

## DIRECTORS' REPORT

Your Directors present their report on Tissue Therapies Limited ("the Company") and Controlled Entities, ("the Group") for the year ended 30 June 2014.

### 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, Morgans Corporate Limited (formerly RBS Morgans Limited), and Director of Maverick Drilling and Exploration Limited
Former ASX entity Directorships	— NextDC Limited (June 2010 to April 2014), Coalbank Limited (formerly Lodestone Energy Limited) (September 2010 to November 2013), 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	— 5,750,000 Ordinary Shares

**Melvyn Bridges** – Non-Executive 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 ALS Limited (formerly Campbell Brothers Limited).
Former ASX entity Directorships	— Benitec BioPharma Limited (October 2007 to June 2014), ImpediMed Limited (September 1999 to November 2013), Alchemia Limited (October 2003 to July 2013), Genetic Technologies Limited (December 2011 to November 2012), and Leaf Energy Limited (August 2010 to September 2012).
Special Responsibilities	— Chairman of the Audit and Risk Management Committee, Member of Remuneration Committee and Nomination Committee
Interest in Shares and Options	— 400,342 Ordinary Shares

**Iain Ross** – Non-Executive Director (appointed 25 May 2012)

Qualifications	— Bachelor of Science (Hons) Biochemistry Chartered Director
Experience	— Chairman of Ark Therapeutics Plc (LSE), Biomer Technology Limited and Pharminox Limited, Director of Benitec BioPharma Limited, Novogen Limited, Anatara Lifesciences Limited and Yellow Cross Limited. Mr Ross is also a Vice Chairman 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	— 66,000 Ordinary Shares

## DIRECTORS' REPORT (CONTINUED)

### **Cherrell Hirst AO** – Non-Executive 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 Fellow of the Academy of Technological Sciences and Engineering
Experience	— Chairman of ImpediMed Limited and Director of Medibank Private Limited, Verva Pharmaceuticals Limited and the Gold Coast Hospital and Health Service 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.
Former ASX entity Directorships	— Telesso Technologies Limited (October 2012 to October 2013)
Special Responsibilities	— Chairman of Remuneration Committee, Member of the Audit and Risk Management Committee and Nomination Committee
Interest in Shares and Options	— 312,500 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 (Australia and New Zealand) 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	— 1,175,000 Ordinary Shares and options to acquire a further 465,000 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

## DIRECTORS' REPORT (CONTINUED)

### 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 \$6,829,591 (2013: loss \$5,740,094).

### 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 2013-14 financial year:

Tissue Therapies recorded an after-tax loss of \$6,829,591 in line with budget expectations. This loss includes non-cash expenses of \$67,901 relating to the amortisation of VitroGro® production cells and reference protein.

Net assets increased by \$2,891,505 to \$16,859,743 and at 30 June 2014 the Group had cash resources of \$7,077,387.

### Highlights

During the 2013 – 14 financial year the focus of the Group was on gaining agreement from the EMA to perform the VitroGro® ECM quality data review as recommended by the UK Health Regulator, the MHRA, preparing for and submitting the EMA review data and more recently, responding to the EMA reviewer questions (please see **Matters Subsequent to the End of the Financial Year** below).

In addition to this, Tissue Therapies Ltd received formal notification from the FDA that the application for a clinical trial of VitroGro® ECM for the treatment of venous ulcers will be approved subject to the provision by the Group of only one more piece of information, that of a plan for an additional quality control test. The Group will of course provide this. The FDA has confirmed that there are no other issues preventing approval of the clinical trial. This clinical trial will proceed when funding is available.

In addition to the above, work has also continued on detailed health economics analyses in preparation for reimbursement applications and comprehensive sales, marketing, logistics and publication preparation to optimise the sales launch of VitroGro® ECM in the UK and Europe shortly after CE Mark is granted.

### VitroGro® ECM

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 <sup>[1]</sup>.

**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 <sup>[1,2,3,4]</sup>. Replacement of this damaged ECM is a beneficial strategy for treating hard to heal wounds <sup>[1]</sup>. 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, Canada, China, Hong Kong, Japan, South Korea, South Africa, Australia and New Zealand.

## DIRECTORS' REPORT (CONTINUED)

### Significant Changes in State of Affairs

In November 2013, the Group conducted a successful placement of 14,500,000 ordinary shares with institutional and sophisticated investors at \$0.21 per share to raise \$3,045,000. In December 2013, the Group issued 25,418,240 ordinary shares under a Non- renounceable Entitlement Offer at \$0.21 per share to raise \$5,337,830 and a further 8,270,640 ordinary shares at \$0.21 per share to the Priority Sub- Underwriter of the Entitlement Offer to raise \$1,736,835 before issue costs.

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

### Matters Subsequent to the End of the Financial Year

A comprehensive response to the EMA Committee review questions was submitted to the EMA after market close on Friday 25 July 2014 (Australian Eastern Standard Time). This was announced before market open on Monday 28 July 2014 (ASX: TIS Reponse Lodged to EMA Review Questions). A positive response from the EMA review is the last step in the process for CE Mark to be granted to allow the sale of VitroGro® ECM in the EU (including the UK).

The response provided by Tissue Therapies to the EMA provides detailed answers to the review questions and is expected to result in a favourable EMA opinion during the second half of 2014, as previously announced (ASX: TIS Appendix 4D and CE Mark Update, 26 February 2014).

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.

### 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
Granting of CE Mark and start of sales in the EU (including the UK)	2H 2014
Start of FDA pivotal clinical trial of VitroGro® ECM for the treatment of venous ulcers when funding of A\$10.2M available	2015
Start global rollout of VitroGro® ECM launches outside the EU (excluding USA)	2H 2015
Start VitroGro® ECM sales in the USA for treatment of venous ulcers	26 months after start of clinical trial

### Workforce Diversity

The Board recognizes 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 2014	30 June 2013
The Group		
Board <sup>1</sup>	25%	25%
Scientific Advisors	33%	33%
Executive and management	33%	38%
Total	31%	33%

<sup>1</sup> Non-executive Directors only

## DIRECTORS' REPORT (CONTINUED)

### Options

At 30 June 2014, 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 i
19/06/2012	4 July 2014	\$0.59	950,000 ii
16/09/2013	3 years from the date they vest	15% premium to the 10 trading-day VWAP of TIS ordinary shares immediately prior to the achievement of the KPI	1,075,000 iii
25/10/2013	3 years from the date they vest	15% premium to the 10 trading-day VWAP of TIS ordinary shares immediately prior to the achievement of the KPI	325,000 iv
			<hr/> 2,490,000 <hr/>

i Options issued to the CEO under the previous Company's Equity Option Plan in lieu of cash bonus. 400,000 options which vest on the achievement of certain Key Events were originally issued. As at 30 June 2014, 260,000 of these options issued had expired.

ii Options issued to Key Personnel. These options vested on 15 June 2013. Subsequent to 30 June 2014, none of these options were exercised and they lapsed on the expiry date on 4 July 2014.

iii Options issued to key Tissue Therapies' staff and contractors under the current Equity Option Plan approved at AGM held on 12 November 2012. These Options issued will only vest upon CE Mark approval being granted by 29<sup>th</sup> August 2014 for VitroGro<sup>®</sup> ECM to allow the start of sales throughout the European Union.

iv Options issued to the CEO under the current Equity Option Plan. These Options issued will only vest upon CE Mark approval being granted by 29<sup>th</sup> August 2014 for VitroGro<sup>®</sup> ECM to allow the start of sales throughout the European Union.

No ordinary shares were issued on the exercise of options during the year ended 30 June 2014.

During the year 1,250,000 options lapsed.

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.

## DIRECTORS' REPORT (CONTINUED)

### 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 current total remuneration package of \$327,477 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. At 30 June 2014, 140,000 of these options remain unexpired, while 260,000 of these options had expired.

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 represents 13.3% of his salary package.

Dr Mercer was awarded a further 500,000 options in October 2013. These options issued only vest upon the achievement of two key performance indicators (KPI's). 175,000 options will only vest upon approval being obtained by 8<sup>th</sup> November 2013 from the US Food and Drug Administration (FDA) for the Company to commence its venous leg ulcer trial, and the 325,000 options will only vest upon CE Mark approval being granted by 29<sup>th</sup> August 2014 for VitroGro<sup>®</sup> ECM to allow the start of sales throughout the European Union. The exercise price of these options will be calculated at a 15% premium to the 10-trading day volume-weighted average price of Tissue Therapies ordinary shares immediately prior to the achievement of the applicable KPI. The 175,000 options had lapsed by the end of the financial year.

During June 2014 Dr Mercer was awarded a performance-based cash bonus of \$35,000. Achievement of this bonus was dependent on obtaining the agreement of the EMA to proceed with the review necessary for the company to be awarded CE Mark, and for obtaining, since November 2013, the approval of the FDA for a venous leg ulcer trial. Dr Mercer's contract allows for a cash bonus of up to 25% of his salary package, the cash bonus awarded represents 11% of his salary package.

#### 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 \$238,165 per annum. For the financial year ended 30 June 2014, Mr McKenzie was working part time and his salary for the year was consistent per the table below.

In September 2013, 250,000 options were awarded to Mr McKenzie. These options issued will only vest upon the achievement of two key performance indicators (KPI's). 125,000 options only vest upon approval being obtained by 8<sup>th</sup> November 2013 from the US Food and Drug Administration (FDA) for the Company to commence its venous leg ulcer trial, and the remaining 125,000 options will only vest upon CE Mark approval being granted by 29<sup>th</sup> August 2014 for VitroGro<sup>®</sup> ECM to allow the start of sales throughout the European Union. The exercise price of these options will be calculated at a 15% premium to the 10-trading day volume-weighted average price of Tissue Therapies ordinary shares immediately prior to the achievement of the applicable KPI. 125,000 options had lapsed by the end of the financial year.

## DIRECTORS' REPORT (CONTINUED)

### 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 2014 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	Total	Performance related
		\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Directors</b>								
<b>R. Clarke (Chairman)</b>	<b>2014</b>	<b>80,000</b>	-	<b>7,400</b>	-	-	<b>87,400</b>	-
	2013	60,000	-	5,400	-	-	65,400	-
<b>M. Bridges</b>	<b>2014</b>	<b>62,950</b>	-	-	-	-	<b>62,950</b>	-
	2013	59,952	-	-	-	-	59,952	-
<b>I. Ross</b>	<b>2014</b>	<b>63,092</b>	-	-	-	-	<b>63,092</b>	-
	2013	59,750	-	-	-	-	59,750	-
<b>C. Hirst</b>	<b>2014</b>	<b>57,750</b>	-	<b>5,342</b>	-	-	<b>63,092</b>	-
	2013	55,000	-	4,950	-	-	59,950	-
<b>Executive Directors</b>								
<b>S. Mercer (CEO)</b>	<b>2014</b>	<b>299,750</b>	<b>35,000</b>	<b>27,727</b>	-	<b>61,913</b>	<b>424,390</b>	<b>29.6%</b>
	2013	275,000	40,000	24,750	-	-	339,750	13.3%
<b>Other Key Management Personnel</b>								
<b>D. McKenzie</b>	<b>2014</b>	<b>174,400</b>	-	<b>16,132</b>	-	<b>23,813</b>	<b>214,345</b>	<b>12.5%</b>
	2013	166,666	-	15,000	-	-	181,666	-
<b>Total</b>	<b>2014</b>	<b>737,942</b>	<b>35,000</b>	<b>56,601</b>	-	<b>85,726</b>	<b>915,269</b>	<b>10.3%</b>
	2013	676,368	40,000	50,100	-	-	766,468	13.3%

### Options issued to Employees and Key Management Personnel

During the year there were 2,650,000 (2013: nil) options issued under the Company's Equity Option Plan to Employees. Included in these options are options granted to Steven Mercer of 500,000 options and options granted to Drummond McKenzie of 250,000 options. 1,250,000 of these options lapsed by the end of the financial year.

The value of the options issued to Key Personnel has been fully amortised during the year with \$266,700 (2013: \$145,667) being included in the Statement of Profit or Loss and Other Comprehensive Income.

## DIRECTORS' REPORT (CONTINUED)

### Key Management Personnel Option Holdings

Number of options held by Key Management Personnel:

Key Management Personnel	Balance 01.07.2013	Granted as compensation	Options exercised	Options expired	Balance 30.06.2014	Total Vested 30.06.2014	Total Exercisable 30.06.2014
Mr R Clarke	-	-	-	-	-	-	-
Dr M Bridges	-	-	-	-	-	-	-
Dr C Hirst	-	-	-	-	-	-	-
Mr I Ross	-	-	-	-	-	-	-
Dr S Mercer	140,000	500,000	-	175,000	465,000	140,000	140,000
Mr D McKenzie	-	250,000	-	125,000	125,000	-	-
<b>Total</b>	<b>140,000</b>	<b>750,000</b>	<b>-</b>	<b>300,000</b>	<b>590,000</b>	<b>140,000</b>	<b>140,000</b>

### Key Management Personnel Share Holdings

Number of Shares held by Key Management Personnel:

Key Management Personnel	Balance 01.07.2013	Acquired in Rights Issue, Options Exercised and other purchases	Balance 30.06.2014
Mr R Clarke	5,200,000	550,000	5,750,000
Dr M Bridges	245,287	155,055	400,342
Dr C Hirst	281,250	31,250	312,500
Mr I Ross	-	66,000	66,000
Dr S Mercer	1,150,750	24,250	1,175,000
Mr D McKenzie	475,000	52,778	527,778
<b>Total</b>	<b>7,352,287</b>	<b>879,333</b>	<b>8,231,620</b>

### 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	7	6	3	3	1	1	1	1
M Bridges	7	7	3	3	1	1	1	1
C Hirst	7	7	3	3	1	1	1	1
I Ross	7	7	3	3	1	1	1	1
S Mercer	7	7	n/a	n/a	n/a	n/a	n/a	n/a



## DIRECTORS' REPORT (CONTINUED)

### 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*.

### Auditor

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

There is no former partner or director of PKF 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 2014:

<i>Non-audit services</i>	<b>30 June 2014</b> \$	<b>30 June 2013</b> \$
Audit or review of regulatory returns and due diligence services	14,300	5,500

### 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, 19 August 2014



**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 Entities**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been no contravention of:

- (a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

*PKF HACKETTS*

**PKF Hacketts Audit**



**L J Murphy**  
**Partner**

Brisbane, 19 August 2014

## FINANCIAL STATEMENTS

### TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

		CONSOLIDATED	
	Note	30 June 2014 \$	30 June 2013 \$
<b>Continuing operations</b>			
Revenue	2(a)	-	95,153
Other income	2(b)	229,069	186,071
		<hr/> 229,069	<hr/> 281,224
Research and development expenses		(1,001,483)	(1,029,716)
Clinical trials expenses		(16,373)	(137,531)
Occupancy expenses		(249,264)	(242,109)
Marketing and business development		(266,337)	(213,817)
Regulatory approvals		(846,104)	(553,472)
Intellectual property		(401,387)	(445,395)
Sales and distribution		(130,266)	(136,895)
Transport and logistics		(174,028)	(172,814)
Amortisation of non-current inventory		(67,901)	(67,900)
Employment expenses		(1,951,027)	(1,640,809)
Consultants		(904,805)	(724,694)
Administration expenses		(623,981)	(497,977)
Option expenses		(266,700)	(145,667)
Depreciation		(83,499)	(82,960)
Finance costs		(12,490)	(13,861)
Loss on foreign exchange		(388,902)	(82,343)
Other expenses		(178,150)	(144,334)
		<hr/> (7,333,628)	<hr/> (6,051,070)
Loss before income tax	3		
Income tax benefit	4(a)	504,037	310,976
		<hr/> (6,829,591)	<hr/> (5,740,094)
Net loss from continuing operations			
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss			
- Exchange differences on translation of foreign operations		(9,210)	(8,781)
		<hr/> (9,210)	<hr/> (8,781)
Other comprehensive income for the year, net of tax			
		<hr/> (6,838,801)	<hr/> (5,748,875)
Total comprehensive income for the year			
		<hr/> (6,829,591)	<hr/> (5,740,094)
Net loss attributable to members of the Company			
		<hr/> (6,838,801)	<hr/> (5,748,875)
Total comprehensive income attributable to members of the Company			
		<hr/> (6,838,801)	<hr/> (5,748,875)
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	25	(2.82)	(3.09)
Diluted earnings per share	25	(2.82)	(3.09)

*The accompanying notes form part of these financial statements*

## FINANCIAL STATEMENTS

### TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

		<b>CONSOLIDATED</b>	
	<b>Note</b>	<b>30 June 2014</b>	<b>30 June 2013</b>
		<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	7,077,387	4,862,425
Trade and other receivables	6	184,257	141,688
Current tax assets	4(c)	404,979	321,181
Inventories	7(a)	10,088,929	9,226,535
Derivative financial instruments	26	-	49,957
Other assets	8(a)	322,540	304,497
<b>TOTAL CURRENT ASSETS</b>		<b>18,078,092</b>	<b>14,906,283</b>
<b>NON-CURRENT ASSETS</b>			
Inventories	7(b)	169,751	237,652
Property, plant and equipment	9	241,072	307,282
Intangible assets	10	342,250	342,250
Other assets	8(b)	1,525	1,525
<b>TOTAL NON-CURRENT ASSETS</b>		<b>754,598</b>	<b>888,709</b>
<b>TOTAL ASSETS</b>		<b>18,832,690</b>	<b>15,794,992</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	1,234,849	1,402,929
Current tax liabilities	4(e)	12,055	10,625
Provisions	12(a)	196,950	170,665
Derivative financial instruments	26	302,781	-
Other liabilities	13(a)	29,964	29,964
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,776,599</b>	<b>1,614,183</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	12(b)	91,349	77,610
Other liabilities	13(b)	104,999	134,961
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>196,348</b>	<b>212,571</b>
<b>TOTAL LIABILITIES</b>		<b>1,972,947</b>	<b>1,826,754</b>
<b>NET ASSETS</b>		<b>16,859,743</b>	<b>13,968,238</b>
<b>EQUITY</b>			
Contributed equity	14(a)	58,308,941	48,845,335
Reserves	15	415,166	157,676
Accumulated losses		(41,864,364)	(35,034,773)
<b>TOTAL EQUITY</b>		<b>16,859,743</b>	<b>13,968,238</b>

The accompanying notes form part of these financial statements.

## FINANCIAL STATEMENTS

### TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

#### CONSOLIDATED

	Reserves				
	Share Capital	Option Reserve	Foreign Exchange Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2012</b>	39,740,331	123,998	(2,012)	(29,395,426)	10,466,891
Comprehensive income:					
- Loss for the year	-	-	-	(5,740,094)	(5,740,094)
- Other comprehensive income for the year	-	-	(8,781)	-	(8,781)
Total comprehensive income for the year	-	-	(8,781)	(5,740,094)	(5,748,875)
Transactions with owners in their capacity as owners, and other transfers:					
- 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 and other transfers	9,105,004	44,471	-	100,747	9,250,222
<b>Balance at 30 June 2013</b>	48,845,335	168,469	(10,793)	(35,034,773)	13,968,238
Comprehensive income:					
- Loss for the year	-	-	-	(6,829,591)	(6,829,591)
- Other comprehensive income for the year	-	-	(9,210)	-	(9,210)
Total comprehensive income for the year	-	-	(9,210)	(6,829,591)	(6,838,801)
Transactions with owners in their capacity as owners, and other transfers:					
- Contributions of equity	10,267,447	-	-	-	10,267,447
- Transaction costs	(803,841)	-	-	-	(803,841)
- Employee share options	-	266,700	-	-	266,700
- Option reserve transferred	-	-	-	-	-
Total transactions with owners and other transfers	9,463,606	266,700	-	-	9,730,306
<b>Balance at 30 June 2014</b>	58,308,941	435,169	(20,003)	(41,864,364)	16,859,743

*The accompanying notes form part of these financial statements.*

## FINANCIAL STATEMENTS

### TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

Note	CONSOLIDATED	
	30 June 2014	30 June 2013
	\$	\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from customers	-	95,153
Payments for research, clinical trials and regulatory matters	(1,930,453)	(1,945,663)
Payments to suppliers and employees	(5,738,298)	(7,922,818)
Interest received	185,208	143,276
Finance costs paid	(12,490)	(13,861)
Income tax received/(paid)	421,670	388,500
Net cash provided by/(used in) operating activities	24(b) <u>(7,074,363)</u>	<u>(9,255,413)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	<u>(17,289)</u>	<u>(19,743)</u>
Net cash provided by/(used in) investing activities	<u>(17,289)</u>	<u>(19,743)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	10,119,665	9,831,332
Costs of share issue	<u>(803,841)</u>	<u>(843,363)</u>
Net cash provided by/(used in) financing activities	<u>9,315,824</u>	<u>8,987,969</u>
Net increase / (decrease) in cash held	2,224,172	(287,187)
Cash and cash equivalents at beginning of year	4,862,425	5,158,393
Effects of exchange rate fluctuations on cash held	<u>(9,210)</u>	<u>(8,781)</u>
Cash and cash equivalents at end of year	24(a) <u>7,077,387</u>	<u>4,862,425</u>

*The accompanying notes form part of these financial statements.*

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

These consolidated financial statements and notes represent those of Tissue Therapies Limited (the "Company") and Controlled Entities (the "Group"). The Company was incorporated and is 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 19 August 2014 by the Board of Directors.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

**a. Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Tissue Therapies Limited, and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 29.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

**b. Income Tax**

The income tax expense/(income) 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 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 (refer Note 18). 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, and bank overdrafts.



**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. The net amount of GST recoverable from, or payable to, the ATO is included in other receivables or payables in the Statement of Financial Position.

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 measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(m) for details of impairment).

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 Profit or Loss and 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 profit or loss and other 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. Inventories**

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.

*Non-current inventories*

The VitroGro® production cells and reference protein are integral to the ongoing production of VitroGro® and a future economic benefit will be realised as the assets are controlled and owned by the Group. The amounts have been capitalised, as their use with in manufacturing is ongoing. Minor quantities of these assets will be consumed with each additional batch of manufacturing and they are expected to have useful life in excess of five years. Both of these assets are amortised at 20% per annum on a straight-line basis through to 31 December 2016 (refer Note 7(b)).

**k. Trade and other payables**

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 profit or loss and other 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**

*Initial and Recognition 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**o. Financial Instruments**

*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.

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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Financial Instruments (Continued)

(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.

*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 2014.

*Key Judgements – Inventory*

The Group assessed the valuation of protein inventory on hand at 30 June 2014. Based on the outcome of research and development activities to date and anticipated future events and use of protein on hand, the Group has amortised of VitroGro® production cells and reference protein by \$67,901 (2013: \$67,900). The production cells and reference protein is expected to have a useful life of at least 5 years and are amortised at 20% per annum on a straight-line basis through to 31 December 2016. This is shown in the Statement of Profit or Loss and Other 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). The European Medicines Agency (EMA) commenced its review of VitroGro® ECM manufacturing quality data in September 2013, and Tissue Therapies has responded to the questions raised by the EMA. A positive response from the EMA review 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.

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 commencement of sales of VitroGro® ECM 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. However, if at the conclusion of the EMA review, the BSI and EMA require that stability be determined on the same basis as that for medicinal products, under the current rules a shelf life extension would not be possible on this occasion despite the fact that, a) the product is unequivocally classified as a *Class III Medical Device*, b) shelf life has already been resolved during design examination (i.e. CE marking) and c) the possession of stability indicating data that supports an extension of shelf life.

In this regard, at 30 June 2014, 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 2014 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 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.

**s. New and Amended Accounting Policies Adopted by the Group**

**Consolidated financial statements**

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013:

- AASB 10: *Consolidated Financial Statements*;
- AASB 12: *Disclosure of Interests in Other Entities*; and
- AASB 127: *Separate Financial Statements*.

AASB 10 provides a revised definition of "control" and may result in an entity having to consolidate an investee that was not previously consolidated and/or deconsolidate an investee that was consolidated under the previous accounting pronouncements.

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**s. New and Amended Accounting Policies Adopted by the Group (Continued)**

The first-time application of AASB 10 does not have any significant impact to the Group's financial statements and comparative financial information.

**CONSOLIDATED**

<b>30 June 2014</b>	<b>30 June 2013</b>
<b>\$</b>	<b>\$</b>

**NOTE 2: REVENUE / OTHER INCOME**

**a) Revenue**

Research grants	-	95,153
Total revenue	-	95,153

**b) Other income**

Interest received	229,069	186,071
Total other income	229,069	186,071

**NOTE 3: EXPENSES**

**Profit before tax includes the following specific expenses:**

Amortisation of non-current inventory	67,901	67,900
Realised (gains)/losses on foreign exchange	63,078	125,561
Unrealised (gains)/losses on foreign exchange	325,824	(43,218)
Rental expense on operating leases – minimum lease payments	186,117	206,257

**NOTE 4: INCOME TAX**

**a) The components of income tax benefit comprises**

Current tax	391,180	310,976
Under provision in respect of prior years	112,857	-
Total income tax benefit	504,037	310,976

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED	
	30 June 2014	30 June 2013
	\$	\$
<b>NOTE 4: INCOME TAX (Continued)</b>		
<b>b) The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows</b>		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2013 : 30%)	2,200,088	1,815,321
Tax effect of:		
R&D expenditure taken as a cash offset	(269,986)	(268,104)
Other	(83,262)	(14,149)
Tax losses available	1,846,840	1,533,068
Tax losses utilised by:		
Income tax benefit attributable to R&D tax offset receivable	404,979	321,181
Income tax benefit attributable to R&D tax offset understated in prior years	112,857	-
Income tax expense	(13,799)	(10,205)
Income tax benefit relating to entity	504,037	310,976
The applicable weighted average effective tax rates are as follows:	(6.9%)	(5.1%)
<b>c) Current Tax Asset</b>		
Opening balance of R&D tax offset concession claimed	321,181	393,730
Add- R&D tax offset understated in prior years	112,857	-
Less- Income tax benefit attributable to R&D tax offset received	(434,038)	(393,730)
Add - Income tax benefit attributable to R&D tax offset receivable	404,979	321,181
Closing balance of research and development tax offset concession claimed	404,979	321,181
<b>d) Deferred Tax Asset</b>		
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:		
Temporary differences	1,195,888	924,484
Tax losses – operating losses	10,848,186	9,001,346
	12,044,074	9,925,830



**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**CONSOLIDATED**

**30 June 2014      30 June 2013**  
**\$                      \$**

**NOTE 4: INCOME TAX (Continued)**

**e) Current Tax Liabilities**

Opening balance	10,625	5,649
Movement during the year	1,430	4,976
Closing balance of current tax liabilities	12,055	10,625

**NOTE 5: CASH AND CASH EQUIVALENTS**

Cash at bank	1,035,068	458,691
Short term bank deposits - at call *	6,042,319	4,403,734
	7,077,387	4,862,425

\* The deposits were in interest bearing floating rate accounts. Interest rates varied between 0.0% and 4.37% (2013: 0.0% to 4.40%).

Included in the short term bank deposits at call, is \$1,000,000 (2013: \$900,000) term deposit provided for bank guarantee in relation to the Foreign Exchange Forward Contract (Note 26: Financial Assets and Liabilities). Management believes that the FEC contract is cancellable at any time and therefore the term deposit bank guarantee can be withdrawn at anytime and presented as part of cash and cash equivalents in the Statement of Financial Position.

**NOTE 6: TRADE AND OTHER RECEIVABLES**

**Current**

GST/VAT receivable	78,733	80,025
Other receivables	105,524	61,663
	184,257	141,688

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**CONSOLIDATED**

**30 June 2014      30 June 2013**  
**\$                      \$**

**NOTE 7: INVENTORIES**

**a) Current**

VitroGro® ECM – at cost	7,404,701	6,596,642
VitroGro® ECM – Work-in-progress – at cost	2,684,228	2,629,893
	<u>10,088,929</u>	<u>9,226,535</u>

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 2014, the current product shelf life of the inventory of VitroGro® ECM is 39 months which will expire in June 2015. 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 2014, 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**

VitroGro® production cells and reference protein – at cost	339,502	339,502
Less: Accumulated amortisation of VitroGro® production cells and reference protein	(169,751)	(101,850)
	<u>169,751</u>	<u>237,652</u>

- 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 quality acceptance criteria.

Both assets are amortised at 20% per annum on a straight line basis through to 31 December 2016.

**NOTE 8: OTHER ASSETS**

**a) Other current assets**

Prepayments

- Clinical trials expenses	222,229	222,229
- Other	100,311	82,268
	<u>322,540</u>	<u>304,497</u>

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED

30 June 2014      30 June 2013  
\$                      \$

**NOTE 8: OTHER ASSETS (Continued)**

**b) Other non-current assets**

Other assets	1,525	1,525
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**NOTE 9: PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment – at cost	93,117	93,117
Less: Accumulated depreciation	(41,663)	(31,299)
	51,454	61,818
 Furniture and fixtures – at cost	 86,649	 85,347
Less: Accumulated depreciation	(70,460)	(54,312)
	16,189	31,035
 Computer hardware and software – at cost	 91,884	 75,886
Less: Accumulated depreciation	(53,418)	(26,382)
	38,466	49,504
 Fit out – at cost	 209,747	 209,747
Less: Accumulated depreciation	(74,784)	(44,822)
	134,963	164,925
 Total property, plant and equipment	 241,072	 307,282

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.

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

**NOTE 9: PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>CONSOLIDATED</b>	<b>Plant and equipment</b>	<b>Furniture and fixtures</b>	<b>Computer hardware and software</b>	<b>Fit out</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Carrying amount at 1 July 2012	72,187	44,717	58,707	194,888	370,499
Additions	-	5,314	14,429	-	19,743
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
Additions	-	1,302	15,987	-	17,289
Depreciation expense	(10,364)	(16,148)	(27,025)	(29,962)	(83,499)
Carrying amount at 30 June 2014	51,454	16,189	38,466	134,963	241,072

**CONSOLIDATED**

**30 June 2014      30 June 2013**  
**\$                      \$**

**NOTE 10: INTANGIBLE ASSETS**

Licenses and patents - at cost	342,250	342,250
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Licences and patents are assessed to have finite useful lives. Amortisation shall begin when the asset is available for use, that is, when 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**

Unsecured liabilities:

Trade payables	903,255	1,203,483
Other payables and accruals	331,594	199,446
	1,234,849	1,402,929

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED

30 June 2014	30 June 2013
\$	\$

**NOTE 12: PROVISIONS**

**a) Current**

Provision for annual leave

196,950	170,665
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**b) Non-current**

Provision for long service leave

91,349	77,610
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**NOTE 13: OTHER LIABILITIES**

**a) Current liabilities**

Deferred lease incentives

29,964	29,964
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**b) Non-current liabilities**

Deferred lease incentives

104,999	134,961
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**NOTE 14: ISSUED CAPITAL**

**a) Share capital**

263,113,571 (2013: 214,250,604) fully paid ordinary shares

58,308,941	48,845,335
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**b) Fully paid ordinary shares**

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

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

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 14: ISSUED CAPITAL (Continued)**

**c) Movements in ordinary share capital**

<b>Date</b>	<b>Details</b>	<b>No. Shares</b>	<b>Issue price</b>	<b>\$</b>
	Balance at 1 July 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
11/11/13	Ordinary shares issued under Placement	14,500,000	21c	3,045,000
17/12/13	Ordinary shares issued under Non-Renounceable Entitlement Offer	25,418,240	21c	5,337,831
17/12/13	Ordinary shares issued to priority sub-underwriter of the Entitlement Offer	8,270,640	21c	1,736,834
07/01/14	Ordinary shares issued to consultant for consultancy services	409,332	18c	72,227
08/04/14	Ordinary shares issued to consultant for consultancy services	264,755	29c	75,555
	Transaction costs arising from share issues			(803,841)
	Balance at 30 June 2014	263,113,571		58,308,941

**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 18: 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.

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED

30 June 2014      30 June 2013  
\$                      \$

**NOTE 15: RESERVES**

Option reserve	435,169	168,469
Foreign exchange translation reserve	(20,003)	(10,793)
	<u>415,166</u>	<u>157,676</u>

**a) Option Reserve**

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

**Movement**

Balance at beginning of year	168,469	123,998
Amortisation of options granted during the year	266,700	145,667
Options exercised during the year	-	(449)
Expired options reserve transfer to retained earnings	-	(100,747)
Balance at end of year	<u>435,169</u>	<u>168,469</u>

**b) Foreign Exchange Translation Reserve**

**Movement**

Balance at beginning of year	(10,793)	(2,012)
Movement during the year	(9,210)	(8,781)
Balance at end of year	<u>(20,003)</u>	<u>(10,793)</u>

**NOTE 16: REMUNERATION OF AUDITORS**

Audit services – PKF Hacketts Audit

Audit and review of financial reports and other audit work under the Corporations Act 2001	44,440	39,000
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Non-audit services

Audit / review of regulatory returns and due diligence services – PKF Hacketts Corporate Advisory	14,300	5,500
	<u>58,740</u>	<u>44,500</u>

**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. At balance date, the Group does not have material exposure to interest rate risk.

*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.

At balance date, there is no material exposure to interest rate and foreign currency exchange rate risks.



**NOTE 18: SHARE-BASED PAYMENTS**

The following share-based payment arrangements existed at 30 June 2014:

- 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 2014, 140,000 of these options remain unexpired, while 260,000 of these options had expired.
- 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.
- On 16 September 2013, 2,150,000 share options were granted to Key Personnel and contractors, to take up ordinary shares at 15% premium to the 10 trading-day volume weighted average of Tissue Therapies ordinary shares immediately prior to the achievement of the applicable KPI. 1,075,000 options were to vest upon approval being obtained by 8<sup>th</sup> November 2013 from the US Food and Drug Administration (FDA) for the Company to commence its venous leg ulcer trial, and the remaining 1,075,000 options will only vest upon CE Mark approval being granted by 29<sup>th</sup> August 2014 for VitroGro® ECM to allow the start of sales throughout the European Union. These options cannot be exercised unless the exercise price is less than the share price on the exercise date and will expire in 3 years from the date that they vest. At 30 June 2014, 1,075,000 of these options had lapsed and the remaining 1,075,000 options remain.
- On 25 October 2013, 500,000 share options were approved and granted to the CEO at the AGM to take ordinary shares at 15% premium to the 10 trading-day volume weighted average of Tissue Therapies ordinary shares immediately prior to the achievement of the applicable KPI. 175,000 of these options were to vest upon approval being obtained by 8<sup>th</sup> November 2013 from the US Food and Drug Administration (FDA) for the Company to commence its venous leg ulcer trial, and the remaining 325,000 options will only vest upon CE Mark approval being granted by 29<sup>th</sup> August 2014 for VitroGro® ECM to allow the start of sales throughout the European Union. These options cannot be exercised unless the exercise price is less than the share price on the exercise date and will expire in 3 years from the date that they vest. At 30 June 2014, 175,000 of these options had lapsed and the remaining 325,000 options remain.
- On 7 January 2014, 409,332 ordinary shares were issued at \$0.18 per share for a total of non-cash consideration of \$72,227, to Mr Geoff Morris and Mr Ron Shannon, for the period from 1 April 2013 to 30 September 2013, under consultancy agreements under which the consultants provides consultancy services to Tissue Therapies.
- On 8 April 2014, 264,755 ordinary shares were issued at \$0.29 per share for a total of non-cash consideration of \$75,555, to Mr Geoff Morris and Mr Ron Shannon, for the period from 1 October 2013 to 31 March 2014, under consultancy agreements under which the consultants provides consultancy services to Tissue Therapies.

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

	2014		2013	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
<b>Movement in Options</b>				
Outstanding at the beginning of the year	1,090,000	0.60	1,680,000	0.33
Granted	2,650,000	0.37	-	-
Forfeited	-	-	-	-
Exercised	-	-	(25,000)	0.15
Expired	(1,250,000)	0.37	(565,000)	0.28
Outstanding at end of the year	2,490,000	0.47	1,090,000	0.60
Exercisable at end of the year	140,000	0.64	140,000	0.64

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 18: SHARE-BASED PAYMENTS (Continued)**

There were no options exercised during the year ended 30 June 2014.

The options outstanding at 30 June 2014 had a weighted average exercise price of \$0.47 (2013: \$0.60) and a weighted average remaining contractual life of 0.16 (2013: 1.15) years. Exercise prices range from \$0.37 to \$0.64 in respect of options outstanding at 30 June 2014.

The expense for options for the year ended 30 June 2014 in the Statement of Profit or Loss and Other Comprehensive Income is \$266,700 (2013: \$145,667) which relates, in full, to equity-settled share-based payment transactions.

**CONSOLIDATED**

30 June 2014	30 June 2013
\$	\$

**NOTE 19: COMMITMENTS FOR EXPENDITURES**

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

Within one year	1,759,791	1,480,365
Later than one year but not later than 5 years	739,392	821,954
Later than 5 years	-	111,000
	<u>2,499,183</u>	<u>2,413,319</u>

**NOTE 20: 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 21: 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 \$637,747 (2013: \$269,979) to Morgans Corporate Limited (previously RBS Morgans Corporate Limited) for its part in the share placement in November 2013 and rights issue in December 2013. Roger Clarke is Chairman of Board of Advice of Morgans Corporate Limited.

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 22: 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 23: EVENTS SUBSEQUENT TO REPORTING DATE**

A comprehensive response to the EMA Committee review questions was submitted to the EMA after market close on Friday 25 July 2014 (Australian Eastern Standard Time). This was announced before market open on Monday 28 July 2014 (**ASX: TIS** Reponse Lodged to EMA Review Questions). A positive response from the EMA review is the last step in the process for CE Mark to be granted to allow the sale of VitroGro® ECM in the EU (including the UK).

The response provided by Tissue Therapies to the EMA provides detailed answers to the review questions and is expected to result in a favourable EMA opinion during the second half of 2014, as previously announced (**ASX: TIS** Appendix 4D and CE Mark Update, 26 February 2014).

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**

<b>30 June 2014</b>	<b>30 June 2013</b>
<b>\$</b>	<b>\$</b>

**NOTE 24: 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	<u>7,077,387</u>	<u>4,862,425</u>
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TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED	
	30 June 2014	30 June 2013
	\$	\$
<b>NOTE 24: CASH FLOW INFORMATION (Continued)</b>		
<b>b) Reconciliation of Cash Flow from Operations with Loss after Income Tax</b>		
Loss after income tax benefit	(6,829,591)	(5,740,094)
Non-cash flows in loss from ordinary activities		
Depreciation	83,499	82,960
Amortisation of deferred lease incentives	(29,962)	(29,964)
Unrealised exchange (gain)/losses	302,781	(49,957)
Inventory write down to net realisable value	67,900	67,900
Non-cash consultant fees	147,782	116,586
Amortisation of option expenses	266,700	145,667
Changes in assets and liabilities		
(Increase)/ decrease in receivables	7,389	(19,297)
(Increase) / decrease in inventory	(862,394)	(3,242,994)
(Increase) / decrease in current tax assets	(83,798)	72,549
(Increase) / decrease in other assets	(18,043)	(50,125)
Increase / (decrease) in payables and provisions	(128,056)	(613,620)
Increase / (decrease) in current tax liabilities	1,430	4,976
Cash flow from operating activities	(7,074,363)	(9,255,413)
<b>c) Non-cash Investing and Financing activity</b>		
Shares issued for consulting services	147,782	116,586

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**CONSOLIDATED**

**30 June 2014**      **30 June 2013**  
**\$**                      **\$**

**NOTE 25: EARNINGS PER SHARE**

Loss after income tax benefit attributable to the Company                      (6,829,591)      (5,740,094)

**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                      241,814,694      185,882,745

Weighted average number of options outstanding which are considered potentially dilutive                      -      -

Weighted average number of potential ordinary shares outstanding during the year used in calculation of Dilutive EPS                      241,814,694      185,882,745

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                      (2.82)      (3.09)

Diluted earnings per share                      (2.82)      (3.09)

**NOTE 26: DERIVATIVE FINANCIAL INSTRUMENTS**

**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.

TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 26: DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	Notional Amount		Average exchange rate	
	2014 \$	2013 \$	2014	2013
<i>Buy USD / sell AUD</i>				
Settlement – (2013: 30 September 2013)				
- Buy USD with a variable asset value of AUD as at 30 June of	-	845,298	0.9226	0.9226
- Sell AUD for a fixed liability amount of	-	(844,115)	0.9288	0.9288
Net gain/(loss)	-	1,183		
<i>Buy EUR / sell AUD</i>				
Settlement – expire on 19 December 2014 (2013: 30 September 2013)				
- Buy EUR with a variable asset value of AUD as at 30 June of	2,093,684	232,949	0.6800	0.7061
- Sell AUD for a fixed liability amount of	(2,356,229)	(220,119)	0.6030	0.7475
Net gain/(loss)	(262,545)	12,830		
<i>Buy GBP / sell AUD</i>				
Settlement – expire on 19 December 2014 (2013: 30 September 2013)				
- Buy GBP with a variable asset value of AUD as at 30 June of	486,132	607,195	0.5454	0.6068
- Sell AUD for a fixed liability amount of	(526,368)	(571,251)	0.5033	0.6450
Net gain/(loss)	(40,236)	35,944		
Net unrealised gain/(loss) at 30 June	<b>(302,781)</b>	<b>49,957</b>		

**NOTE 27: 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 and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- 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 provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Group's financial statements.

- Interpretation 21: *Levies* (applicable for annual reporting periods commencing on or after 1 January 2014).

Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. This Interpretation is not expected to significantly impact the Group's financial statements.

- AASB 2013-3: *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: *Impairment of Assets* pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Group's financial statements.

- AASB 2013-4: *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-4 makes amendments to AASB 139: *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2013-5: *Amendments to Australian Accounting Standards – Investment Entities* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-5 amends AASB 10: *Consolidated Financial Statements* to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to significantly impact the Group's financial statements.

**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**30 June 2014**      **30 June 2013**  
**\$**                      **\$**

**NOTE 28: 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.

**STATEMENT OF FINANCIAL POSITION**

**ASSETS**

Current assets	18,033,795	14,878,720
Non-current assets	766,846	899,578
<b>TOTAL ASSETS</b>	<b>18,800,641</b>	<b>15,778,298</b>

**LIABILITIES**

Current liabilities	1,845,092	1,655,393
Non-current liabilities	196,349	212,571
<b>TOTAL LIABILITIES</b>	<b>2,041,441</b>	<b>1,867,964</b>

**NET ASSETS**

<b>16,759,200</b>	<b>13,910,334</b>
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**EQUITY**

Contributed equity	58,308,941	48,845,335
Reserves	435,169	168,469
Accumulated losses	(41,984,910)	(35,103,470)
<b>TOTAL EQUITY</b>	<b>16,759,200</b>	<b>13,910,334</b>

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

Total losses	(6,881,440)	(5,783,658)
Total comprehensive income	(6,881,440)	(5,783,658)

*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 20: Contingent Liabilities and Contingent Assets.



**TISSUE THERAPIES LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**NOTE 28: PARENT INFORMATION (Continued)**

*Contractual Commitments*

For information relating to contractual commitments, refer to Note 19: Commitments for Expenditures. The commitments detailed in Note 19 are related to parent entity commitment only.

**NOTE 29: CONTROLLED ENTITIES**

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

**NOTE 30: 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, the directors of the Company 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 2014 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.



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**Roger Clarke**  
**Chairman**  
Brisbane, 19 August 2014



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**Steven Mercer**  
**CEO & Director**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TISSUE THERAPIES LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Tissue Therapies Limited ("the company") and its Controlled Entities ("the group") which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other 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 group comprising the company and the entities 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 company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

### *Opinion*

In our opinion:

- a) the financial report of Tissue Therapies Limited and its Controlled Entities is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### *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<sup>®</sup> ECM as at 30 June 2014 is recoverable.

**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 5 to 8 of the Directors' Report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

PKF HACKETTS

**PKF Hacketts Audit**  
Brisbane, 19 August 2014



**L J Murphy**  
**Partner**