3	3	1	1	1	1
G Baynton	10	8	3	3	1	1	1	1
M Bridges	10	10	3	3	1	1	1	1
C Hirst	10	10	n/a	n/a	1	1	1	1
Dr S Mercer	10	10	n/a	n/a	n/a	n/a	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 2011:

<i>Non-audit services</i>	30 June 2011 \$	30 June 2010 \$
Audit or review of regulatory returns and due diligence services	12,500	-
Taxation compliance services	-	6,500
	<u>12,500</u>	<u>6,500</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.



Roger Clarke
Chairman

Brisbane, 10 August 2011



Steven Mercer
CEO & Director

**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 2011, 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

Brisbane, 10 August 2011

FINANCIAL STATEMENTS

TISSUE THERAPIES LIMITED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	30 June 2011 \$	30 June 2010 \$
Continuing operations			
Revenue	2(a)	232,024	229,484
Other income	2(b)	220,586	151,221
		<u>452,610</u>	<u>380,705</u>
Research and development expenses		(1,255,700)	(996,004)
Clinical trials expenses		(2,168,238)	(841,627)
Occupancy expenses		(21,847)	(18,902)
Administration expenses		(1,286,363)	(911,311)
Marketing, business development and patent protection		(369,877)	(285,062)
Laboratory expenses		-	(21,342)
Depreciation		(13,836)	(8,561)
Inventory write down to net realisable value		(364,995)	(348,209)
Finance costs		(3,780)	(7,178)
Loss on foreign exchange		(48,883)	(374,458)
Other expenses		(564,678)	(263,626)
Loss before income tax benefit	3	(5,645,587)	(3,695,575)
Income tax benefit	4(a)	305,039	209,176
Loss from continuing operations after income tax benefit		<u>(5,340,548)</u>	<u>(3,486,399)</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>(5,340,548)</u>	<u>(3,486,399)</u>
Loss attributable to members of the Company		<u>(5,340,548)</u>	<u>(3,486,399)</u>
Total comprehensive income/(loss) attributable to member of the Company		<u>(5,340,548)</u>	<u>(3,486,399)</u>

The accompanying notes form part of these statements.

		Cents	Cents
Overall Operations			
Basic earnings per share	23	(3.79)	(3.08)
Diluted earnings per share	23	(3.79)	(3.08)

TISSUE THERAPIES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	30 June 2011 \$	30 June 2010 \$
CURRENT ASSETS			
Cash and cash equivalents	5	15,416,321	5,500,285
Trade and other receivables	6(a)	125,689	242,564
Inventories	7(a)	574,651	335,528
Current tax assets	4(d)	217,845	189,807
Other current assets	6(b)	545,695	739,698
Financial assets	24	4,804,568	-
TOTAL CURRENT ASSETS		21,684,769	7,007,882
NON-CURRENT ASSETS			
Inventories	7(b)	694,796	1,043,005
Property, plant and equipment	8	86,119	105,142
Intangible assets	9	342,250	342,250
TOTAL NON-CURRENT ASSETS		1,123,165	1,490,397
TOTAL ASSETS		22,807,934	8,498,279
CURRENT LIABILITIES			
Trade and other payables	10	969,930	555,884
Financial liabilities	24	4,804,568	-
TOTAL CURRENT LIABILITIES		5,774,498	555,884
TOTAL LIABILITIES		5,774,498	555,884
NET ASSETS		17,033,436	7,942,395
EQUITY			
Contributed equity	11(a)	39,525,004	25,276,808
Reserves	12	356,799	173,406
Accumulated losses		(22,848,367)	(17,507,819)
TOTAL EQUITY		17,033,436	7,942,395

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	30 June 2011	30 June 2010
	\$	\$
CONTRIBUTED EQUITY		
Ordinary shares at beginning of period	25,276,808	17,556,691
Shares issued	15,177,873	8,164,828
Transaction costs	(929,677)	(444,711)
Dividend paid	-	-
Balance of issued capital at end of period	<u>39,525,004</u>	<u>25,276,808</u>
RESERVES		
Reserves at beginning of period	173,406	152,918
Share options expensed	183,393	20,488
Balance of options reserve at end of period	<u>356,799</u>	<u>173,406</u>
ACCUMULATED LOSSES		
Accumulated losses at beginning of period	(17,507,819)	(14,021,420)
Loss from continuing operations after income tax benefit	(5,340,548)	(3,486,399)
Other comprehensive income/(loss) after income tax benefit	-	-
Total comprehensive income/(loss)	<u>(5,340,548)</u>	<u>(3,486,399)</u>
Accumulated losses at end of period	<u>(22,848,367)</u>	<u>(17,507,819)</u>
Total equity at the end of the period	<u>17,033,436</u>	<u>7,942,395</u>

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	30 June 2011 \$	30 June 2010 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		508,790	299,367
Payments to research facilities		(1,204,324)	(1,337,381)
Payments to suppliers (inclusive of goods and services tax)		(4,056,285)	(2,059,894)
Interest received		187,709	151,221
Finance costs		(3,780)	(7,178)
Income tax rebate received		277,001	268,397
Net cash provided by (used in) operating activities	22(b)	(4,290,889)	(2,685,468)
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		15,177,873	8,164,828
Costs of share issue		(929,677)	(444,711)
Net cash provided by (used in) financing activities		14,248,196	7,720,117
Net increase in cash held		9,957,307	5,012,626
Cash at beginning of year		5,500,285	791,369
Unrealised foreign currency movement		(41,271)	(303,710)
Cash at end of year	22(a)	15,416,321	5,500,285

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 2011 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 2011

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 2011

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 2011

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 2011

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 2011.

Key Judgements - Inventory

The Company assessed the valuation of protein inventory on hand at 30 June 2011. 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 \$364,995 (2010 : \$348,209). This is shown in the statement of comprehensive income for the current year.

	30 June 2011	30 June 2010
	\$	\$

NOTE 2: REVENUE / OTHER INCOME

a) Operating activities

Research grants	220,461	229,484
Product sales	11,563	-
Total revenue from operating activities	232,024	229,484

b) Non operating activities

Interest received	220,586	151,221
Total income from non operating activities	220,586	151,221

NOTE 3: LOSS FOR THE YEAR

Expenses

Research and development expenses	1,255,700	996,004
Clinical trials expenses	2,168,238	841,627
Inventory write down to net realisable value	364,995	348,209
Loss on foreign exchange	48,883	374,458
Finance costs – external	3,780	7,178
Rental expense on operating leases – minimum lease payments	7,240	5,292
Depreciation expense	13,836	8,561

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

30 June 2011 **30 June 2010**
\$ **\$**

NOTE 4: INCOME TAX

a) The components of income tax benefit comprises

Current tax	217,843	189,806
Under provision in respect of prior years	87,196	19,370
Total tax benefit	305,039	209,176

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% (2010: 30%)	1,693,676	1,108,673
Tax effect of:		
R&D expenditure taken as a cash offset	(231,364)	(151,845)
Other	(88,682)	(51,674)
Tax losses available	1,373,630	905,154
Tax losses utilised by:		
Income tax benefit attributable to R&D tax offset receivable	305,039	209,176
Income tax benefit attributable to R&D tax offset overstated in prior year	-	-
Income tax benefit relating to entity	305,039	209,176
The applicable weighted average effective tax rates are as follows:	(5.4%)	(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	644,542	355,711
Tax losses – operating losses	5,675,726	4,302,096
	6,320,268	4,657,807

d) Current Tax Asset

Opening balance of R&D tax offset concession claimed	189,807	249,028
Less - R&D tax offset understated/ (overstated) in prior year	87,196	19,370
Less- Income tax benefit attributable to R&D tax offset received	(277,001)	(268,397)
Add - Income tax benefit attributable to R&D tax offset receivable	217,843	189,806
Closing balance of research and development tax offset concession claimed	217,845	189,807

TISSUE THERAPIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	30 June 2011	30 June 2010
	\$	\$

NOTE 5: CASH AND CASH EQUIVALENTS

Cash at bank	581,539	98,952
Short term bank deposits - at call *	14,834,782	5,401,333
	<hr/> 15,416,321	<hr/> 5,500,285

* The deposits were in interest bearing floating rate accounts. Interest rates varied between 0.0% and 6.00% (2010: 0.0% to 6.02%).

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

Trade debtors	32,885	129,427
GST receivable	92,804	113,137
	<hr/> 125,689	<hr/> 242,564

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/> 545,695	<hr/> 739,698
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NOTE 7: INVENTORIES**a) Current assets**

VitroGro® protein – at cost	<hr/> 574,651	<hr/> 335,528
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b) Non-current assets

VitroGro® Protein Components – at net realisable value	<hr/> 694,796	<hr/> 1,043,005
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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 2011

30 June 2011 **30 June 2010**
\$ **\$**

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

Plant and equipment – at cost	110,181	136,830
Less: Accumulated depreciation	(36,451)	(44,077)
	73,730	92,753
 Capital works in progress – at cost	 12,389	 12,389
Total property, plant and equipment	86,119	105,142

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 2010	92,753	12,389	105,142
Additions	-	-	-
Transfers	-	-	-
Disposals (written down value)	(5,187)	-	(5,187)
Depreciation expense	(13,836)	-	(13,836)
Carrying amount at 30 June 2011	73,730	12,389	86,119

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 2011 **30 June 2010**
\$ **\$**

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 2011

30 June 2011 **30 June 2010**
\$ **\$**

NOTE 10: TRADE AND OTHER PAYABLES

Trade creditors	594,770	36,608
Other creditors and accruals	375,160	519,276
	969,930	555,884

NOTE 11: ISSUED CAPITAL

a) Share capital

168,739,422 (2010: 138,201,447) fully paid ordinary shares	39,525,004	25,276,808
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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	\$
01/07/10	Balance at beginning of year	138,201,447		25,276,808
09/11/10	Ordinary shares issued on exercise of Options	100,000	15 c	15,000
18/04/11	Ordinary shares issued on exercise of Options	250,000	26 c	65,000
26/05/11	Ordinary shares issued by Placement	11,500,000	50 c	5,750,000
26/05/11	Ordinary shares issued by Rights Issue	18,632,464	50 c	9,316,232
21/06/11	Ordinary shares issued to consultant for consultancy services	55,511	57c	31,641
	Transaction costs arising from share issues			(929,677)
30/06/11	Balance at end of year	168,739,422		39,525,004

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 2011**

	30 June 2011	30 June 2010
	\$	\$

NOTE 12: RESERVES

Option reserve	356,799	173,406
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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	173,406	152,918
Cost of options issued	183,393	20,488
Balance at end of year	356,799	173,406

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

35,463	30,025
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Non-audit services

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

12,500	-
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Taxation compliance services – Lawler Hacketts

-	6,500
47,963	36,525

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 €4,071 (2010: €1,168,356) and £30,658 (2010: £148,185) at exchange rates of 0.7364 and 0.6616 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 2011, the effect on profit and equity as a result of changes in the interest rate by +100 basis points or -100 basis points would be \$147,829 (2010: \$54,013) additional, or less, interest revenue.

Management have determined that, at 30 June 2011, the effect on profit and equity as a result of changes in foreign currency exchange rates by +100 basis points or -100 basis points would be \$764 (2010: \$27,886) exposure to foreign currency exposure.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 30.06.2010	Granted as compensation	Options exercised	Options expired	Balance 30.06.2011	Total Vested 30.06.2011	Total Exercisable 30.06.2011
Mr R Clarke	-	-	-	-	-	-	-
Mr G Baynton	-	-	-	-	-	-	-
Mr M Bridges	-	250,000	-	-	250,000	250,000	250,000
Dr C Hirst	-	250,000	250,000	-	-	-	-
Dr S Mercer	675,000	250,000	100,000	120,000	705,000	705,000	390,000
Mr D McKenzie	250,000	-	-	-	250,000	250,000	250,000
Total	925,000	750,000	350,000	120,000	1,205,000	1,205,000	890,000

c) Share Holdings

Number of Shares held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2010	Acquired in Rights Issue, Options Exercised and other purchases	Balance 30.06.2011
Mr R Clarke	5,058,000	142,000	5,200,000
Mr G Baynton [1]	612,500	152,280	764,780
Mr M Bridges	68,200	79,099	147,299
Dr C Hirst	-	281,250	281,250
Dr S Mercer	1,025,750	100,000	1,125,750
Mr D McKenzie	200,000	25,000	225,000
Total	6,964,450	779,629	7,744,079

[1] Orbit Capital, a related entity of Gregory Baynton holds 764,780 shares.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2011:

- 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 2011, 170,000 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 2011, 175,000 of these options had expired and 100,000 had been exercised.
- 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 expire on 31 March 2012.
- On 13 October, 2010 750,000 options were granted to Directors on approval by shareholders at the Annual General Meeting, 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 expire on 31 October 2012. At 30 June 2011 250,000 of these options had been exercised.

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

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the year	1,925,000	0.40	1,130,000	0.55
Granted	750,000	0.26	1,250,000	0.26
Forfeited	-	-	-	-
Exercised	(350,000)	0.23	-	-
Expired	(120,000)	0.64	(455,000)	0.76
Outstanding at year-end	2,205,000	0.29	1,925,000	0.31
Exercisable at year-end	1,890,000	0.29	675,000	0.40

There were 350,000 options exercised during the year ended 30 June 2011.

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.29 and a weighted average remaining contractual life of 0.8 (2010: 1.4) years. Exercise prices range from \$0.15 to \$0.64 in respect of options outstanding at 30 June 2011.

Included under Administration expense in the Statement of Comprehensive Income is \$183,393 (2010: \$20,488) 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 2011**

	30 June 2011	30 June 2010
	\$	\$

NOTE 17: COMMITMENTS FOR EXPENDITURES

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

Within one year	531,415	587,995
Later than one year but not later than 5 years	184,140	184,140
Later than 5 years	-	-
	<hr/> 715,555	<hr/> 772,135

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 has incurred share issue transaction costs of \$791,378 (2010: \$365,080) to RBS Morgans Corporate Limited primarily for its part in the rights issue and share placement during the year. Roger Clarke is associated with RBS Morgans Corporate Limited.

NOTE 20: SEGMENT INFORMATION

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 2011

NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

During July 2011 the Company received compelling new human trial data from the multi-centre international wound healing study led by key opinion leader Professor Keith Harding. (Please see ASX: TIS "Strong New Clinical Trial Data", 14 July 2011.)

The data shows that for the 24 evaluated venous ulcer patients treated with VitroGro® to date:

- 8 patients achieved complete healing and an additional 2 patients achieved $\geq 98\%$ healing
- out of 24 evaluable patients, 22 (92%) were partially or completely healed in 12 weeks. (One patient was unchanged and 1 patient worsened.)
- The average reduction in wound size was 65% with a median of 72% after 12 weeks of treatment
- The average time venous ulcers had not responded to expert care before VitroGro treatment was 37 months with a median of 10 months
- The average age of patients that have completed treatment so far is 71 years with a median of 73

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 2011	30 June 2010
	\$	\$

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

15,416,321	5,500,285
<u>15,416,321</u>	<u>5,500,285</u>

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	30 June 2011	30 June 2010
	\$	\$
NOTE 22: CASH FLOW INFORMATION (Continued)		
b) Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax benefit	(5,340,548)	(3,486,399)
Non-cash flows in profit from ordinary activities		
Depreciation	13,836	8,561
Unrealised exchange loss	41,271	303,710
Inventory write down to net realisable value	364,995	348,209
Loss on disposal of property, plant and equipment	5,187	-
Share based payments	183,393	20,488
Finance costs for convertible notes converted to share capital, included in financing activities	-	-
Changes in assets and liabilities		
(Increase)/ decrease in receivables and prepayments	343,755	(706,828)
(Increase) / decrease in inventory	(255,909)	659,915
(Increase) / decrease in tax recoverable	(28,038)	59,221
Increase / (decrease) in payables and provisions	381,169	107,655
Cash outflows from operations	<u>(4,290,889)</u>	<u>(2,685,468)</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	140,884,769	112,982,362
Weighted average number of options outstanding which are considered potentially dilutive	-	-
Weighted average number of potential ordinary shares outstanding during the year used in calculation of Dilutive EPS	<u>140,884,769</u>	<u>112,982,362</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 2011****NOTE 24: FINANCIAL ASSETS AND LIABILITIES**

The Company's planned developments include the commercial scale GMP manufacture of VitroGro® and the USA approval of VitroGro® for the treatment of venous ulcers. The expenditure associated with these developments will be incurred by the Company in Euro and USD currencies over the period to 30 June 2012. In accordance with the Company's Risk Management policy the Company has executed forward exchange contracts to mitigate the Company's exposure to foreign currency movements in these foreign currencies.

Forward Exchange Contracts

The Company has open forward exchange contracts at the end of the reporting period relating to highly probable forecast transactions and recognised financial assets and liabilities. These forward exchange contracts commit the Company to buy and sell specified amounts of foreign currencies in the future as specified exchange rates.

The following table summarises the Company's commitment in relation to forward exchange contracts:

		Exposure		Average exchange rate	
		2011	2010	2011	2010
		\$	\$		
<hr/>					
Buy USD / sell AUD					
Settlement	- less than 6 months	-	-	-	-
	- 6 months to 1 year	2,502,002	-	1.0445	-
Buy Euro / sell AUD					
Settlement	- less than 6 months	-	-	-	-
	- 6 months to 1 year	2,302,566	-	0.7320	-
		<hr/>			
		4,804,568	-		
		<hr/>			

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: CHANGE IN ACCOUNTING POLICY

New Accounting Standards for application in future periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these Accounting Standards and Interpretations. A discussion of those future requirements and their impact on the Company is as follows:

- (a) AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Company has not yet determined the potential impact on the financial statements.

The key 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;
- requiring financial assets to be classified 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; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

- (b) AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 and 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129, and 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Company is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: CHANGE IN ACCOUNTING POLICY (Continued)

- (c) AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraph that a Tier 2 entity need not comply with as well as adding specific “RDR” disclosures.
- (d) AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101 and 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB’s annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity’s first Australian Accounting Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Company.

- (e) AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 and 1038 and Interpretations 112, 115, 127, 132 and 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, there editorial amendments have no major impact on the requirements of the respective amended pronouncements.

- (f) AASB 2010–6: Amendments to Australian Accounting Standards — Disclosures on Transfers of Financial Assets [AASB 1 and 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Company.

- (g) AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 and 1038 and Interpretations 2, 5, 10, 12, 19 and 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations, as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the Company adopts AASB 9.

As noted above, the Company has not yet determined any potential impact on the financial statements from adopting AASB 9.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 11 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 2011 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.



Roger Clarke
Chairman

Brisbane, 10 August 2011



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 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the Company.

Directors' Responsibility for the Financial Report

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

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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*.

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 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

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

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 2011. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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



Lawler Hacketts Audit

**L J Murphy
Partner**

Brisbane, 10 August 2011