TISSUE THERAPIES

Annual Report 2013

Tissue Therapies Limited ABN 45 101 955 088

Annual General Meeting

The Annual General Meeting of the Company will be held at McCullough Robertson Lawyers, Level 11, Central Plaza Two, 66 Eagle Street Brisbane QLD 4000, on the 25th of October 2013 at 10:30 am.

Corporate Headquarters

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European Operations

Tissue Therapies Europe Limited
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Email contact: investors@tissuetherapies.com

Directors

Mr Roger Clarke
Dr Mel Bridges
Dr Cherrell Hirst AO
Mr Iain Ross
Dr Steven Mercer

Company Secretary

Mr Drummond McKenzie

Consulting Chief Scientific Officer

Professor Zee Upton

Share Registry

Link Market Services
Level 15, 324 Queen Street
Brisbane, QLD 4000 Australia

Auditors

Lawler Hacketts Audit
Level 3, 549 Queen Street
Brisbane, QLD 4000 Australia

Lawyers

McCullough Robertson
Level 11, Central Plaza Two
66 Eagle Street
Brisbane, QLD 4000 Australia

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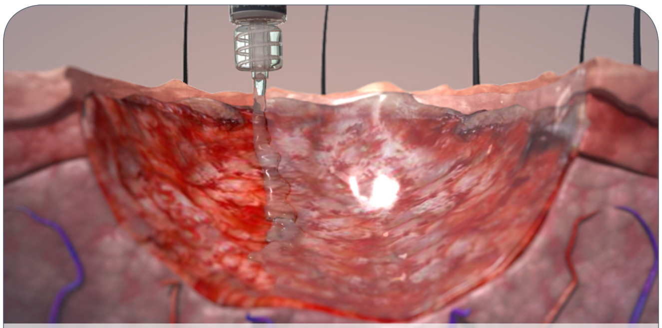
About Us

Tissue Therapies

Tissue Therapies Limited is a biomedical technology company that is focused on developing effective treatments for acute and chronic wound healing applications, including chronic skin ulcers and burns.

Tissue Therapies Limited is currently commercialising VitroGro® ECM, an innovative technology created at the Institute of Health and Biomedical Innovation at the Queensland University of Technology (QUT). Tissue Therapies Limited's shares are traded on the Australian, Berlin and Frankfurt stock exchanges.


VitroGro® ECM is topically applied to the wound

Our mission: Creating value by improving lives

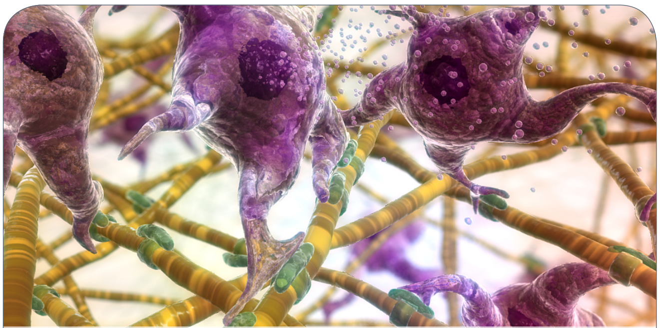
Our mission is the healing of wounds to improve lives of our patients, their carers, their healthcare providers and the global healthcare delivery community, which includes medical insurers and national healthcare schemes.

We will provide our customers with evidenced based solutions for chronic wounds that are clinically effective, cost effective, and easily used in the varying treatment environments of modern healthcare. By meeting this "value challenge" Tissue Therapies will optimise the benefits to the patient, our customers and our shareholders.

Skin cells attach to the VitroGro® ECM scaffold

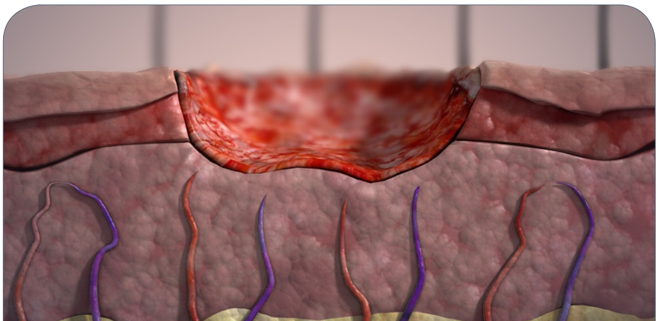
Our product: VitroGro® ECM

Tissues in the body grow on a complex protein scaffold known as the extracellular matrix (ECM). In wounds this scaffold is disrupted and is usually repaired through the process of normal wound healing. Chronic wounds, like venous leg ulcers and diabetic foot ulcers often fail to heal because this scaffold cannot be rebuilt.


Native ECM produced by attached cells restores the dermis

VitroGro® ECM is a technology that is designed to replace the damaged scaffold of these hard to heal wounds, imitating elements of the scaffold that is present in the early stages of normal wound healing. Published data has shown that this encourages skin cells to attach and grow on the scaffold, covering the wound, by helping reinstate the normal wound healing process[1] [2].

[1] Harding K. etal. Int Wound J. 2013, [Epub ahead of print].
[2] Shooter GK. etal. Int Wound J. 2013, [Epub ahead of print].


Skin cells migrate on dermis reducing wound size

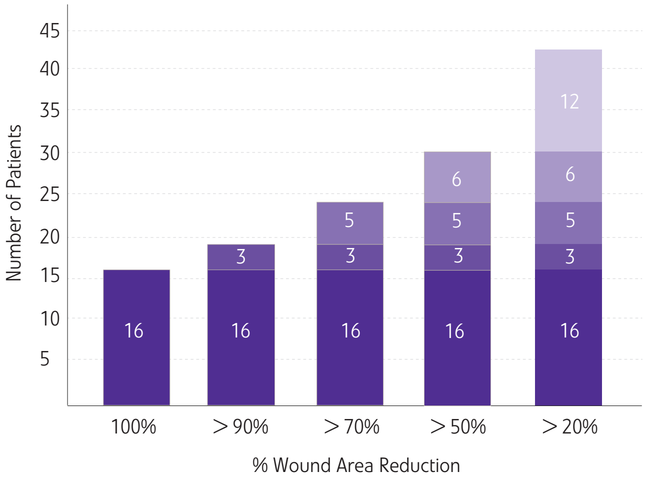
The Value of VitroGro® ECM

Effective healing of chronic wounds

Published data has shown that VitroGro® ECM is effective in healing chronic wounds[1]. This was demonstrated by a clinical study in which the average age of the patients was 74.2 years, the average wound size was 7.36 cm^2 and the average ulcer duration was 37 months. The incidence of complete healing in patients that completed the study was 35.6% and the median percentage wound area reduction was 70.8%. Within the 12 week treatment period 66.7% of patients had a wound size reduction of greater than 50%.

[1] Harding K. etal. Int Wound J. 2013, [Epub ahead of print].

Wound area reduction in patients treated with VitroGro® ECM at 12 weeks



Cost effectiveness

Tissue Therapies is targeting at least a 20% return on investment for healthcare providers treating their patients with VitroGro® ECM. This provides a compelling argument for healthcare administrators and payers (e.g. private and public health insurance) to adopt VitroGro® ECM, supporting its use through conditional reimbursement while post market data is collected for securing broader reimbursement and consequently greater market access.

Ready To Roll In Europe

Logistics hub

Tissue Therapies has established a cold chain logistics supply hub using the world class medical logistics company, Movianto. This central hub will service the United Kingdom, Germany, France, Italy, the Benelux countries, Austria, Switzerland, the Nordic countries, Turkey, the Middle East, the emerging European countries and the major urban centers in Russia when required.

Salesforce

Tissue Therapies has contracted with Quintiles, the world's largest provider of biopharmaceutical development and commercial outsourcing services, to provide a contract sales force. Recruiting of the salesforce will only start in earnest once CE Mark is obtained. The initial phase of sales starts with a defined and targeted key opinion leader program. This will be run by present Tissue Therapies' employees while recruiting proceeds for the contract sales force. The Quintiles agreement provides sales support processes and customer management services. This allows Tissue Therapies to hit the ground running in countries like Germany where setting up a new entity can be a lengthy and resource consuming process.

Market access

Tissue Therapies has identified the steps required to add VitroGro® ECM onto the various national listings required to amplify sales post CE mark. These include the Drug Tariff in the United Kingdom and the Lauer-Taxe list in Germany. Being registered on these lists facilitates easy ordering of VitroGro® ECM by healthcare professionals and is a key step towards greater market access for VitroGro® ECM.

Key opinion leader (KOL) program

Ensuring local and national support from expert physicians in each market is important. Tissue Therapies has identified KOL's in the European markets of the UK, Ireland, Germany, Austria, Switzerland, Belgium and the Netherlands. We are working closely with several KOL's regarding post market investigations that should lead to consensus and guideline documentation for supporting widespread use of VitroGro® ECM.

Pre-market health economic program

Tissue Therapies is working with key health economists and KOL's in the major markets of the United Kingdom and Germany to prepare health economic models that can demonstrate the cost savings of using VitroGro® ECM to physicians and administrators. Post-market, data from the KOL programs and patient registry systems will be used to refine the models, further validating country specific and wound specific determinations of the cost savings achieved by using VitroGro® ECM in the various market segments (e.g. community care, specialised clinics, GP offices and hospitals).

Evidence based launch

A paper presenting functional data on how VitroGro® ECM works and another presenting clinical data about the effectiveness and safety of the product have been published in 2013 [1] [2]. Further publications from the health economic program are also positioned to be available on launch of VitroGro® ECM in Europe. These publications represent the start of the peer reviewed data program which provides an evidence base from which the sales force can operate.

[1] Harding K. etal. Int Wound J. 2013, [Epub ahead of print].
[2] Shooter GK. etal. Int Wound J. 2013, [Epub ahead of print].

Chairman's and CEO's Report

We are pleased to present the annual report of the Tissue Therapies Group for the financial year ending 30 June 2013.

The emphasis of the Company during the 2012-13 financial year was concentrated on resolving the unusual issues that arose regarding the granting of CE Mark for VitroGro® ECM.

An intense series of negotiations with the European Medicines Agency (EMA), the UK health regulator the Medicines and Healthcare Products Regulatory Agency (MHRA) and other agencies resulted in the resolution of these matters and the final step in the CE Mark approval process is now underway.

The assistance of a small group of expert health regulatory and legal advisors was instrumental in achieving this outcome and the Company is grateful for this support.

In parallel with working to restore the pathway to the granting of CE Mark to allow the start of VitroGro® ECM sales throughout the EU, the following was also achieved during or soon after the last financial year:

- Completion of the application to the FDA for approval to conduct the pivotal clinical trial to allow VitroGro® ECM to be sold in the USA for the treatment of venous ulcers. At the time of writing, this submission to the FDA is imminent. This clinical trial protocol is designed as a double blinded, prospective, randomised control trial, the highest standard of scientific trial.

- Expert health economics analysis of the clinical results of VitroGro® ECM compared to standard care has already produced strong data showing that VitroGro® ECM is likely to offer an attractive health economic benefit for the healing of chronic wounds. This expert analysis is continuing and will form the basis of the health economic data that will be used in applications for reimbursement in multiple countries.

- Detailed planning continues to optimise the sales launch of VitroGro® ECM in the EU. The sales launch campaign will start very soon after CE Mark is granted. The initial sales will be handled by staff already working for, or consulting to Tissue Therapies. The hiring of new sales staff will start shortly after CE Mark is granted.

- Negotiations with a number of experienced, expert health distributors are ongoing in a targeted list of countries outside the European Union (EU). These potential distributors operate in countries where approval for sale is facilitated by CE Mark having been granted.

Financial Results

During the 2012-13 financial year, Tissue Therapies Group recorded an after-tax loss of $5,740,094 in line with budget expectations. This loss includes non-cash expenses of $67,900 relating to the write-off of protein component inventory developed during the Group's research programme.

Net assets increased by $3,501,347 to $13,968,238 and at 30 June 2013 the Group had cash resources of $4,862,425.

Outlook

The resolution of the approval process for the granting of CE Mark positions the Company for the start of sales of VitroGro® ECM in the large and growing market of difficult to heal wounds for which there are currently no definitive treatments.

As a result of the clinical results achieved with VitroGro® ECM, many key clinical opinion leaders are keen to start using VitroGro® ECM as soon as it is approved for sale.

The scientific and clinical results indicate that VitroGro® ECM should offer the powerful combination of the opportunity to transform the healing of difficult to heal wounds and an attractive financial return to shareholders.

We are looking forward to 2014 with great anticipation for the start of sales in the EU and the beginning of the global rollout of VitroGro® ECM.

The Board

Roger Clarke (Chairman)

Mr Clarke has over 30 years commercial experience, principally in the investment banking industry, with responsibilities in fund management, banking and corporate finance, and involvement in a significant number of initial public offerings, capital raising and corporate transactions. He is Chairman of the Board of Advice of RBS Morgans Limited, Chairman of CoalBank Limited (formerly Lodestone Energy Limited). Mr Clarke is also a Director of NextDC Limited and Maverick Drilling and Exploration Limited.

Bachelor of Commerce, Chartered Accountant.

Dr Mel Bridges

Dr Bridges has extensive experience as a CEO and Company Director in healthcare, agricultural technology, drug development, pathology, diagnostics and medical devices. Dr Bridges has successfully raised in excess of $300M investment capital in the healthcare/biotech sector and been directly involved in over $1B in merger and acquisition and related transactions. Dr Bridges is is also a Director of Benitec BioPharma Limited, ALS Limited (previously Campbell Brothers Limited) and ImpediMed Limited.

Bachelor of Science (Chemistry), Honorary Doctorate from Queensland University of Technology, Fellow of the Australian Institute of Company Directors.

Dr Cherrell Hirst AO

Dr Hirst has had a distinguished clinical career in the detection and treatment of breast cancer and extensive and respected achievements as Director and Chair of multiple commercial, government and not-for-profit organisations. Dr Hirst is a Chairman of ImpediMed Limited, CEO of QIC BioVentures and Director of Medibank Private Limited, Avant Insurance Limited, Xenome Limited and Telesso Technologies Limited.

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.

Iain Ross

Mr Ross has worked with multi-national companies including Sandoz, Fisons Plc, Hoffman La Roche, and Celltech Group Plc. Over the last 15 years he has undertaken a number of company turnarounds and start-ups as a board member on behalf of both private equity groups and banks. Currently he is Chairman of Ark Therapeutics Plc (LSE), Biomer Technology Ltd , Pharminox Ltd and Coms Plc (LSE : AIM). Mr Ross is a Non-Executive Director of Benitec BioPharma Limited (ASX) and Yellow Cross Limited, and is Vice Chairman and Trustee of Royal Holloway, London University.

Bachelor of Science (Hons) Biochemistry, Chartered Director.

The Team

Dr Steven Mercer (Chief Executive Officer & Managing Director)
Dr Mercer has been CEO of Tissue Therapies Ltd since late September 2004. During this time, Tissue Therapies has successfully developed multiple formulations of synthetic proteins and produced VitroGro® ECM for the treatment of hard to heal wounds to a commercial scale. The Company has conducted successful clinical trials, submitted an application for approval for sale in the EU (CE Mark) and applications to start US FDA clinical trials for the treatment of venous and diabetic ulcers.
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.

Nigel Johnson (Operations Director)
Mr Johnson has more than 17 years experience in the medical device and biologics industries, principally with responsibilities for development, manufacturing, quality management and regulatory affairs in Europe, Australia, Canada and the United States. Nigel has been instrumental in the development and manufacturing of VitroGro® ECM for commercial sale.
Bachelor of Applied Science.

Drummond McKenzie (Chief Financial Officer)
Mr McKenzie, who has been involved with Tissue Therapies since its inception, has significant experience in senior financial management in a range of industries including mining, financial services, health and the accounting profession, in Australia and internationally.
Bachelor of Science (Economics) (Hons), Fellow of the Institute of Chartered Accountants, Fellow of the Institute of Chartered Secretaries.

Dr Hedie Meka (Regulatory and Intellectual Property Manager)
Dr Meka has more than 6 years experience as a registered patent and trade marks attorney and prior to joining Tissue Therapies, was partly responsible for the management of Tissue Therapies' international patents and trademarks. Earlier in her career, Dr Meka worked as an interdisciplinary research scientist in molecular and cell biology, with experience at the University of Queensland, Imperial College, London and at Oxford University.
Bachelor of Applied Science, Masters of Industrial Property, PhD (Medical Science), Fellow of the Institute of Patent and Trade Mark Attorneys of Australia.

Saskia Jo (Corporate Accountant)
Saskia is an experienced corporate accountant with first-hand knowledge of implementing and modernising financial systems that are required in an evolving company such as Tissue Therapies.
Bachelors degree in Commerce, a Graduate Diploma of Applied finance and is a Certified Practicing Accountant.

The Team

Dr Brian Ziegelaar (International Product Manager)
Dr Ziegelaar has extensive experience in the commercialisation of clinical devices in his former capacity as International Product and European Sales Manager for ImpediMed Limited. Dr Ziegelaar specialises in marketing, sales and commercial support. Earlier in his career, Dr Ziegelaar gained his PhD and pursued post-doctoral research in Europe in tissue engineering and cell biology.
Bachelor of Science, Master of Medical Science, PhD.

Andrew Thelwell (Managing Director, EU Commercial Operations)
Mr Thelwell has over twenty five years experience in the wound sector, working for Smith & Nephew and ConvaTec. Previous roles have included General Management within both the Benelux and the United Kingdom & Ireland regions, and leadership of global marketing functions.
Bachelor of Arts (Hons), Masters Business Administration.

Dr Eva-Lisa Heinrichs (Medical Director, Global Medical Affairs)
Dr Heinrichs has over 16 years of experience in the medical device industry including 4 years as Chief Medical Officer of Orteq Limited, a London-based privately owned orthobiologics company and 10 years as European Medical Director of ConvaTec Limited, an international wound care, skin care and stoma care devices company. Dr Heinrichs obtained her medical qualification from Helsinki University, Finland and has a postgraduate research doctorate of medicine degree from Cardiff University in the UK.
Bachelor of Medicine, PhD.

Professor Zee Upton (Consulting Chief Scientific Officer)
Professor Upton is the lead-inventor of VitroGro® and oversees the Company's R&D activities as its Consulting Chief Scientific Officer. Professor Upton is an expert in cellular technologies and is based at QUT.
Bachelor of Science, PhD, Professorial Chair at Queensland University of Technology.

Dr Gary Shooter (Director of Research and Development)
Dr Shooter is a Senior Research Fellow within the Tissue Repair and Regeneration program at QUT and has a diverse range of interests in structural biology and protein chemistry. Following his PhD, Dr Shooter has held several positions within industry and academia where he has developed a proven track record in the GMP production and characterisation of protein-based therapeutics. Dr Shooter is currently co-leader of program 1 of the Wound Management and Innovation Co-operative Research Centre (CRC), alongside Professor Zee Upton.
Bachelor of Science (Honours), PhD (Medical Science).

Corporate Governance

Responsibility for the Company's proper corporate governance rests with the Board. The Board is committed to implementing the highest standards of corporate governance, and its guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Tissue Therapies' shareholders with a view to building sustainable value for them, for employees and those with whom the Company has dealings – residents, suppliers and the general community.

The Company has complied with the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition, as amended at 30 June 2010). A more detailed assessment of Tissue Therapies' current corporate governance practice against the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition) is provided later in this section.

Tissue Therapies' Corporate Governance Charter, Securities Trading Policy, Remuneration Committee Charter and Nomination Committee Charter can be viewed on the Company's website at www.tissuetherapies.com. The Company's Corporate Governance Charter includes the Board Charter, Code of Ethics, Rules of Committees and the Audit and Risk Management Committee Charter.

Scope of Responsibility of the Board

The Board's broad function is to:

- Chart strategy and set financial targets for the Company;
- Monitor the implementation and execution of strategy and performance against financial targets;
- Appoint and oversee the performance of executive management, and generally to take and fulfil an effective leadership role in relation to the Company.

Power and authority in certain areas is specifically reserved to the Board – consistent with its function as outlined above.

These areas include:

- Composition of the Board itself including the appointment and removal of Directors;
- Oversight of the Company including its control and accountability systems;
- Development, implementation and review of remuneration policy and practices;
- Appointment and removal of senior management and the Company Secretary;
- Reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and statutory compliance;
- Monitoring senior management's performance and implementation of strategy, and approving and monitoring financial and other reporting and the operation of committees.

Composition of Board

The Board performs its role and function, consistent with the above statement of its overall corporate governance responsibility, in accordance with the following principles:

- The Board comprises five Directors, four Non-Executive Directors and one Executive Director;
- Details of each Directors' skills and experience are set out in the Directors' Report;
- Directors (except for the Chief Executive Officer) are subject to re- election by rotation at each Annual General Meeting as stipulated in the Corporations Act and the Company's constitution. There are no maximum terms for Non-Executive Director appointments. Newly elected Directors must seek re-election at the first general meeting of shareholders following their appointment;
- The Board considers that the four Non-Executive Directors are independent. In reaching this conclusion the Directors have considered the following:
    - The Chairman, Roger Clarke, is considered independent. Roger Clarke (including his associates) was previously a substantial shareholder of the Company and deemed not to be independent. Roger Clarke ceased to be a substantial shareholder on 11 February 2010, as announced to the ASX.
    - Mel Bridges, Cherrell Hirst and Iain Ross do not have any previous association with the Company or any other relationships that are relevant to their independence.
    - Dr Steven Mercer is an Executive Director and CEO and is not considered independent.
- The Chairman of the Board, Roger Clarke, a Non-Executive Director, is independent. Mr Clarke chairs the Board in such a manner to facilitate the effective contribution of all Board members and management. This includes established meeting procedure, the timely despatch of detailed Board papers, and the timely issue of draft minutes. Directors with a potential conflict of interest in any matter exclude themselves from the discussion and any decision on the matter;

- The role of Chairman and Chief Executive Officer are exercised by different individuals providing for clear division of responsibility at the head of the Company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them;
- The Board has established a Remuneration Committee and a Nomination Committee. The Remuneration Committee Charter and the Nomination Committee Charter can be viewed on the Company's website at www.tissuetherapies.com;
- The Corporate Governance Charter adopted by the Board requires individual performance review and evaluation to be conducted formally on an annual basis. External reviews and assessments of the Board's policies and procedures, and its effectiveness generally, may periodically be conducted by independent consultants. This possibility (which would involve professional scrutiny and benchmarking against developing best market practice) will be kept under review by the Board for possible future implementation. The Board acknowledges that performance can always be enhanced and will continue to seek and consider ways of further enhancing performance both individually and collectively.

Board Charter and Policy

The Board's Charter (which is kept under review and will be amended from time to time as the Board may consider appropriate) gives formal recognition to the matters outlined above. This Charter sets out various other matters that are important for effective corporate governance including the following:

- A detailed definition of 'independence';
- A framework for the identification of candidates for appointment to the Board and their selection;
- A framework for individual performance review and evaluation;
- Proper training to be made available to Directors both at the time of their appointment and on an ongoing basis;
- Basic procedures for meetings of the Board and its committees – frequency, agenda, minutes and private discussion of management issues among Non-Executive Directors;
- Ethical standards and values – formalised in a detailed code of ethics and values;
- Dealings in securities – formalised in a detailed code for securities transactions designed to ensure fair and transparent trading by Directors and senior management and their associates, and
- Communications with shareholders and the market.

These initiatives, together with the other matters provided for in the Board's Charter, are designed to 'institutionalise' good corporate governance and, generally, to build a culture of best practice both in Tissue Therapies' own internal practices and in its dealings with others, including shareholders, suppliers and the general community.

Audit and Risk Management Committee

The purpose of this Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. Its members during the financial year have been the following Directors:

- Mel Bridges (Chair)
- Roger Clarke
- Cherrell Hirst
- Iain Ross

Mel Bridges, Roger Clarke, Cherrell Hirst and Iain Ross are considered independent.

The Committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board following each meeting. Among the matters for which the Committee is responsible are the following:

- Board and committee structure to facilitate a proper review function by the Board;
- Internal control framework including management information systems;
- Corporate risk assessment and compliance with internal controls;
- Internal audit function and management processes supporting external reporting;
- Review of financial statements and other financial information distributed externally;
- Review of the effectiveness of the audit function;
- Review of the performance and independence of the external auditors, including audit partner rotation;
- Review of the external audit function to ensure prompt remedial action by management, where appropriate, in relation to any deficiency in or breakdown of controls;
- Assessing the adequacy of external reporting for the needs of shareholders, and
- Monitoring compliance with the Company's code of ethics.

Meetings are held at least twice a year. The external auditors attend each of the Committee's meetings.

Risk Management

The Board, together with the Audit and Risk

Management Committee are responsible for ensuring that the Company's risk management systems are effective, and that:

- The principle strategic, operational and financial risks are identified;
- Effective systems are in place to monitor and manage risk;
- Reporting systems, internal controls and arrangements for monitoring compliance with legislation and regulations are adequate.

The Board acknowledges the Revised Supplementary Guidelines to Principle 7 issued by the ASX in June 2008 and has continued its proactive approach to risk management. The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy, policies, internal compliance and internal control. The function is carried out by the Audit and Risk Management Committee and its findings are reported to, reviewed and discussed by the Board. The Company's Risk Management Policy can be viewed on the Company's website at www.tissuetherapies.com.

Certifying Financial Reports

The Chief Executive Officer and Chief Financial Officer certify in respect of the half yearly and the full year financial results that the Company's financial reports present a true and fair view, in all material respects, of the financial position and performance of the Company and are in accordance with the Corporations Act. As part of this certification, they are required to confirm that the risk management and internal control systems, to the extent that they relate to financial reporting, are operating effectively in all material respects based on the risk management model adopted by the Company.

Remuneration Committee

The purpose of Remuneration Committee is to assist the Board to implement appropriate and relevant remuneration policies and practices that fairly and responsibly reward management and senior executives having regard to performance, the law and principles of good corporate governance.

Its members during the financial year have been the following Directors:

- Cherrell Hirst (Chair)
- Roger Clarke
- Mel Bridges
- Iain Ross

Nomination Committee

The purpose of the Nomination Committee is to assist the Board in identifying appropriate individuals who are qualified to become Board members and for developing procedures and measures to ensure that appropriate diversity is represented and promoted at the Board level and throughout the Tissue Therapies organisation consistent with the requirements that may be imposed by the law or ASX or as may be adopted by the Board from time to time.

The members of the Nomination Committee's during the financial year have been the following Directors:

- Roger Clarke (Chair)
- Mel Bridges
- Cherrell Hirst
- Iain Ross

Best Practice Commitment

The following are a tangible demonstration of the Company's corporate governance commitment:

- Independent professional advice: With the prior approval of the Chairman, which may not be unreasonably withheld or delayed, each Director has the right to seek independent legal and other professional advice concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. Any costs incurred are borne by the Company.
- Code of ethics and values: The Company has developed and adopted a detailed Code of Ethics to guide Directors in the performance of their duties.
- Code of conduct for transactions in securities: The Company has developed and adopted a formal code to regulate dealings in securities by Directors and senior management and their associates. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.
- Charter: The Code of Ethics and the Securities Trading Policy (referred to above) both form part of the Company's Corporate Governance Charter which has been formally adopted and can be inspected on its website at www.tissuetherapies.com.

Compliance with ASX Corporate Governance Guidelines and Best Practice Recommendations

The Board has assessed Tissue Therapies' current practice against the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition as amended at 30 June 2010) "the Principles" and outlines its assessment below:

- Lay solid foundations for management and oversight: The role of the Board and delegation to management have been formalised as described above. This will continue to be refined, in accordance with the Principles in light of practical experience gained in operating as a listed company. Tissue Therapies complies with the Principles in this area.

- Structure the Board to add value: The Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business of the Company. The Non-Executive Directors [Roger Clarke, Mel Bridges, Cherrell Hirst and Iain Ross] are considered by the Board to be independent and comprise a majority of the Board. The Chairman of the Board, Roger Clarke, is considered independent. Tissue Therapies does comply with the Principles in this regard.
- Promote ethical and responsible decision-making: The Board has adopted a detailed code of ethics and a detailed code of conduct for transactions in securities. The purpose of these codes is to guide Directors in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities. The Board ensures that restrictions on dealings in securities are strictly enforced. Both codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore comply with the Principles.

  The Board has adopted a Group Diversity Policy to ensure that the Company continues to benefit from a workforce which is diverse in respect of gender, ethnicity and age by:

    - Reviewing and determining, as frequently as required, a Diversity profile that meets the particular needs of Tissue Therapies, including identifying the skill, experience and expertise requirements set for the Board and senior management necessary to effectively oversee its business and achieve its corporate goals;
    - Through the Nomination Committee, seeking to ensure that the Diversity profile is a factor that is taken into account in the selection and appointment of qualified employees, senior management and Board candidates;
    - Implementing initiatives focused on skills development, such as executive mentoring programs or more targeted practices relating to career advancement including those that develop skills and experience that prepare employees, in particular women, for senior management or Board positions;
    - Establishing an effective measurement and reporting framework to enable the achievement of the objectives of the Group Diversity Policy.

  The Company's Group Diversity Policy can be viewed at www.tissuetherapies.com.

- Safeguard integrity in financial reporting: The Audit and Risk Management Committee (with its own charter) complies with the Guidelines. The Committee consists only of Non-Executive Directors and Mel Bridges (its Chairman), Roger Clarke, Cherrell Hirst and Iain Ross are considered independent. All members of the Committee are financially literate.
- Make timely and balanced disclosure: Current Tissue Therapies' practice on disclosure is consistent with the Guidelines. Policies and procedures for compliance with ASX Listing Rule disclosure requirements are included in the Company's Corporate Governance Charter. Compliance with the ASX Listing Rule Continuous Disclosure requirements is incorporated in the Company's Corporate Governance Charter and is a standing agenda item at each Board meeting.
- Respect the rights of shareholders: The Board recognises the importance of this principle and strives to communicate with shareholders both regularly and clearly – both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors attend the annual general meeting and are available to answer shareholders' questions. The Company's policies comply with the Principles in relation to the rights of shareholders.
- Recognise and manage risk: The Board, together with management, has constantly sought to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible, improved. The whole issue of risk management is formalised in the Company's Corporate Governance Charter (which complies with the Principles in relation to risk management) and is kept under regular review. Review takes place at both committee level (Audit and Risk Management Committee), with meetings at least two times each year, and at Board level.
- Remunerate fairly and responsibly: Tissue Therapies' current practices in this area are reviewed regularly. Remuneration of Directors and executives are fully disclosed in this annual report. A clear distinction is made between Non-Executive Directors and executives in terms of the structure of their remuneration. The Remuneration Committee assists the Board to implement appropriate and relevant remuneration policies and practices that fairly and responsibly reward management and senior executives having regard to performance, the law and principles of good corporate governance.

Financial Report

Contents

DIRECTORS' REPORT

Your Directors present their report on Tissue Therapies Limited ("the Company") and Controlled Entities, ("the Group") for the year ended 30 June 2013.

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 Coalbank Limited (formerly Lodestone Energy Limited), and Director of Maverick Drilling and Exploration Limited
Former ASX entity Directorships	—	Byron Energy Ltd (formerly Trojan Equity Limited) (March 2005 to March 2013)
Special Responsibilities	—	Chairman of the Nomination Committee, Member of the Audit and Risk Management Committee and Remuneration Committee
Interest in Shares and Options	—	5,200,000 Ordinary Shares

Melvyn Bridges – Director (appointed 12 March 2009)

Qualifications	—	Bachelor of Science (Chemistry) Honorary Doctorate from Queensland University of Technology 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 $300 million investment capital in the healthcare/biotech sector and been directly involved in over $1 billion in M&A and related transactions Director of Benitec BioPharma Limited, ALS Limited (formerly Campbell Brothers Limited) and ImpediMed Limited.
Former ASX entity Directorships	—	Alchemia Limited (October 2003 to July 2013), Genetic Technologies Limited (December 2011 to November 2012), Leaf Energy Limited (August 2010 to September 2012), 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	—	245,287 Ordinary Shares

Iain Ross – Director (appointed 25 May 2012)

Qualifications	—	Bachelor of Science (Hons) Biochemistry Chartered Director
Experience	—	Chairman of Ark Therapeutics Plc (LSE), Biomer Technology Limited, Pharminox Limited, and Coms Plc (LSE: AIM), Director of Benitec BioPharma Limited (ASX), PowerStax Plc, and Yellow Cross Limited, and Trustee of Royal Holloway, London University
Former ASX entity Directorships	—	None
Special Responsibilities	—	Member of the Audit and Risk Management Committee, Remuneration Committee and Nomination Committee
Interest in Shares and Options	—	None

Cherrell Hirst AO – 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
Experience	—	Chairman of ImpediMed Limited, CEO of QIC BioVentures and Director of Medibank Private Limited, Avant Insurance Limited, Xenome Limited and Telesso Technologies Limited. 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	—	None
Special Responsibilities	—	Chairman of Remuneration Committee, Member of the Audit and Risk Management 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 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	—	1,150,750 Ordinary Shares and options to acquire a further 140,000 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 Group consisted of the research, development and commercialisation of the Group's exclusive international intellectual property in wound healing and tissue regeneration.

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

Operating results

The loss of the Group after tax amounted to $5,740,094 (2012: loss $6,769,382).

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 2012-13 financial year:

Tissue Therapies recorded an after-tax loss of $5,740,094 in line with budget expectations. This loss includes non-cash expenses of $67,900 relating to the write off of protein component inventory developed during the Group's research programme.

Net assets increased by $3,501,347 to $13,968,238 and at 30 June 2013 the Group had cash resources of $4,862,425.

VitroGro® has been developed from a profound set of discoveries by the Chief Scientific Officer, Professor Zee Upton and her research group from the Institute of Health and Biomedical Innovation at the Queensland University of Technology.

VitroGro® ECM is a topically applied, biomimetic scaffold, comprising a synthetic extracellular matrix (ECM) protein.

How it works: VitroGro® ECM replaces the degraded matrix of a hard to heal wound. VitroGro® ECM binds to a prepared wound bed and provides a physical structure (a scaffold) for cell attachment, which is a primary requirement for subsequent cell functions critical for healing, such as cell proliferation and migration [1].

An optimal scaffold: One of the characteristics of hard to heal wounds is prolonged inflammation, which damages the native ECM that would normally guide the wound healing process [1,2,3,4]. Replacement of this damaged ECM is a beneficial strategy for treating hard to heal wounds [1]. VitroGro® ECM is ideal as an ECM replacement since its structural and functional elements mimic those present in the ECM at the early stages of normal wound healing.

Expert health economics modelling indicates that VitroGro® ECM offers the opportunity for substantially more cost effective treatment of wounds than the current standard of care.

[1] Widgerow AD. Deconstructing the stalled wound. Wounds 2012

[2] Schultz GS. Extracellular Matrix: review of its roles in acute and chronic wounds. World Wide Wounds. 2005

[3] Moor AN. et al. Proteolytic activity in wound fluids and tissues derived from chronic venous leg ulcers. Wound Rep Reg. 2009

[4] International consensus, Acellular matrices for treatment of wounds. Wounds Int. 2010

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

The commercial emphasis of the 2012 - 2013 financial year was concentrated on resolving the unusual issues with the granting of CE Mark for VitroGro® ECM. This was particularly frustrating since these delays were to do with regulatory authority disagreement about the appropriate medical device rule which should apply, despite this having been confirmed during the prior year.

This delay was independent of the safety, effectiveness, indications for use, instructions for use, packaging and labelling of VitroGro® ECM all of which have been approved.

A resolution and timetable for granting of CE Mark was achieved during late July and early August 2013 and are summarised in **Matters Subsequent to the End of the Financial Year** below.

While an intense series of meetings and negotiations were conducted by the Group, with the assistance of a small, expert health regulatory legal team, to resolve the regulatory issues within the EU, the following were also achieved during the 2012 – 2013 year:

DIRECTORS' REPORT (Continued)

1. Further optimisation of commercial scale manufacturing was successfully completed.

2. Further stability testing confirmed the suitability of the current inventory is unchanged i.e. that the current inventory remains suitable for sale and its effective storage life is likely to be at least 5 years and possibly more than 10 years.

3. Final preparation was completed for the planned US Food & Drug Administration (FDA) clinical trial application for the treatment of venous ulcers with VitroGro® ECM. This clinical trial will be conducted as a double blinded prospective randomised control trial, the highest standard of clinical trial.

   Submission of this FDA clinical trial application is planned during the third quarter of calendar 2013 and this clinical trial is planned to start during the fourth quarter of calendar 2013. Assuming successful outcomes, this pivotal trial should allow sales to start in the USA during the first half of the 2016 calendar year.

4. Expert health economics analysis of the clinical results achieved with VitroGro® ECM compared to current standard of care continued during the last financial year and is ongoing. This has involved the analysis of healing from matched patients in large UK and European databases and demonstrates that VitroGro® ECM is likely to offer an unprecedented health economics benefit for the healing of chronic wounds. This expert analysis is continuing and the data from it will be used for reimbursement applications that will be lodged shortly after CE Mark is granted.

   It should be noted that reimbursement is not required for the start of sales but will allow maximum market access.

5. Detailed preparation for the sales launch of VitroGro® ECM within days of CE Mark being granted is ongoing. Initially, sales will be driven by staff already working for, or consulting to Tissue Therapies. The hiring of new sales staff will start shortly after CE Mark is granted.

6. Negotiations continued with a number of potential distributors interested in selling VitroGro® ECM in territories outside the EU. These potential distributors operate in countries where the process to gain approval for sale once CE Mark has been granted is relatively rapid and straightforward.

Significant Changes in State of Affairs

In March 2013, the Group conducted successful placement of 41,512,297 ordinary shares with institutional and sophisticated investors at $0.21 per share to raise $8,717,582 before issue costs.

There were no other siginificant changes in the state of affairs of the Group during the financial year.

Matters Subsequent to the End of the Financial Year

As a result of extensive consultation and negotiations with the UK health regulator, the Medicine and Heathcare Products Regulatory Agency (MHRA) and the European Medicines Agency (EMA), the EMA agreed to proceed with the review of VitroGro® ECM manufacturing quality data. This is the last step in the process of granting CE Mark and the start of sales in the EU. (Please see **ASX: TIS "Appendix 4C Quarterly Report and CE Mark Update" 29 July 2013**).

The EMA subsequently advised the Group that the manufacturing data review would start on 6 September 2013. (Please see **ASX: TIS "EMA Review Start Date Confirmed" 5 August 2013**) This desk review of manufacturing quality data must be completed in a statutory maximum of 210 calendar days and the EMA usually completes these in less than the maximum time.

If the full 210 calendar days are used for the EMA review, this should allow sales of VitroGro® ECM to start in the EU during the second quarter of the 2014 calendar year.

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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' REPORT (Continued)

Future Developments, Prospects and Business Strategies

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

Key Achievement / Indicative Milestone	Target
FDA application for venous ulcer trial	Q3 2013
Start of FDA pivotal clinical trial of VitroGro® ECM for the treatment of venous ulcers	Q4 2013
Grant of CE Mark and start of sales in the EU	Q2 2014
Start global rollout of VitroGro® ECM launches outside the EU (excluding USA)	Q2 2014
Start VitroGro® ECM sales in the USA for treatment of venous ulcers	2016

Workforce Diversity

The Board recognises that workforce diversity is fundamental to the sustainability of our business. Our Group Diversity Policy ensures a strong culture of diversity is established where each employee is respected for whom they are and valued for their skills and experience.

	% of Women	
	30 June 2013	30 June 2012
The Group		
Board[1]	25%	25%
Scientific Advisors	33%	33%
Executive and management	38%	38%
Total	33%	33%

[1] Non-executive Directors only

Options

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

Grant date	Date of Expiry	Exercise price	Number under option	
29/11/2007	2 years from each milestone achieved*	$0.64	140,000	*
19/06/2012	4 July 2014	$0.59	950,000	**
			1,090,000	

* 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 2013, 260,000 of these options issued had expired.

** Options issued to Key Personnel.

25,000 ordinary shares were issued on the exercise of options during the year ended 30 June 2013.

During the year 565,000 options expired.

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

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 Group.

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 Group 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 the Annual General Meeting held on 28 November 2011 when shareholders approved an aggregate remuneration of $400,000 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 plus incentive payments for achievement of specific objectives.

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 curent 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 vested 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 260,000 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 375,000 of these options had expired and 125,000 had been exercised by the end of the financial year.

During 2010 a futher 250,000 options were awarded to Dr Mercer as part of the options issued at that time to key management personnel. These options were exercisable at $0.26 and had expired by the end of the financial year.

During June 2011 Dr Mercer was awarded a performance based cash bonus of $25,000. Achievement of this bonus was dependent on successful completion of the international multicentre venous ulcer trial, successful completion of larger scale manufacturing and successful classification by the FDA of VitroGro®.

During June 2013 Dr Mercer was awarded a performance based cash bonus of $40,000. Achievement of this bonus was dependent on finalisation of all commercial and logistics arrangements in readiness for the commencement of sales in the EU once CE mark is achieved, development of health economic data for reimbursement and completion of manufacturing validation data for EMA and FDA. Dr Mercer's contract allows for a cash bonus of up to 25% of his salary package, the cash bonus awarded represent 13.3% of his salary package.

DIRECTORS' REPORT (Continued)

Company Secretary

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

Structure: The Company Secretary is employed under contract. The current contract commenced on 5 September 2011. Mr McKenzie's employment contract with the Company encompasses a current total remuneration package of $218,000 per annum.

During 2010, 250,000 options at $0.26 were awarded to the Company Secretary as part of the options issued at that time to key management personnel. These options had been exercised by the end of the financial year.

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 2013 are set out as follows:

		Primary		Post Employment	Share-based payment			
Key Management Personnel		**Cash Salary and fees**	**Bonus / Non-monetary benefits**	**Super-annuation**	**Equity**	**Options (a)**	**Total**	**Performance related**
		$	**$**	**$**	**$**	**$**	**$**	**%**
Non-Executive Directors								
R. Clarke (Chairman)	**2013**	**60,000**	**-**	**5,400**	**-**	**-**	**65,400**	**-**
	2012	60,000	-	5,400	-	-	65,400	-
M. Bridges	**2013**	**59,952**	**-**	**-**	**-**	**-**	**59,952**	**-**
	2012	59,952	-	-	-	-	59,952	-
I. Ross	**2013**	**59,750**	-	-	-	-	**59,750**	-
	2012	4,979	-	-	-	-	4,979	-
C. Hirst	**2013**	**55,000**	**-**	**4,950**	**-**	**-**	**59,950**	**-**
	2012	55,000	-	4,950	-	-	59,950	-
G. Baynton	**2013**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2012	57,454	-	-	-	-	57,454	-
Executive Directors								
Dr S. Mercer (CEO)	**2013**	**275,000**	**40,000**	24,750	**-**	**-**	**339,750**	**-**
	2012	275,000	22,936	26,814	-	-	324,750	-
Other Key Management Personnel								
D. McKenzie	**2013**	**166,666**	**-**	**15,000**	**-**	**-**	**181,666**	**-**
	2012	184,943	-	10,668	-	-	195,611	-
Total	**2013**	**676,368**	**40,000**	**50,100**	**-**	**-**	**766,468**	
	2012	697,328	22,936	47,832	-	-	768,096	

(a) Options issued to Key Management Personnel

During the year there were no (2012: 950,000) options issued under the Company's Equity Option Plan to Key Personnel. 25,000 options were exercised during the year.

The value of options issued to Key Personnel have been fully amortised during the year with $145,667 (2012: $6,333) being included in Administration expense in the Statement of Comprehensive Income.

DIRECTORS' REPORT (Continued)

Options Granted as Remuneration

There were no options granted as remuneration to Key Management Personnel during the year and the corresponding year.

25,000 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	10	3	3	1	1	1	1
M Bridges	10	7	3	3	1	1	1	1
C Hirst	10	10	1	1	1	1	1	1
I Ross	10	10	3	3	1	1	1	1
S Mercer	10	10	n/a	n/a	n/a	n/a	n/a	n/a

Environmental Regulation

The Group'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.*

DIRECTORS' REPORT (Continued)

Auditor

Lawler Hacketts Audit 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 2013:

Non-audit services	**30 June 2013 $**	**30 June 2012 $**
Audit or review of regulatory returns and due diligence services	5,500	1,500

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, 20 August 2013

Steven Mercer
CEO & Director

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 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.

Lawler Hacketts Audit

L J Murphy
Partner

Brisbane, 20 August 2013

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FINANCIAL STATEMENTS

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	CONSOLIDATED 30 June 2013 $	30 June 2012 $
Continuing operations			
Revenue	2(a)	95,153	336,637
Other income	2(b)	186,071	532,815
		281,224	869,452
Research and development expenses		(1,029,716)	(1,288,256)
Clinical trials expenses		(137,531)	(668,550)
Occupancy expenses		(242,109)	(102,903)
Marketing and business development		(213,817)	(294,759)
Regulatory approvals		(553,472)	(754,827)
Intellectual property		(445,395)	(324,908)
Sales and distribution		(136,895)	(182,266)
Transport and logistics		(172,814)	(58,433)
Amortisation of non-current inventory		(67,900)	(728,601)
Manufacturing expenses		-	(25,646)
Employment expenses		(1,640,809)	(1,443,517)
Consultants		(724,694)	(977,807)
Administration expenses		(643,644)	(878,843)
Depreciation		(82,960)	(37,404)
Finance costs		(13,861)	(8,204)
Loss on foreign exchange		(82,343)	(165,864)
Other expenses		(144,334)	(135,890)
Loss before income tax benefit	3	(6,051,070)	(7,207,226)
Income tax benefit	4(a)	310,976	437,844
Loss from continuing operations after income tax benefit		(5,740,094)	(6,769,382)
Other comprehensive income items			
Other comprehensive income:			
- Foreign exchange translation reseve		(8,781)	(2,012)
Income tax relating to components of other comprehensive income items		-	-
Other comprehensive income after income tax benefit		(8,781)	(2,012)
Total comprehensive income for the year		(5,748,875)	(6,771,394)
Loss attributable to members of the Company		(5,740,094)	(6,769,382)
Total comprehensive income attributable to members of the Company		(5,748,875)	(6,771,394)
		Cents	**Cents**
Overall Operations			
Basic earnings per share	26	(3.09)	(4.01)
Diluted earnings per share	26	(3.09)	(4.01)

The accompanying notes form part of these statements

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	CONSOLIDATED 30 June 2013 $	30 June 2012 $
CURRENT ASSETS			
Cash and cash equivalents	5	4,862,425	5,158,393
Trade and other receivables	6(a)	141,688	122,391
Current tax assets	4(c)	321,181	393,730
Inventories	7(a)	9,226,535	5,983,541
Financial assets	27	49,957	-
Other assets	8(a)	304,497	254,372
TOTAL CURRENT ASSETS		14,906,283	11,912,427
NON-CURRENT ASSETS			
Inventories	7(b)	237,652	305,552
Property, plant and equipment	9	307,282	370,499
Intangible assets	10	342,250	342,250
Other assets	8(b)	1,525	1,525
TOTAL NON-CURRENT ASSETS		888,709	1,019,826
TOTAL ASSETS		15,794,992	12,932,253
CURRENT LIABILITIES			
Trade and other payables	11	1,402,929	2,071,919
Current tax liabilities	4(e)	10,625	5,649
Provisions	12(a)	170,665	168,934
Financial liabilities	27	-	23,972
Other liabilities	13	29,964	29,964
TOTAL CURRENT LIABILITIES		1,614,183	2,300,438
NON-CURRENT LIABILITIES			
Provisions	12(b)	77,610	-
Other liabilities	13	134,961	164,924
TOTAL NON-CURRENT LIABILITIES		212,571	164,924
TOTAL LIABILITIES		1,826,754	2,465,362
NET ASSETS		13,968,238	10,466,891
EQUITY			
Contributed equity	14(a)	48,845,335	39,740,331
Reserves	15	157,676	121,986
Accumulated losses		(35,034,773)	(29,395,426)
TOTAL EQUITY		13,968,238	10,466,891

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

		Reserves			
	Share Capital $	Option Reserve $	Foreign Exchange Translation Reserve $	Accumulated Losses $	Total $
Total equity at 1 July 2011	39,525,004	356,799	-	(22,848,367)	17,033,436
Total comprehensive income	-	-	(2,012)	(6,769,382)	(6,771,394)
Transactions with owners in their capacity as owners:					
- Contributions of equity	229,481	(16,811)	-	-	212,670
- Transaction costs	(14,154)	-	-	-	(14,154)
- Employee share options	-	6,333	-	-	6,333
- Option reserve transferred	-	(222,323)	-	222,323	-
Total transactions with owners	215,327	(232,802)	-	222,323	204,849
Total equity at 30 June 2012	39,740,331	123,998	(2,012)	(29,395,426)	10,466,891
Total comprehensive income	-	-	(8,781)	(5,740,094)	(5,748,875)
Transactions with owners in their capacity as owners:					
- Contributions of equity	9,948,367	(449)	-	-	9,947,918
- Transaction costs	(843,363)	-	-	-	(843,363)
- Employee share options	-	145,667	-	-	145,667
- Option reserve transferred	-	(100,747)	-	100,747	-
Total transactions with owners	9,105,004	44,471	-	100,747	9,250,222
Total equity at 30 June 2013	48,845,335	168,469	(10,793)	(35,034,773)	13,968,238

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	CONSOLIDATED 30 June 2013 $	30 June 2012 $
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		95,153	346,152
Payments for research, clinical trials and regulatory matters		(1,945,663)	(3,024,421)
Payments to suppliers and employees		(7,922,818)	(8,356,405)
Interest received		143,276	551,219
Finance costs paid		(13,861)	(8,204)
Income tax rebate received		388,500	267,607
Net cash provided by (used in) operating activities	25(b)	(9,255,413)	(10,224,052)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(19,743)	(112,037)
Net cash provided by (used in) investing activities		(19,743)	(112,037)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issues		9,831,332	93,600
Costs of share issue		(843,363)	(14,154)
Net cash provided by (used in) financing activities		8,987,969	79,446
Net increase / (decrease) in cash held		(287,187)	(10,256,643)
Cash at beginning of year		5,158,393	15,416,321
Effects of exchange rate fluctuations on cash held		(8,781)	(1,285)
Cash at end of year	25(a)	4,862,425	5,158,393

The accompanying notes form part of these statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and notes represent those of Tissue Therapies Limited (the "Company") and Controlled Entities (the "Consolidated Group" or "Group"). The Company was incorporated and domiciled in Australia.

The separate financial statements of the parent entity, Tissue Therapies Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial report was authorised for issue on 20 August 2013 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*.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

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.

Except for cashflow information, the financial report has been prepared on an accruals 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. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Tissue Therapies Limited at the end of the reporting period. A controlled entity is any entity over which Tissue Therapies Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 30 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

b. 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 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Income Tax (Continued)

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.

c. 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.

d. Intangibles

Licenses and Patents

Licenses and patents are recognised at cost of acquisition. They 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.

e. 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. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

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.

f. 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. 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.

h. 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.

i. 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 Group 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 Group 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 the end of each reporting period.

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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. 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.

k. Trade and other creditors

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

l. 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.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

m. Impairment of assets

At each reporting date, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

n. Comparative figures

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

o. Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Financial Instruments (Continued)

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) *Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(v) *Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Financial Instruments (Continued)

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial Guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Foreign Currency Transactions and Balances

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and Balances

Foreign currency transactions are translated into 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 profit or loss, 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 other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group Companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences are recognised in profit or loss in the period in which the operation is disposed of.

q. 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 Group.

Key Estimates — Impairment

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

No impairment has been recognised in respect of intangible assets for the year ended 30 June 2013.

Key Judgements - Inventory

The Group assessed the valuation of protein inventory on hand at 30 June 2013. Based on the outcome of research and development activities to date and anticipated future events and use of protein on hand, the Group has written down the value of protein components on hand by $67,900 (2012: $728,601). This is shown in the Statement of Comprehensive Income for the current year.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. Uncertainty regarding the Recoverability of VitroGro® ECM Inventory

The Group has confirmed the classification of VitroGro® ECM as a medical device with the British Standards Institute (BSI), and the United Kingdom regulator, the Medicines and Healthcare products Regulatory Agency (MHRA) and the European Medicines Agency (EMA) has agreed to commence its review of VitroGro® ECM manufacturing quality data on 6th September 2013. This is the final step to achieve regulatory approval for the commencement of sales, although there remains potential for a continued delay in achieving the regulatory approval needed for sales to commence in the EU, directors believe such a delay is unlikely. At 30 June 2013, the current product shelf life of the inventory of VitroGro® ECM was 30 months which will expire in August 2014. Current product shelf life is based on the manufacturer's stability data which is updated quarterly and on-going stability testing is continuing to extend product life. As a result of a potential delay in the sales of VitroGro® ECM and its shelf life there is uncertainty as to the recoverable value of the finished goods of VitroGro® ECM, unless an application to extend shelf life is successful and the cost of relabeling of the finished goods can be absorbed by the available margin in the sales price.

In assessing the recoverable value of the inventory of VitroGro® ECM, Management recognises that a routine process exists under the regulatory procedures allowing an extension to the shelf life for a period of time that can be supported by stability data available at the time. In this regard, at 30 June 2013, and based on stability analysis already undertaken which indicates a stable profile for the commercial lifetime of the product, Management has assessed that the inventory of VitroGro® ECM is not impaired and no impairment provision has been raised.

Management is therefore confident that the carrying value of finished goods of VitroGro® ECM at 30 June 2013 is recoverable provided the following circumstances can be achieved:

- Regulatory resolution to allow sales of product in line with forecast sales, and
- The routine process under the relevant regulatory procedures allows an extension to the shelf life of the March 2012 batch at the time it is requested, and;
- The additional cost of relabeling the finished goods of VitroGro® ECM is absorbed by the available margin in the sales price.

The directors are confident of achieving the above and therefore believe that the carrying value of finished goods of VitroGro® ECM is recoverable.

No adjustments have therefore been made relating to the recoverability of recorded cost of finished goods of VitroGro® ECM.

	CONSOLIDATED	
	30 June 2013	30 June 2012
	$	$
NOTE 2: REVENUE / OTHER INCOME		
a) Revenue		
Research grants	95,153	336,637
Total revenue	95,153	336,637

	CONSOLIDATED	
	30 June 2013 $	30 June 2012 $

NOTE 2: REVENUE / OTHER INCOME (Continued)

b) Other income

Interest received	186,071	532,815
Total other income	186,071	532,815

NOTE 3: LOSS FOR THE YEAR

Expenses

Research and development expenses	1,029,716	1,288,256
Clinical trials expenses	137,531	668,550
Amortisation of non-current inventory	67,900	728,601
Loss on foreign exchange	82,343	165,864
Finance costs – external	13,861	8,204
Rental expense on operating leases – minimum lease payments	206,257	75,022
Depreciation expenses	82,960	37,404

NOTE 4: INCOME TAX

a) The components of income tax benefit comprises

Current tax	310,976	388,100
Under provision in respect of prior years	-	49,744
Total tax benefit	310,976	437,844

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% (2012 : 30%)	1,815,321	2,162,168
Tax effect of:		
R&D expenditure taken as a cash offset	(268,104)	(313,353)
Other	(14,149)	(61,248)
Tax losses available	1,533,068	1,787,567
Tax losses utilised by:		
Income tax benefit attributable to R&D tax offset receivable	321,181	393,730
Income tax benefit attributable to R&D tax offset understated in prior year	-	49,744
Income tax expense	(10,205)	(5,630)
Income tax benefit relating to entity	310,976	437,844
The applicable weighted average effective tax rates are as follows:	(5.1%)	(6.1%)

	CONSOLIDATED	
	30 June 2013 $	30 June 2012 $

NOTE 4: INCOME TAX (Continued)

c) Current Tax Asset

Opening balance of R&D tax offset concession claimed	393,730	217,845
Add- R&D tax offset understated in prior year	-	49,744
Less- Income tax benefit attributable to R&D tax offset received	(393,730)	(267,589)
Add - Income tax benefit attributable to R&D tax offset receivable	321,181	393,730
Closing balance of research and development tax offset concession claimed	321,181	393,730

d) 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	924,484	692,589
Tax losses – operating losses	9,001,346	7,468,278
	9,925,830	8,160,867

e) Current Tax Liabilities

Opening balance	5,649	-
Movement during the year	4,976	5,649
Closing balance of current tax liabilities	10,625	5,649

NOTE 5: CASH AND CASH EQUIVALENTS

Cash at bank	61,887	56,166
Short term bank deposits - at call *	4,800,538	5,102,227
	4,862,425	5,158,393

* The deposits were in interest bearing floating rate accounts. Interest rates varied between 0.0% and 4.40% (2012: 0.0% to 6.00%).

	CONSOLIDATED	
	30 June 2013	30 June 2012
	$	$
NOTE 6: TRADE AND OTHER RECEIVABLES		
a) Current assets		
GST/VAT receivable	80,025	103,523
Other receivables	61,663	18,868
	141,688	122,391

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'.

NOTE 7: INVENTORIES

a) Current assets

VitroGro® ECM – at cost	6,596,642	5,718,740
VitroGro® ECM – Work-in-progress – at cost	2,629,893	264,801
	9,226,535	5,983,541

The inventory of finished goods of VitroGro® ECM is represented by a batch of VitroGro® ECM produced in March 2012 with a common shelf life of 18 months. At 30 June 2013, the current product shelf life of the inventory of VitroGro® ECM is 30 months which will expire in August 2014. Current product shelf life is based on the manufacturer's stability data which is updated quarterly and ongoing stability testing is continuing to extend product life. In assessing the recoverable value of the inventory of VitroGro® ECM, Management recognises that a routine process exists under the relevant health regulatory procedures allowing an extension to the shelf life for a period of time that can be supported by stability data available at the time. In this regard, at 30 June 2013, and based on stability analysis already undertaken which indicates a stable profile for the commercial lifetime of the product, Management has assessed that the inventory of VitroGro® ECM is not impaired and no impairment provision has been raised.

b) Non-current assets

VitroGro® production cells and reference protein – at net realisable value	237,652	305,552

- Production cells comprise a master cell bank used for reference purposes, and a working cell bank that expresses the VitroGro® ECM protein during fermentation.
- Reference protein is the standard protein source that all production batches are compared to in order to assess conformity to qualify acceptance criteria.

Both assets are depreciated at 20% per annum on a straight line basis.

	CONSOLIDATED	
	30 June 2013	30 June 2012
	$	$
NOTE 8: OTHER ASSETS		
a) Other current assets		
Prepayments		
- Clinical trials expenses	222,229	147,523
- Other	82,268	106,849
	304,497	254,372
b) Other non-current assets		
Other assets	1,525	1,525
NOTE 9: PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment – at cost	93,117	93,117
Less: Accumulated depreciation	(31,299)	(20,930)
	61,818	72,187
Furniture and fixtures – at cost	85,347	80,033
Less: Accumulated depreciation	(54,312)	(35,316)
	31,035	44,717
Computer hardware and software – at cost	75,886	61,457
Less: Accumulated depreciation	(26,382)	(2,750)
	49,504	58,707
Fit out – at cost	209,747	209,747
Less: Accumulated depreciation	(44,822)	(14,859)
	164,925	194,888
Total property, plant and equipment	307,282	370,499

NOTE 9: PROPERTY, PLANT AND EQUIPMENT (Continued)

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	Furniture and fixtures	Computer hardware and software	Fit out	Total
	$	$	$	$	$
Carrying amount at 1July 2011	77,372	8,747	-	-	86,119
Additions	-	50,580	61,457	209,747	321,784
Disposals (written down value)	-	-	-	-	-
Depreciation expense	(5,185)	(14,610)	(2,750)	(14,859)	(37,404)
Carrying amount at 30 June 2012	72,187	44,717	58,707	194,888	370,499
Additions	-	5,314	14,429	-	19,743
Disposals (written down value)	-	-	-	-	-
Depreciation expense	(10,369)	(18,996)	(23,632)	(29,963)	(82,960)
Carrying amount at 30 June 2013	61,818	31,035	49,504	164,925	307,282

	CONSOLIDATED	
	30 June 2013	30 June 2012
	$	$
NOTE 10: INTANGIBLE ASSETS		
Licenses and patents - at cost	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 when the Group commences commercial operations. There are no amortisation charges for licenses and patents for the current or prior financial periods.

NOTE 11: TRADE AND OTHER PAYABLES

Current liabilities		
Trade creditors	1,203,483	1,222,789
Other creditors and accruals	199,446	849,130
	1,402,929	2,071,919

	CONSOLIDATED	
	30 June 2013 $	30 June 2012 $
NOTE 12: PROVISIONS		
a) Current provisions		
Provision for annual leave	170,665	168,934
b) Non-current provisions		
Provision for long service leave	77,610	-
NOTE 13: OTHER LIABILITIES		
a) Current liabilities		
Deferred lease incentives	29,964	29,964
b) Non-current liabilities		
Deferred lease incentives	134,961	164,924
NOTE 14: ISSUED CAPITAL		
a) Share capital		
214,250,604 (2012: 169,357,192) fully paid ordinary shares	48,845,335	39,740,331

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.

NOTE 14: ISSUED CAPITAL (Continued)

c) Movements in ordinary share capital

Date	Details	No. Shares	Issue price	$
	Balance at 1 July 2011	168,739,422		39,525,004
02/12/11	Ordinary shares issued to consultant for consultancy services	115,712	52c	59,893
28/03/12	Ordinary shares issued on exercise of Options	320,000	31c	98,144
30/03/12	Ordinary shares issued on exercise of Options	40,000	31c	12,268
20/04/12	Ordinary shares issued to consultant for consultancy services	127,160	41c	51,840
20/06/12	Ordinary shares issued to consultant for consultancy services	14,898	49c	7,336
	Transaction costs arising from share issues			(14,154)
	Balance at 30 June 2012	169,357,192		39,740,331
09/07/12	Ordinary shares issued on exercise of Options	25,000	17c	4,199
29/08/12	Ordinary shares issued under Placement	3,000,000	37c	1,110,000
22/11/12	Ordinary shares issued to consultant for consultancy services	125,394	45c	57,013
01/03/13	Ordinary shares issued under Placement	41,512,297	21c	8,717,582
07/05/13	Ordinary shares issued to consultant for consultancy services	230,721	26c	59,573
	Transaction costs arising from share issues			(843,363)
	Balance at 30 June 2013	214,250,604		48,845,335

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 19: Share-based Payments.

e) Capital Management

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

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

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

	CONSOLIDATED	
	30 June 2013	30 June 2012
	$	$

NOTE 15: RESERVES

Option reserve	168,469	123,998
Foreign exchange translation reserve	(10,793)	(2,012)
	157,676	121,986

a) Option Reserve

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

Movement		
Balance at beginning of year	123,998	356,799
Amortisation of options granted during the year	145,667	6,333
Options exercised during the year	(449)	(16,811)
Expired options reserve transfer to retained earnings	(100,747)	(222,323)
Balance at end of year	168,469	123,998

b) Foreign Exchange Translation Reserve

Movement		
Balance at beginning of year	(2,012)	-
Movement during the year	(8,781)	(2,012)
Balance at end of year	(10,793)	(2,012)

NOTE 16: REMUNERATION OF AUDITORS

Audit services – Lawler Hacketts Audit		
Audit and review of financial reports and other audit work under the Corporations Act 2001	39,000	39,000
Non-audit services		
Audit / review of regulatory returns and due diligence services – Lawler Hacketts Corporate Advisory	5,500	1,500
	44,500	40,500

NOTE 17: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Group'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 Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed on a regular basis.

b) Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, interest rate risk, 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 Group. The credit risk on financial assets of the Group 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 Group is also exposed to earnings volatility on floating rate instruments. The Group'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 Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group 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 Group holds financial instruments which are other than the functional currency of the Group. The Group manages foreign currency risk by monitoring forecast foreign currency commitments and foreign exchange rates. At balance date, the Group does not have material exposure to foreign currency risk.

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 Group 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 Group 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 2013, 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 $48,005 (2012: $51,022) additional, or less, interest revenue.

Management have determined that, at 30 June 2013, the effect on profit and equity as a result of changes in foreign currency exchange rates by 10% would be $75,700 (2012: $1,350) exposure to foreign currency exposure.

NOTE 18: 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
Dr M Bridges	Director – Non-executive
Dr C Hirst	Director – Non-executive
Mr I Ross	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 30.06.2012	Granted as compensation	Options exercised	Options expired	Balance 30.06.2013	Total Vested 30.06.2013	Total Exercisable 30.06.2013
Mr R Clarke	-	-	-	-	-	-	-
Mr M Bridges	250,000	-	-	250,000	-	-	-
Dr C Hirst	-	-	-	-	-	-	-
Dr S Mercer	480,000	-	25,000	315,000	140,000	140,000	140,000
Mr D McKenzie	-	-	-	-	-	-	-
Total	**730,000**	-	25,000	565,000	140,000	140,000	140,000

c) Shares Holdings

Number of Shares held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2012	Acquired in Rights Issue, Options Exercised and other purchases	Balance 30.06.2013
Mr R Clarke	5,200,000	-	5,200,000
Mr M Bridges	245,287	-	245,287
Dr C Hirst	281,250	-	281,250
Mr I Ross	-	-	-
Dr S Mercer	1,125,750	25,000	1,150,750
Mr D McKenzie	475,000	-	475,000
Total	**7,327,287**	**25,000**	**7,352,287**

NOTE 19: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2013:

- 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 2013, 140,000 of these options remain existed, while 260,000 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 2013, 375,000 of these options had expired and 125,000 had been exercised, therefore none of these options are outstanding.
- 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. At 30 June 2013, 890,000 of these options had expired and 360,000 had been exercised, therefore none of these options are outstanding.
- 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 2013, 250,000 of these options had been exercised and 500,000 had expired, therefore none of these options are outstanding.
- On 19 June 2012, 950,000 share options were granted to Key Personnel, to take up ordinary shares at an exercise price of $0.59 each. These options cannot be exercised unless the exercise price is less than the share price on the exercise date. The options vested on 15 June 2013 and expire on 4 July 2014. Total value of these options granted was $152,000 which has been fully amortised during the period. Current year amortisation of $145,667 has been included under Administration expense in the Statement of Comprehensive Income.

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

	2013		2012	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at the beginning of the year	1,680,000	0.33	2,205,000	0.29
Granted	-	-	950,000	0.59
Forfeited	-	-	-	-
Exercised	(25,000)	0.15	(360,000)	0.26
Expired	(565,000)	0.28	(1,115,000)	0.26
Outstanding at year-end	1,090,000	0.60	1,680,000	0.33
Exercisable at year-end	140,000	0.64	730,000	0.35

There were 25,000 options exercised during the year ended 30 June 2013.

The options outstanding at 30 June 2013 had a weighted average exercise price of $0.60 (2012: $0.33) and a weighted average remaining contractual life of 1.15 (2012: 1.3) years. Exercise prices range from $0.59 to $0.64 in respect of options outstanding at 30 June 2013.

Included under Administration expense in the Statement of Comprehensive Income is $145,667 (2012: $6,333) which relates, in full, to equity-settled share-based payment transactions.

NOTE 20: COMMITMENTS FOR EXPENDITURES

	CONSOLIDATED	
	30 June 2013 $	30 June 2012 $
Commitments for rental lease and consultancy services contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	1,480,365	1,153,537
Later than one year but not later than 5 years	821,954	820,341
Later than 5 years	111,000	328,731
	2,413,319	2,302,609

NOTE 21: 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 Group as disclosed in these financial statements.

NOTE 22: RELATED PARTY TRANSACTIONS

Transactions with related parties

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

The following transactions occurred with related parties:

Key management personnel

The Company has incurred share issue transaction costs of $269,979 (2012: $9,091) to RBS Morgans Corporate Limited for its part in the share placement in March 2013. Roger Clarke is associated with RBS Morgans Corporate Limited.

NOTE 23: 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.

NOTE 24: EVENTS SUBSEQUENT TO REPORTING DATE

As a result of extensive consultation and negotiations with the UK health regulator, the Medicine and Heathcare Products Regulatory Agency (MHRA) and the European Medicines Agency (EMA), the EMA agreed to proceed with the review of VitroGro® ECM manufacturing quality data. This is the last step in the process of granting CE Mark and the start of sales in the EU. (Please see **ASX: TIS Appendix 4C Quarterly Report and CE Mark Update" 29 July 2013**).

The EMA subsequently advised the Group that the manufacturing data review would start on 6 September 2013. (Please see **ASX: TIS "EMA Review Start Date Confirmed" 5 August 2013**) This desk review of manufacturing quality data must be completed in a statutory maximum of 210 calendar days and the EMA usually completes these in less than the maximum time.

If the full 210 calendar days are used for the EMA review, this should allow sales of VitroGro® ECM to start in the EU during the second quarter of the 2014 calendar year.

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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

	CONSOLIDATED	
	30 June 2013	30 June 2012
	$	$
NOTE 25: CASH FLOW INFORMATION		
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	4,862,425	5,158,393

NOTE 25: CASH FLOW INFORMATION (Continued)

b) Reconciliation of Cash Flow from Operations with Loss after Income Tax

	CONSOLIDATED 30 June 2013 $	30 June 2012 $
Loss after income tax benefit	(5,740,094)	(6,769,382)
Non-cash flows in profit from ordinary activities		
Depreciation	82,960	37,270
Amortisation of deferred lease incentives	(29,964)	(14,859)
Unrealised exchange (gain)/losses	(49,957)	23,972
Inventory write down to net realisable value	67,900	728,601
Non-cash consultant fees	116,586	119,070
Amortisation of option expenses	145,667	6,333
Changes in assets and liabilities		
(Increase)/ decrease in receivables	(19,297)	2,705
(Increase) / decrease in inventory	(3,242,994)	(5,483,446)
(Increase) / decrease in current tax assets	72,549	(175,885)
(Increase) / decrease in other assets	(50,125)	24,997
Increase / (decrease) in payables and provisions	(613,620)	1,270,923
Increase / (decrease) in current tax liabilities	4,976	5,649
Cash outflows from operations	(9,255,413)	(10,224,052)

	CONSOLIDATED	
	30 June 2013	**30 June 2012**
	$	**$**
NOTE 26: EARNINGS PER SHARE		
Loss after income tax benefit attributable to the Company	(5,740,094)	(6,769,382)
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	185,882,745	168,925,642
Weighed 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	185,882,745	168,925,642

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

	Cents	Cents
Basic earnings per share	(3.09)	(4.01)
Diluted earnings per share	(3.09)	(4.01)

NOTE 27: FINANCIAL ASSETS AND LIABILITIES

The Group's planned developments include the USA approval of VitroGro® for the treatment of venous ulcers. Part of the expenditure associated with these developments will be incurred by the Group in USD, EUR and GBP; and in accordance with the Group's Risk Management policy the Group has executed forward exchange contracts to mitigate the Group's exposure to foreign currency movements.

Forward Exchange Contracts

The Group 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 Group to buy and sell specified amounts of foreign currencies in the future as specified exchange rates.

The following table summarises the notional amounts of the Group's commitments in relation to forward exchange contracts. The notional amounts do not represent amounts exchanged by the transaction counterparties and are therefore not a measure of the exposure of the Group through the use of these contracts.

NOTE 27: FINANCIAL ASSETS AND LIABILITIES (Continued)

	Notional Amount		Average exchange rate	
	2013	2012	2013	2012
	$	$		
Buy USD / sell AUD				
Settlement – expire on 30 September 2013 (2012: 28 June 2013)				
- Buy USD with a variable asset value of AUD as at 30 June of	845,298	1,447,347	0.9226	0.9780
- Sell AUD for a fixed liability amount of	(844,115)	(1,471,319)	0.9288	1.0080
Net exposure	1,183	(23,972)		
Buy EUR / sell AUD				
Settlement – expire on 30 September 2013				
- Buy EUR with a variable asset value of AUD as at 30 June of	232,949	-	0.7061	-
- Sell AUD for a fixed liability amount of	(220,119)	-	0.7475	-
Net exposure	12,830	-		
Buy GBP / sell AUD				
Settlement – expire on 30 September 2013				
- Buy GBP with a variable asset value of AUD as at 30 June of	607,195	-	0.6068	-
- Sell AUD for a fixed liability amount of	(571,251)	-	0.6450	-
Net exposure	35,944	-		
Net unrealised exposure at 30 June	49,957	(23,972)		

NOTE 28: CHANGE IN ACCOUNTING POLICY

New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

– AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

  These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012–6: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (issued September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. In light of the change to the mandatory effective date, the Group is expected to adopt AASB 9 and AASB 2010–7 for the annual reporting period ending 31 December 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010–7 may have a significant impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

NOTE 28: CHANGE IN ACCOUNTING POLICY (Continued)

– AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011) and AASB 128: Investments in Associates and Joint Ventures (August 2011) (as amended by AASB 2012–10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments), and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of "control" and additional application guidance so that a single control model will apply to all investees. This Standard is not expected to significantly impact the Group's financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group's financial statements.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The revisions made to AASB 127 and AASB 128 are not expected to significantly impact the Group's financial statements.

– AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in the Group's financial statements.

– AASB 2011–4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods beginning on or after 1 July 2013).

This Standard is not expected to significantly impact the Group's financial report as a whole.

– AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) (applicable for annual reporting periods commencing on or after 1 January 2013).

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

– AASB 2012–2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is not expected to significantly impact the Group's financial statements.

– AASB 2012–3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard is not expected to significantly impact the Group's financial statements.

– AASB 2012–5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is not expected to significantly impact the Group's financial statements.

NOTE 29: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	30 June 2013 $	30 June 2012 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	14,878,720	11,889,001
Non-current assets	899,578	1,029,701
TOTAL ASSETS	15,778,298	12,918,702
LIABILITIES		
Current liabilities	1,655,393	2,310,008
Non-current liabilities	212,571	164,924
TOTAL LIABILITIES	1,867,964	2,474,932
NET ASSETS	13,910,334	10,443,770
EQUITY		
Contributed equity	48,845,335	39,740,331
Reserves	168,469	123,998
Accumulated losses	(35,103,470)	(29,420,559)
TOTAL EQUITY	13,910,334	10,443,770
STATEMENT OF COMPREHENSIVE INCOME		
Total losses after income tax benefit	(5,783,658)	(6,794,515)
Total comprehensive income	(5,783,658)	(6,794,515)

Guarantees

Tissue Therapies Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiary.

Contingent Liabilities

For information relating to contingent liabilities, refer to Note 21: Contingent Liabilities and Contingent Assets.

Contractual Commitments

For information relating to contractual commitments, refer to Note 20: Commitments for Expenditures.

NOTE 30: CONTROLLED ENTITY

Tissue Therapies Europe Limited ("the Subsidiary"), a wholly owned subsidiary, was formed on 23rd January 2012, based in United Kingdom, to provide administration support to Tissue Therapies Limited ("the Parent Entity).

NOTE 31: COMPANY DETAILS

The registered office and the principal place of business of the Company is:

Tissue Therapies Limited
Level 19
179 Turbot Street
BRISBANE QLD 4000
Australia

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Tissue Therapies Limited declare that:

1. the financial statements and notes, as set out on pages 11 to 41, are in accordance with the *Corporations Act 2001* and:
    a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
    b. give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

Roger Clarke	**Steven Mercer**
Chairman	**CEO & Director**
Brisbane, 20 August 2013	

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 which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

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 consolidated entity's financial position as at 30 June 2013 and of their 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.

Emphasis of Matter

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(r) to the financial statements, there is uncertainty as to whether the carrying value of finished goods of VitroGro® ECM as at 30 June 2013 is recoverable.

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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 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Lawler Hacketts

Lawler Hacketts Audit
Brisbane, 20 August 2013

L J Murphy
Partner

Shareholder Information

Information shown was current as of the 30th August 2013.

Distribution of equity securities

Ranges	Number of Investors	Number of shares	% Issued Capital
1 to 1,000	308	77,136	0.04%
1,001 to 5,000	607	1,889,998	0.88%
5,001 to 10,000	474	3,925,126	1.83%
10,001 to 50,000	1,028	26,008,239	12.14%
50,001 to 100,000	258	19,462,108	9.08%
100,001 and over	283	162,887,997	76.03%
Total	2,958	214,250,604	100.00%

The number of security investors holding less than a marketable parcel of 1,389 securities ($0.360 on 30/08/2013) is 362 and they hold 141,069 securities.

Distribution of unquoted equity securities

Ranges	Number of Holders	Number of options on Issue	% Options Issued
1 to 1,000	-	-	-
1,001 to 5000	-	-	-
5,001 to 10,000	-	-	-
10,001 to 50,000	-	-	-
50,001 to 100,000	-	-	-
100,001 and over	6	1,090,000	100.00%
Total	6	1,090,000	100.00%

140,000 exercisable at $0.64 and 950,000 exercisable at $0.59

Substantial shareholders

There are two substantial shareholders.

Name of Investor	Number of shares	% Issued Capital
Allan Gray Australia Pty Limited	25,000,000	11.68%
Asia Union Investments Pty Limited	20,546,115	9.59%

Voting Rights

The voting rights attaching to ordinary shares are set out below:

- On a show of hands every member present in person or by proxy shall have one vote;
- Upon a poll each share shall have one vote.

Names of the twenty largest shareholders

Information shown was current as of the 30th August 2013.

Rank	Name of Investor	Number of shares	% Issued Capital
1	Asia Union Investments Pty Limited	20,546,115	9.59%
2	HSBC Custody Nominees (Australia) Limited	10,416,530	4.86%
3	National Nominees Limited	9,528,361	4.45%
4	Queensland University of Technology	8,087,010	3.77%
5	JP Morgan Nominees Australia Limited	7,840,175	3.66%
6	Citicorp Nominees Pty Limited	7,618,248	3.56%
7	Aslog Holding Ltd	6,571,429	3.07%
8	JP Morgan Nominees Australia Limited <Cash Income A/C >	4,844,815	2.26%
9	Mr Roger Brian Clarke & Mrs Barbara Joan Clarke < Roger B Clarke Family A/C>	4,600,000	2.15%
10	ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	4,276,533	2.00%
11	Mr Thai Quoc Tang	3,330,000	1.55%
12	Berne No 132 Nominees Pty Ltd <323731 A/C>	2,594,292	1.21%
13	Mr Paul Robert Baster & Ms Catherine Bellemore <The Avenue S/F A/C>	1,720,000	0.80%
14	Mr Thai Quoc Tang	1,616,000	0.75%
15	Berne No 132 Nominees Pty Ltd <323723 A/C>	1,539,042	0.72%
16	Mr Edward William Gallop & Ms Glenda Joy Gallop <Gallop Family S/F/A/C>	1,339,272	0.63%
17	Mr Wayne Martin & Mrs Anthea Martin	1,250,000	0.58%
18	Mr Steven John Mercer <LJL Account>	1,150,750	0.54%
19	Dr Zee Upton	1,086,776	0.51%
20	Mr David Frederick Oakley	1,050,000	0.49%
Total		101,005,348	47.14%

There are 2,938 other investors out of a total of 2,958 investors		
Total shares held by other investors:	113,245,256	52.86%
Grand Total:	214,250,604	100.00%

TISSUE THERAPIES