

AVITA MEDICAL LIMITED

A.B.N. 28 058 466 523

FULL FINANCIAL REPORT

For the year ended 30 June 2017

Corporate Information
ABN 28 058 466 523

This annual report covers the consolidated entity comprising Avita Medical Limited and its subsidiaries. The Group's presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on page 3

Directors

Mr Lou Panaccio (Chairman)
Dr Michael Perry (Executive Director)
Mr Jeremy Curnock Cook (Non-Executive Director)
Mr Louis Drapeau (Non-Executive Director)
Mr Damien McDonald (Non-Executive Director)
Ms Suzanne Crowe (Non-Executive Director)

Company Secretary

Mr Gabriel Chiappini

Registered Office

Level 9, The Quadrant
1 William Street
Perth, Western Australia, 6000
Email: investor@avitamedical.com

Principal place of business

28159 Avenue Stanford, Suite 220
Valencia, CA 91355
USA

Share Register

Computershare Investor Services Pty Limited
Level 2
45 St Georges Terrace
Perth, Western Australia, 6000

Solicitors

K&L Gates
Level 25 South Tower, 525 Collins Street
Melbourne VIC 3000, Australia

Auditor

Grant Thornton Audit Pty Ltd
Level 1, 10 Kings Park Road
Perth, Western Australia, 6005

Principal Bankers

National Australia Bank Limited
1238 Hay Street
West Perth, Western Australia, 6005

Stock Exchange

Avita Medical Limited
Listed on the Australian Securities Exchange
(ASX Code: AVH)
Listed on the OTCQX International
Marketplace in the US (Code: AVMXY)

Internet Address

www.avitamedical.com

AVITA MEDICAL LIMITED

DIRECTORS' REPORT

Your Directors present their report with respect to the results of Avita Medical Limited (the "Company") for the year ended 30 June 2017 and the state of affairs of the Company at that date. Avita Medical Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared this consolidated financial report incorporating the entities that it controlled during the financial period.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Lou Panaccio **(Chairman)**

Mr Panaccio, a successful healthcare businessman with extensive experience progressing companies from concept to commercialisation, was appointed to the role of Chairman of the Board, effective from 1 July 2014. Mr Panaccio possesses more than 30 years' executive leadership experience in healthcare services and life sciences, including more than 15 years' board-level experience. Mr Panaccio is currently a Non-Executive Director of ASX50 company and one of the world's largest medical diagnostics companies, Sonic Healthcare Limited, where he has served since 2005. In addition to his Sonic Healthcare Limited role, Mr Panaccio is Non-Executive Director of Unison Housing Limited, Non-Executive Chairman of Genera Biosystems Limited and a Non-Executive Director of Rhythm Biosciences Limited. Mr Panaccio has also served in executive and board roles with Melbourne Pathology Group, Monash IVF Group, Primelife Corporation Limited and other private entities. During the past three years Mr Panaccio has also served as a Director of the following other listed companies:

- Sonic Healthcare Limited * (appointed June 2005)
- Genera Biosystems Limited* (appointed 25 November 2010)

* denotes current directorship

Dr Michael Perry **(Executive Director)**

Dr Perry was appointed to the Board on 6 February 2013 and currently serves as Senior Vice President and Chief Scientific Officer of Global Business Development and Licensing for Novartis AG. From 2014 – 2016, Dr Perry served as Chief Scientific Officer of Novartis' Cell and Gene Therapy Unit. and from 2012 – 2014 he served as Vice President and Global Head of Stem Cell Therapy for Novartis Pharmaceuticals Corp, a US affiliate of Switzerland-based Novartis AG. Dr Perry, based in the United States, has previously served as the Global Head of R&D at Baxter Healthcare, President and CEO of Cell & Gene Therapy at Novartis affiliates Systemix Inc. and Genetic Therapy, Inc., VP Regulatory Affairs at Sandoz Pharmaceuticals Corp., Director of Regulatory Affairs at Schering-Plough Corporation, and Chairman, CEO or CMO at several early stage biotech companies. He also previously served as a Venture Partner with Bay City Capital, LLC based in San Francisco California. During the past three years Dr Perry has also served as a Director of the following other listed companies:

- Arrowhead Pharmaceuticals * (Appointed December 2011)
- AmpliPhi Biosciences* (Appointed November 2005)

* denotes current directorship

Jeremy Curnock Cook **(Non-Executive Director)**

Mr Curnock Cook was appointed to the Board on 19 October 2012 and is currently on a number of boards of International Healthcare and Biotechnology companies. He is the former head of the life science private equity team at Rothschild Asset Management, was responsible for the launch of the first dedicated biotechnology fund for the Australian market and the conception and launch of the International Biotechnology Trust. He is currently the Managing Director of Bioscience Managers Pty Ltd, responsible for the BM Asia Pacific Healthcare Fund. During the past three years Mr Curnock Cook has also served as a director of the following other listed companies:

- Bioxyme Ltd* (Appointed 7 May 2012 – resigned July 2014)
- Phylogica Ltd* (Appointed March 2012)
- AmpliPhi Bioscience Corporation Inc* (Appointed July 1995)
- Sea Dragon Marine Oils Ltd* (Appointed 15 October 2012)
- Eacom Timber Corporation (Appointed 1997 – resigned June 2013)
- Rex Bionics plc* (Appointed 27 February 2012)

AVITA MEDICAL LIMITED

DIRECTORS' REPORT (continued)

- Adherium Ltd* (Appointed July 2015)

* denotes current directorship

Louis Drapeau **(Non-Executive Director)**

Mr Louis Drapeau was appointed to the board on 13 January 2016 and brings considerable expertise in both the biotech sector and the financial rigour required of US public companies. Mr Drapeau is an Independent Director at AmphiPhi Biosciences Corporation (NYSE). Mr Drapeau has held senior positions with Insite Vision Inc., Nektar Therapeutics and BioMarin Pharmaceutical, Inc., and has been an Audit Partner at Arthur Andersen LLP. Mr Drapeau has formally been an Independent Director at Bio-Rad Laboratories, (NYSE), InterMune, Inc. (NASDAQ), Bionovo, Inc. (NASDAQ), and Inflazyme Pharmaceuticals Ltd (TSE). He has an MBA from Stanford University.

Mr Damien McDonald **(Non-Executive Director)**

US-based Mr Damien McDonald was appointed to the board on 13 January 2016 and has a proven track record of achieving value in the medical device space. Mr McDonald is a Group Executive and Corporate Vice President at NYSE-listed Danaher Corporation, a multinational science and technology innovation company that acquires and produces life science and industrial products and brands. As Group President, Mr McDonald is responsible for a US\$1.2B group of dental consumables companies, for which he executes group strategic planning with full P&L accountability. He has previously worked for Merck & Co, Johnson & Johnson and Zimmer. He has Bachelor's degrees in both pharmacy and economics from the University of Queensland a Master's degree in International Economics from the University of Wales, and an MBA from IMD of Lausanne, Switzerland.

Professor Suzanne Crowe **(Non-Executive Director)**

Professor Suzanne Crowe AM was appointed to the board on 13 January 2016. Australian-based, she is a physician-scientist and company director with extensive expertise in supporting companies with their medical and scientific strategies. Prof Crowe is an Associate Director of the Burnet Institute, and is a Principal Research Fellow of the Australian National Health and Medical Research Council. She is a Principal Specialist in Infectious Diseases at The Alfred Hospital, Melbourne and Adjunct Professor of Medicine and Infectious Diseases at Monash University, Melbourne, and has published more than 200 peer-reviewed papers. Prof Crowe is a member of the Australian Institute of Company Directors, and is a Director of St Vincents Health Australia. Prof Crowe was appointed as a Member of the Order of Australia (AM) in 2011 to recognise her service to medical research in HIV/AIDS. She has medical and MD degrees from Monash University, an internal medicine specialist qualification in Infectious Diseases from the Royal Australasian College of Physicians, and a Diploma in Medical Laboratory Technology from the Royal Melbourne Institute of Technology.

COMPANY SECRETARY

Gabriel Chiappini BBus, CA, GAICD

Gabriel is a Chartered Accountant and member of the Australian Institute of Company Directors with over 20 years' experience in the Commercial Sector. Over the last 17 years Gabriel has held positions of Director, Company Secretary and Chief Financial Officer in both public and private companies with operations in Australia, the United Kingdom and the United States. He has assisted a number of companies list on the ASX and been involved with equity raisings exceeding AUD\$350m. Gabriel has a sound understanding of the Australian Securities Exchange (ASX) Listing Rules and the Corporations Act.

Gabriel currently manages his own consulting firm specialising in providing Director, company secretarial, corporate governance and investor relation services. He currently acts as a Director and Company Secretary for several companies listed on the ASX. Gabriel is currently a Director of ASX listed company Fastbrick Robotics Ltd, Black Rock Mining Limited, Interpose Holdings Limited and Eneabba Gas Limited.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

Interests in the Shares and Options of the Company

As at the date of this report, the interests of the Directors in the shares and options of the Company were:

| | Number of Ordinary Shares | Number of Options over Ordinary Shares |
|-----------------------------|------------------------------|--|
| L Panaccio | 56,540 | - |
| J Curnock Cook ¹ | - | - |
| M Perry | 61,654 | - |
| L Drapeau | 33,938 | - |
| D McDonald | 123,307 | - |
| S Crowe | 27,589 | - |

1. 41,129,032 shares held in the name of One Funds Management Limited <Asia Pac Health Fund II A/C> are managed and beneficially owned by BioScience Managers Pty Ltd of which Mr Curnock Cook is an officer.

EARNINGS PER SHARE

Earnings per share for the current year was a loss of 1.72 cents per share compared to a loss of 1.56 cents per share for the previous period. Weighted average number of ordinary shares on issue used in the calculation of basic loss and diluted loss per share is 669,930,538.

DIVIDENDS

Since the end of the previous financial period, no amount has been paid or declared by the Company by way of dividend.

EMPLOYEES

The number of full-time employees of the economic entity at 30 June 2017 was 37 (30 June 2016: 26).

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were the commercialisation of the Company's regenerative product.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

OPERATING AND FINANCIAL REVIEW

Group Overview

Avita Medical Limited develops and distributes regenerative products for the treatment of a broad range of wounds, scars and skin defects. Avita's patented and proprietary collection and application technology provides innovative treatment solutions derived from a patient's own skin. The Company's lead product, ReCell®, is used in the treatment of a wide variety of burns, plastic, reconstructive and cosmetic procedures. ReCell® is patented, CE-marked for Europe, TGA-registered in Australia, and CFDA-cleared in China. In the United States, ReCell® is an investigational device limited by federal law to investigational use. The results of a U.S. pivotal randomized, controlled trial were announced in May 2017. This trial successfully achieved its co-primary endpoint outcomes, the results of which suggest the use of ReCell®, relative to conventional autografting, can result in use of over 30% less donor skin to achieve comparable near-term healing and long-term scar outcomes.

Operating Results for the Year

Revenue from the sale of goods was \$1,180,632, up 18% over the previous year (2016: \$1,002,007). In its key markets of focus the Company continued to expand its commercialization program through building awareness, educating medical professionals, and allowing them to experience the first-hand benefits from using the ReCell® device. A more focused approach has also been undertaken towards the implementation of local well-controlled clinical trials intricately linked with the initiation of robust health-economic and cost-effectiveness data. The expectation is that recurrent sales will be generated once the clinicians observe the positive outcomes from robust clinical data alongside a compelling economic justification for adoption. In the US, familiarity and acceptance with surgeons is expanding organically through the Expanded Access (Compassionate Use) and Continued Access programs buoyed by the successful outcome of the U.S. pivotal trial earlier this year. The Company is targeting a US commercial launch of ReCell® by mid-2018.

Revenue from the sale of goods and other revenue was \$8,132,346, an increase of 129% over last year (2016: \$3,546,524) as BARDA (Biomedical Advanced Research and Development Authority) income of \$6,606,980 was received during the year as compared to the previous year's BARDA income of \$2,424,357 which began in the 3rd quarter of last year. The increase of BARDA revenues was due to the significant acceleration of activities surrounding Avita's near-term US PMA (Premarket Approval Application) submission to the FDA and the anticipated US commercial launch in 2018.

Gross profit was \$674,996 (2016: \$600,439) an increase of 12% from the previous year while cost of sales were \$505,636 (2016: \$401,568) up 26%. Total operating costs were \$20,185,971 (2016: \$14,388,799) an increase of 42%, which primarily reflects the increased administrative expenses incurred under the BARDA contract, including \$2.4M towards new hires in the US to support the PMA submission and pre-commercialization efforts. These new hires were in the functional areas of clinical, regulatory, operations, and reimbursement. BARDA reimbursed the Company \$2M towards funding these additional personnel throughout the fiscal year.

Upon the resignation of the former CEO in May 2017, the Company recorded share based expenses of \$1,189,021. This amount represents an acceleration of the recognition of non-cash expenses related to the initial valuation of the shares awarded under the CEO LTI agreement.

The net loss after tax was \$11,511,024 (2016: \$7,778,015) up 50% from last year. Current year net loss included the \$1,189,021 non-cash expense attributed to the shares awarded to the former CEO as mentioned above. In addition, the prior year net loss included a profit from discontinued operations (divestment of the respiratory business segment) of \$2,493,947.

Closing Inventories were \$1,037,490 (2016: \$1,370,622) down 24% due to improved forecasting of components and inventory requirements to support sales as well as the testing protocols involved in the Company's activities toward its PMA submission to the US FDA.

Review of Financial Condition

Capital Structure

On 11 July 2016 the Company completed a placement of 100,164,831 fully paid ordinary shares at a price of \$0.09 raising \$9,048,102 of which \$506,452 has been recognised as capital raising expenses.

Cash from Operations

Net cash outflows used in operations increased by 8% compared to the previous period, from \$7,938,557 in 2016 to \$8,557,524 in the current year.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

Risk Management

The Board is responsible for overseeing the establishment and implementation of an effective risk management system and reviewing and monitoring the Company's application of that system. Implementation of the risk management system and day-to-day management of risk is the responsibility of the CEO, with the assistance of senior management as required. The CEO is responsible for reporting directly to the Board on all matters associated with risk management.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the 2017 financial year, the Company made a number of changes to its senior management structure and sales & marketing and operations divisions in addition to the capital raising initiatives as outlined above. Otherwise there have been no significant changes in the state of affairs.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No matters or circumstances have arisen since the end of the reporting period 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 years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company continues to focus on its anticipated product approval and commercial launch in the U.S. by mid-2018. Outside of the US the Company intends to leverage the positive outcomes from the US pivotal trial of ReCell® and working toward expanding the familiarity and acceptance of the product platform through generating market-specific clinical data and health economic studies to fully demonstrate the compelling clinical and economic proposition of the technology. We will continue to develop Key Opinion Leaders (KOL's) while also developing Centres of Excellence in these markets. Revenue is expected to increase during the next financial year as market penetration increases and approvals are received in new markets.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The principal activities of the Company are not subject to any particular or significant environmental regulations.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

SHARE OPTIONS

Unissued Shares

As at the reporting date, there were 24,797,286 unissued ordinary shares under options represented by:
1,406,250 exercisable at \$0.14 expiring 30 November 2017, issued to the ex-Chief Executive Officer at the Annual General Meeting held on 30 November 2010.
375,000 exercisable at \$0.14 expiring 30 November 2018, issued to the ex-Chief Executive Officer at the Annual General Meeting held on 30 November 2010.
2,156,039 exercisable at \$0.126 expiring 31 December 2020 issued to an investor on 31 December 2015.
17,910,415 exercisable at \$0.085 expiring 18 May 2027 issued to employees on 18 May 2017.
1,072,916 exercisable at \$0.082 expiring 26 May 2027 issued to an employee on 26 May 2017.
1,876,666 exercisable at \$0.08 expiring 27 June 2027 issued to employees on 27 June 2017.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related corporate body.

Shares Issued as a Result of the Exercise of Options

During the financial year and up to the date of this report, no options were exercised to acquire fully paid ordinary shares in the Company.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company has paid premiums in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies that cover all directors and officers of the Company to the extent permitted by law. The policy conditions preclude the Company from any detailed disclosures.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (audited)

This Remuneration Report outlines the Director and Executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the parent company.

For the purposes of this report, the term 'executive' encompasses the Chief Executive and Senior Executives of the Company and the Group.

Details of Key Management Personnel

(i) Directors

| | |
|---------------------|--------------------------|
| Lou Panaccio | Chairman |
| Dr Michael Perry | Director (Executive) |
| Jeremy Curnock Cook | Director (Non-Executive) |
| Louis Drapeau | Director (Non-Executive) |
| Damien McDonald | Director (Non-Executive) |
| Suzanne Crowe | Director (Non-Executive) |

(ii) Executives

| | |
|------------------|---|
| Dr Michael Perry | Chief Executive Officer |
| Adam Kelliher | Chief Executive Officer (resigned 1 June 2017) |
| Timothy Rooney | Chief Financial Officer |
| Troy Barrington | Chief Operating Officer (resigned 16 June 2017) |
| Andrew Quick | SVP, Clinical Development |

The Company was pleased to announce in FY17 the appointment of Dr Michael Perry as Chief Executive Officer.

There were no other changes of Key Management Personnel after the reporting date and before the date the financial report was authorised for issue.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

We identified a number of key areas for improvement which has resulted in a review of remuneration practices, policies and plans associated with KMP remuneration. So as to develop an appropriate foundation for future practices the Remuneration Committee has a formal Remuneration Governance Framework which, at the core, consists of:

- A revised Remuneration & Nomination Committee Charter which now mandates the development and maintenance of other Remuneration Governance Framework elements;
- A Senior Executive Remuneration Policy;
- A Short Term Incentive (STI) Policy & Procedure document; and
- A Long Term Incentive (LTI) Policy & Procedure document.

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and Executives.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Use of Remuneration Consultants

The company did not make use of any external remuneration consultants during the financial year.

Voting and comments made at the company's 2016 Annual General Meeting ("AGM")

At the 2016 AGM, 95.35% of the votes received supported the adoption of remuneration report for the year ended 30 June 2016. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Company Performance and Links between Performance and Reward

The following table outlines those measures of performance which are required to be displayed to shareholders under the Corporations Act, however at this stage in the Company's evolution the Board does not believe this perspective is particularly useful to shareholders. Therefore, a discussion of Company performance during FY18 follows and should be considered in conjunction with the Operating and Financial review outlined on Page 6 of this report:

| Financial Year | Sales Revenue (\$) | EBITDA (\$) | EBIT (\$) | Net Loss after Tax (\$) | Loss per Share (cents) | Share Price (cents) |
|----------------|--------------------|--------------|--------------|-------------------------|------------------------|---------------------|
| 2017 | 1,180,632 | (12,543,267) | (12,682,970) | (11,511,024) | (1.72) | 8.0 |
| 2016 | 1,002,007 | (8,776,515) | (8,860,239) | (7,778,015) | (1.56) | 9.2 |
| 2015 | 2,750,176 | (7,743,958) | (7,806,582) | (7,107,497) | (2.01) | 7.2 |
| 2014 | 2,683,133 | (6,755,728) | (6,819,439) | (5,147,391) | (1.58) | 10 |
| 2013 | 2,814,990 | (8,511,332) | (8,633,256) | (8,092,939) | (2.69) | 13 |

There have not been any dividends paid during the period noted in the above table.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Remuneration Framework, Philosophy and Policies

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract and retain high calibre Executives;
- Acceptability to shareholders through transparency and engagement, and ensuring that remuneration frameworks and practices are appropriate to the circumstances of the Company as it evolves;
- Performance linkage to and alignment with Executive compensation; and
- Establish appropriate, demanding performance hurdles as a prerequisite to payment of variable Executive remuneration.

At this stage in the Company's development, the main focus of executives and of performance assessment is related to appropriate and timely conduct of clinical trials, establishing proof of concept, informing the market and instituting effective operations subsequent to the success of a proof of concept or clinical trials. Incentives are intended to be linked to shareholder value via milestone completion, clinical trial outcomes and total shareholder return (TSR).

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Policy

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is to be commercially acceptable, competitive and subject to an annual review. The Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Senior Management remuneration is separate and distinct. 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. The latest determination was at the Annual General Meeting held on 29 November 2005 when shareholders approved an aggregate remuneration of \$450,000 per year in respect of fees payable to Non-Executive Directors. Please refer to Table 2 of this report for the allocation of Directors' fees.

Each Director receives a fee for being a Director of the Company and includes attendance and participation at Board and committee meetings. The Non-Executive Directors do not participate in any incentive programs.

The remuneration of Non-Executive Directors for the year ended 30 June 2017 is detailed in Table 2 of this report.

Executive Remuneration (including Executive Directors)

Objective

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward Executives for Company and individual performance against targets set by reference to appropriate benchmarks as well as to specific short- and long-term goals of the Company;
- align the interests of Executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Policy

As disclosed in our Remuneration Committee Charter available on our website, the company's broad framework is noted below:

The committee is to ensure that:

- executive remuneration packages may involve a balance between fixed and incentive pay, reflecting short and/or long term performance objectives appropriate to the Company's circumstances and objectives;
- a proportion of executives' remuneration is structured in a manner designed to link reward to corporate and individual performances; and
- recommendations are made to the Board with respect to the quantum of bonuses to be paid to executives.

To the extent that the Company adopts a different remuneration structure for its Non-Executive Directors, the committee shall document its reasons for the purpose of disclosure to stakeholders.

Structure

The Remuneration Committee determines the level and make-up of the Chief Executive remuneration. The Committee takes advice from the Chief Executive with input from independent market remuneration advisers to set and approve all other executive remuneration. To assist in achieving the Company's objectives, the Remuneration Committee links the nature and amount of officers' emoluments to the Company's performance.

Remuneration may consist of the following key elements:

- Fixed Remuneration
- Variable Remuneration
 - Short Term Incentive (STI); and/or
 - Long Term Incentive (LTI).

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each Executive by the Remuneration Committee annually. Table 2 details the fixed and variable components for the Executives of the Group and the Company.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. During the 2017 financial year there were no benefits paid in kind (2016: nil).

Structure

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of company-wide and individual performance and relevant comparative remuneration in the market.

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of variable remuneration is to link the achievement of the Group's operational targets with the remuneration received by the Executives charged with meeting those targets. The Company's STI objectives:

- Motivate Senior Executives to achieve the short-term annual objectives linked to Company success and shareholder value creation;
- Create a strong link between performance and reward;
- Share company success with the Senior Executives that contribute to it; and
- Create a component of the employment cost that is responsive to short to medium term changes in the circumstances of the Company.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Structure

Variable remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of company-wide and individual performance and relevant comparative remuneration in the market.

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward Executives in a manner that aligns remuneration with the creation of shareholder value and to create an element of remuneration that supports the executive team working together to achieve this outcome over the long term. The LTI plan is also a key component of the Company's retention strategy.

Structure

The Company has two LTI plans available for use with senior executives and staff. At the 2014 AGM, shareholders approved a Performance Rights Plan. At the General Meeting of shareholders on 24 August 2015, shareholders approved a share loan plan for senior executives.

LTI for 2017 financial year

In addition to the before mentioned CEO Long Term Incentive Plan (Operating and Financial Review), 20,859,997 share options were granted during FY17. The Company has two separate LTI plans that it can use as part of incentivising senior executives and staff for achieving targeted Key Performance Indicators (KPI's) including financial and non-financial targets, corporate metrics and individual measures of performance.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Remuneration of Key Management Personnel

Table 1: Employment Contracts

The following table outlines the specified terms of the relevant employment contracts for the Key Management Personnel of the Company:

| Role | Incumbent | Contract duration | Period of notice | Termination payments provided for by contract |
|-----------------------------------|------------------------|--------------------------|--|---|
| CEO (Executive Director) | Dr. Michael Perry | Open ended contract | 12 month notice period | 12 months if notice given by either party |
| CEO | Mr. Adam Kelliher | Resigned 1 June 2017 | Resigned | Resigned |
| CFO | Mr Timothy Rooney | Open ended contract | 12 month notice period | 12 months if notice given by either party |
| COO | Mr. Troy Barring | Resigned 16 June 2017 | Resigned | Resigned |
| | | | | |
| SVP, Clinical Development | Mr Andrew Quick | Open ended contract | 3 month notice period | Payment in lieu of notice only, no other benefits specified |
| | | | | |
| Board Chairman | Mr Lou Panaccio | Open ended contract | Nil notice period- subject to Avita constitution | Payment in lieu of notice only, no other benefits specified |
| All other non-executive directors | Mr Jeremy Curnock Cook | Open ended contract | Nil notice period- subject to Avita constitution | Payment in lieu of notice only, no other benefits specified |
| | Mr Louis Drapeau | Open ended contract | Nil notice period- subject to Avita constitution | Payment in lieu of notice only, no other benefits specified |
| | Mr Damien McDonald | Open ended contract | Nil notice period- subject to Avita constitution | Payment in lieu of notice only, no other benefits specified |
| | Ms Suzanne Crowe | Open ended contract | Nil notice period- subject to Avita constitution | Payment in lieu of notice only, no other benefits specified |

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Remuneration of Key Management Personnel

Table 2: Remuneration for the year ended 30 June 2017

| | Short-term Benefits | | | | | | | | | | Post-employment Benefits | | | Long-term benefits | | | Equity-settled Share-based Payments | | | Cash-settled Share-based Payments | Termination Benefits | Total | Proportion of Element of Remuneration Related to Performance (Other than Options Issued) | | | Proportion of Elements of Remuneration Not Related to Performance |
|--|------------------------|----|--------------------------|----|-----------------------|----|-------|----|----------------------------|----|--------------------------|----|-----------------|--------------------|-----|----|-------------------------------------|----|----------------|-----------------------------------|----------------------|-------|--|---|--------------|---|
| | Salary, fees and leave | | Profit share and bonuses | | Non-monetary benefits | | Other | | Pension and superannuation | | Other | | Incentive plans | | LSL | | Shares/Units | | Options/Rights | | | | Non-salary Cash based Incentives | | Shares/Units | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % | % | % | | |
| Non-Executive Directors | | | | | | | | | | | | | | | | | | | | | | | | | | |
| L Panaccio - Chairman | | | | | | | | | | | | | | | | | | | | | | | | | | |
| J Cumock Cook | | | | | | | | | | | | | | | | | | | | | | | | | | |
| L Drapeau | | | | | | | | | | | | | | | | | | | | | | | | | | |
| D McDonald | | | | | | | | | | | | | | | | | | | | | | | | | | |
| S Crowe | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sub-total Non-Executive Directors | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other Key Management Personnel & Executives | | | | | | | | | | | | | | | | | | | | | | | | | | |
| M Perry – CEO (appointed 1 June 2017) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A Kelliher – CEO (resigned 1 June 2017) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T Rooney – CFO | | | | | | | | | | | | | | | | | | | | | | | | | | |
| T Barrington – COO (resigned 16 June 2017) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A Quick- SVP, Clinical Development | | | | | | | | | | | | | | | | | | | | | | | | | | |
| G Chiappini – Company Secretary | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sub-total executive KMP & Executives | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Totals | | | | | | | | | | | | | | | | | | | | | | | | | | |

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Table 3: Remuneration for the year ended 30 June 2016

| | Short-term Benefits | | | | | Post-employment Benefits | | | Long-term benefits | | | Equity-settled Share-based Payments | | | Cash-settled Share-based Payments | Termination Benefits | Total | Proportion of Element of Remuneration Related to Performance (Other than Options Issued) | | | Proportion of Elements of Remuneration Not Related to Performance |
|---|------------------------|--------|--------------------------|-----------------------|---------|----------------------------|-------|-----------------|--------------------|--------------|----------------|-------------------------------------|----|----|-----------------------------------|----------------------|-------|--|--------------|------|---|
| | Salary, fees and leave | | Profit share and bonuses | Non-monetary benefits | Other | Pension and superannuation | Other | Incentive plans | LSL | Shares/Units | Options/Rights | | | | | | | Non-salary based Incentives | Shares/Units | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % | % | | | | |
| Non-Executive Directors | | | | | | | | | | | | | | | | | | | | | |
| L Panaccio – Chairman | 78,750 | - | - | - | 7,481 | - | - | - | - | - | - | - | - | - | - | 86,231 | 0% | 0% | 0% | 100% | |
| I Macpherson (resigned 13 January 2016) | 77,462 | - | - | - | 2,609 | - | - | - | - | - | - | - | - | - | - | 80,071 | 0% | 0% | 0% | 100% | |
| F Wood (resigned 13 January 2016) | 40,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 40,000 | 0% | 0% | 0% | 100% | |
| J Currock Cook | 49,808 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 49,808 | 0% | 0% | 0% | 100% | |
| M McNamara (resigned 13 January 2016) | 21,398 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 21,398 | 0% | 0% | 0% | 100% | |
| M Perry | 59,980 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 59,980 | 0% | 0% | 0% | 100% | |
| L Drapeau (appointed 13 January 2016) | 27,717 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 27,717 | 0% | 0% | 0% | 100% | |
| D McDonald (appointed 13 January 2016) | 27,649 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 27,649 | 0% | 0% | 0% | 100% | |
| S Crowe (appointed 13 January 2016) | 25,985 | - | - | - | 2,469 | - | - | - | - | - | - | - | - | - | - | 28,454 | 0% | 0% | 0% | 100% | |
| Sub-total Non-Executive Directors | 408,749 | - | - | - | 12,559 | - | - | - | - | - | - | - | - | - | - | 421,308 | | | | | |
| Other Key Management Personnel & Executives | | | | | | | | | | | | | | | | | | | | | |
| A Kellher - CEO | 523,326 | 89,955 | 11,327 | 15,764 | 61,887 | - | - | - | - | - | - | - | - | - | - | 1,605,218 | 0% | 0% | 0% | 44% | |
| T Rooney - CFO | 452,954 | - | 26,208 | 5,565 | 18,858 | - | - | - | - | - | - | - | - | - | - | 506,484 | 0% | 0% | 0% | 99% | |
| T Barrington -COO (appointed 20 June 2016) | 14,063 | - | 3,000 | 636 | - | - | - | - | - | - | - | - | - | - | - | 17,699 | 0% | 0% | 0% | 100% | |
| A Quick -Sr VP Research & Technology | 324,323 | - | 30,950 | (4,726) | 15,182 | - | - | - | - | - | - | - | - | - | - | 365,729 | 0% | 0% | 0% | 100% | |
| Sub-total executive KMP & Executives | 1,314,666 | 89,955 | 71,485 | 17,239 | 95,927 | - | - | - | - | - | - | - | - | - | - | 2,945,130 | | | | | |
| Totals | 1,723,415 | 89,955 | 71,485 | 17,239 | 108,486 | - | - | - | - | - | - | - | - | - | - | 2,916,438 | | | | | |

*\$902,959 recognizes the first year for the fair value of the 40,000,000 shares awarded to A Kellher, which will be recorded across the various vesting periods. On 22 July 2016, the Company released from escrow the first tranche, amounting to 3,500,000 fully paid ordinary shares under his LTI agreement. Remaining tranches will be released based on the criteria set in the Plan announced

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Table 4: Compensation of Key Management Personnel

| | 2017 | 2016 |
|-----------------------------------|------------------|------------------|
| | \$ | \$ |
| Short-term employee benefits | 2,933,510 | 1,904,993 |
| Post-employment employee benefits | 112,034 | 108,486 |
| Share-based payment | 1,215,809 | 902,959 |
| Total compensation | 4,261,353 | 2,916,438 |

Table 5: Option holdings of Key Management Personnel

| | 30-Jun-17 | Balance At 1 July 2016 No. | Issued Date | Grant Details | | Exercised | | Lapsed | | Balance at 30 June 2017 | Vested | | Unvested Total at 30 June 2017 |
|------------------|-----------|----------------------------------|----------------|-------------------|------------------|----------------------|----------|----------|--------------------|----------------------------|------------------|----------------|--------------------------------------|
| | | | | No. | No. | Value \$ (Note 1) | No. | Value \$ | No. | | Exercisable | Un-exercisable | |
| Directors | | | | | | | | | | | | | |
| All | | - | | - | - | - | - | - | - | - | - | - | - |
| Other KMP | | | | | | | | | | | | | |
| A Kelliher | | 40,000,000 | - | 40,000,000 | 1,189,021 | - | - | - | - | 40,000,000 | 7,000,000 | - | 33,000,000 |
| T Rooney | | 2,250,000 | 18 May 2017 | 7,800,000 | 145,836 | - | - | - | (2,250,000) | 7,800,000 | 1,000,000 | - | 6,800,000 |
| A Quick | | 1,000,000 | 18 May 2017 | 4,518,750 | 111,381 | - | - | - | (1,000,000) | 4,518,750 | 1,000,000 | - | 3,518,750 |
| | | 43,250,000 | | 52,318,750 | 1,446,238 | - | - | - | (3,250,000) | 52,318,750 | 9,000,000 | - | 43,318,750 |

Note 1 The fair value of options granted as remuneration and as shown in the above table has been determined in accordance with Australian Accounting Standards and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary for vesting are satisfied.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)
REMUNERATION REPORT (continued)

Table 6: Shareholdings of Key Management Personnel

| | Balance at 1 July 2015 | Granted as remuneration during the year | Issued on Exercise of Options during the Year | Other Changes During the Year | Balance at 30 June 2016 | Granted as remuneration during the year | Issued on Exercise of Options during the Year | Other Changes During the Year | Balance at 30 June 2017 |
|---|---------------------------|---|---|-------------------------------------|----------------------------|---|--|-------------------------------------|----------------------------|
| Directors | | | | | | | | | |
| L Panaccio – Chairman | - | - | - | - | - | 4,998 | - | - | 4,998 |
| I Macpherson (resigned 13 January 2016) | 10,799,997 | - | - | (10,799,997) | - | - | - | - | - |
| F Wood (resigned 13 January 2016) | 723,365 | - | - | (723,365) | - | - | - | - | - |
| J Curnock Cook | - | - | - | - | - | - | - | - | - |
| M Perry | - | - | - | - | - | 5,450 | - | - | 5,450 |
| L Drapeau (appointed 13 January 2016) | - | - | - | - | - | 3,000 | - | - | 3,000 |
| D McDonald (appointed 13 January 2016) | - | - | - | - | - | 10,900 | - | - | 10,900 |
| S Crowe (appointed 13 January 2016) | - | - | - | - | - | 2,440 | - | - | 2,440 |
| | 11,523,362 | - | - | (11,523,362) | - | 26,788 | - | - | 26,788 |

Included in other changes during the year are the shareholdings at resignation date of the two directors who resigned on 13 January 2016. This is to reflect the changes in key management personnel, as these former directors are not considered key management personnel of the Company as at 30 June 2017.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Other Equity-related KMP Transactions

There have been no other transactions involving equity instruments apart from those described in the tables above relating to options and shareholdings.

Other Transactions with KMP and/or their Related Parties

There were no other transactions conducted between the Company and KMP or their parties, apart from those disclosed above relating to equity and compensation, that were conducted other than in accordance with normal employees, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

END OF REMUNERATION REPORT

GLOSSARY

The table below assembles the various acronyms in use throughout this report.

| | |
|--------|--|
| BARDA | Biomedical Advanced Research and Development Authority |
| EMEA | Europe, Middle East and Africa |
| APAC | Asia and Pacific |
| PMA | Pre Market Application |
| US FDA | United States Food and Drug Administration |
| LTI | Long Term Incentives |
| STI | Short Term Incentives |
| ISBI | International Society of Burn Injuries |
| RES | Regenerative Epithelial Suspension |
| CE | Conformity Européenne, meaning European Conformity |
| TGA | Therapeutic Goods Administration |
| CFDA | China Food and Drug Administration |
| MVP | Medical Developments International Limited |

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

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 is as follows:

| | Meetings of Committees | | |
|-------------------------------------|-------------------------------|---------------------|--------------|
| | Directors | Remuneration | Audit |
| Number of meetings held: | 9 | 4 | 5 |
| Number of meetings attended: | | | |
| Lou Panaccio | 9 | N/A | 5 |
| Jeremy Curnock Cook | 9 | 4 | N/A |
| Michael Perry | 8 | 4 | N/A |
| Louis Drapeau | 8 | N/A | 5 |
| Damien McDonald | 7 | N/A | 3 |
| Suzanne Crowe | 6 | 3 | N/A |

Compliance matters are dealt with under a standing agenda at regular Board meetings.

Committee Membership

As at the date of this report, the Company had an Audit Committee and a Remuneration Committee, however on an 'as required' basis, formally constitutes a Nominations Committee dealing with appointment of Executives and Directors.

Members acting on these committees of the Board at the date of this report are:

| Audit | Remuneration |
|-------------------|-------------------------|
| Louis Drapeau (c) | Jeremy Curnock Cook (c) |
| Lou Panaccio | Louis Drapeau |
| Damien McDonald | Suzanne Crowe |
| | |

Notes

(c) Designates the Chairman of each Committee

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors have obtained an independence declaration from our auditors, Grant Thornton Audit Pty Ltd, as presented on the following page of this report.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does 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.

Signed in accordance with a resolution of the Directors.

A handwritten signature in dark ink, appearing to read 'Lou Panaccio', with a long, sweeping horizontal stroke extending to the right.

Lou Panaccio
Chairman
Dated: 29 September 2017
Melbourne, Victoria

Level 1
10 Kings Park Road
West Perth WA 6005

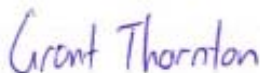
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E info.wa@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration To the Directors of Avita Medical Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Avita Medical Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M P Hingeley
Partner - Audit & Assurance

Perth, 29 September 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Liability limited by a scheme approved under Professional Standards Legislation.

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Consolidated 2017 \$ | 2016 \$ |
|--|-------|----------------------------|---------------------|
| Continuing operations | | | |
| Sale of goods | 4 | 1,180,632 | 1,002,007 |
| Cost of sales | 4 | (505,636) | (401,568) |
| Gross profit | | 674,996 | 600,439 |
| Other income | 4 | 6,951,714 | 2,544,517 |
| Operating costs | | | |
| Administrative expenses | | (10,497,936) | (6,512,197) |
| Share based expenses | 18 | (1,587,243) | (956,658) |
| Clinical and research & development expenses | | (4,692,359) | (3,457,828) |
| Sales and marketing expenses | | (3,395,679) | (3,462,095) |
| Finance costs | | (12,754) | (21) |
| Total operating costs | | 20,185,971 | 14,388,799 |
| Loss from continuing operations before income tax | | (12,559,261) | (11,243,843) |
| Profit for the period from discontinued operations | | - | 2,493,947 |
| Income tax benefit | | 1,048,237 | 971,881 |
| Loss for the period | 5 | (11,511,024) | (7,778,015) |
| Other comprehensive income / (loss) | | | |
| <i>Items that may be reclassified subsequently to profit and loss:</i> | | | |
| Foreign currency translation | | (83,293) | (169,100) |
| Fair value gain on available for sale financial assets | 10 | (265,261) | 265,261 |
| Other comprehensive income/ (loss) for the period, net of tax | | (348,554) | 96,161 |
| Total other comprehensive loss for the period | | (11,859,578) | (7,681,854) |
| Loss for the period is attributable to: | | | |
| Owners of Avita Medical Limited | | (11,511,024) | (7,778,015) |
| | | (11,511,024) | (7,778,015) |
| Other comprehensive loss for the period is attributable to: | | | |
| Owners of Avita Medical Limited | | (11,859,578) | (7,681,854) |
| | | (11,859,578) | (7,681,854) |
| Basic loss per share attributable to ordinary equity holders of the parent | 5 | (1.72) cents | (1.56) cents |
| Diluted loss per share attributable to ordinary equity holders of the parent | 5 | (1.72) cents | (1.56) cents |

This consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes to these financial statements.

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

| | Notes | Consolidated | |
|---|-------|------------------|------------------|
| | | 2017 | 2016 |
| | | \$ | \$ |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 7 | 3,790,491 | 4,171,879 |
| Trade and other receivables | 8 | 2,070,534 | 2,021,494 |
| Prepayments | | 382,026 | 225,270 |
| Inventories | 9 | 1,037,490 | 1,370,622 |
| Investments | 10 | - | 719,153 |
| Total Current Assets | | 7,280,541 | 8,508,418 |
| Non-Current Assets | | | |
| Plant & equipment | 11 | 387,380 | 94,491 |
| Total Non-Current Assets | | 387,380 | 94,491 |
| TOTAL ASSETS | | 7,667,921 | 8,602,909 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 12 | 2,363,734 | 1,542,139 |
| Provisions | 13 | 182,355 | 208,253 |
| Total Current Liabilities | | 2,546,089 | 1,750,392 |
| TOTAL LIABILITIES | | 2,546,089 | 1,750,392 |
| NET ASSETS | | 5,121,832 | 6,852,517 |
| EQUITY | | | |
| <i>Equity attributable to equity holders of the parent</i> | | | |
| Contributed equity | 14 | 134,806,022 | 126,264,372 |
| Accumulated losses | 15 | (132,218,352) | (121,108,408) |
| Reserves | | 2,534,162 | 1,696,553 |
| TOTAL EQUITY | | 5,121,832 | 6,852,517 |

This consolidated statement of financial position should be read in conjunction with the notes to these financial statements.

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

| | | Consolidated | |
|---|--------------|---------------------|--------------------|
| | Notes | 2017 | 2016 |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Receipts from customers | | 1,207,546 | 1,079,549 |
| Payments to suppliers and employees | | (17,676,313) | (14,894,221) |
| Government grants received | | 13,200 | 6,965 |
| R&D Tax refund received | | 972,283 | 654,060 |
| Interest received | | 123,709 | 110,364 |
| Interest paid | | (12,754) | (21) |
| BARDA income and other income received | | 6,814,805 | 2,427,188 |
| Net cash from discontinued operations | | - | 648,081 |
| Proceeds from disposal of discontinued operations | | - | 2,029,478 |
| Net cash flows used in operating activities | 16 | (8,557,524) | (7,938,557) |
| Cash flows from investing activities | | | |
| Proceeds from the sale of financial assets | | 627,837 | - |
| Purchase of plant & equipment | | (432,592) | (48,289) |
| Proceeds on disposal of plant & equipment | | - | 440 |
| Net cash flows used in investing activities | | (195,245) | (47,849) |
| Cash flows from financing activities | | | |
| Purchase of finance leased asset | | (303,521) | - |
| Proceeds from issue of shares and options | 14 | 9,048,102 | 10,025,584 |
| Capital raising expenses | | (506,452) | (664,754) |
| Net cash flows provided by financing activities | | 8,238,129 | 9,360,830 |
| Net increase/(decrease) in cash and cash equivalents | | (124,150) | 1,374,424 |
| Cash and cash equivalents at beginning of period | | 4,171,879 | 2,966,555 |
| Impact of foreign exchange | | (257,238) | (169,100) |
| Cash and cash equivalents at end of period | 7 | 3,790,491 | 4,171,879 |

This consolidated statement of cash flows should be read in conjunction with the notes to these financial statements.

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

| Consolidated | Contributed equity | Accumulated losses | Employee equity benefit reserve | Available for Sale reserve | Foreign currency translation reserve | Total |
|--|--------------------|----------------------|---------------------------------|----------------------------|--------------------------------------|---------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| At 1 July 2016 | 126,264,372 | (121,108,408) | 1,625,016 | 265,261 | (193,724) | 6,852,517 |
| Loss for the period | - | (11,511,024) | - | - | - | (11,511,024) |
| Other comprehensive income | | | | | | |
| - Foreign currency translation | - | - | - | - | (83,293) | (83,293) |
| - MVP Shares | - | - | - | (265,261) | - | (265,261) |
| Total comprehensive income / (loss) for the year | - | (11,511,024) | - | (265,261) | (83,293) | (11,859,578) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Expired Options | - | 401,080 | (401,080) | - | - | - |
| Share based expenses | - | - | 1,587,243 | - | - | 1,587,243 |
| New shares | 9,048,102 | - | - | - | - | 9,048,102 |
| Cost of share placement | (506,452) | - | - | - | - | (506,452) |
| Balance at 30 June 2017 | 134,806,022 | (132,218,352) | 2,811,179 | - | (277,017) | 5,121,832 |

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

| Consolidated | Contributed equity | Accumulated losses | Employee equity benefit reserve | Available for Sale reserve | Foreign currency translation reserve | Total |
|--|--------------------|----------------------|---------------------------------|----------------------------|--------------------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| At 1 July 2015 | 117,044,332 | (113,457,640) | 654,816 | - | (24,624) | 4,216,884 |
| Loss for the period | - | (7,778,015) | - | - | - | (7,778,015) |
| Other comprehensive income | - | - | - | - | - | - |
| - Foreign currency translation | - | - | - | - | (169,100) | (169,100) |
| Total comprehensive income / (loss) for the year | - | (7,778,015) | - | - | (169,100) | (7,947,115) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Expired options | - | 127,247 | (127,247) | - | - | - |
| Share based expenses | - | - | 956,658 | - | - | 956,658 |
| MVP shares | - | - | - | 265,261 | - | 265,261 |
| New options | - | - | 140,789 | - | - | 140,789 |
| New shares | 10,025,584 | - | - | - | - | 10,025,584 |
| Cost of share placement | (805,544) | - | - | - | - | (805,544) |
| Balance at 30 June 2016 | 126,264,372 | (121,108,408) | 1,625,016 | 265,261 | (193,724) | 6,852,517 |

This consolidated statement of changes in equity should be read in conjunction with the notes to these financial statements.

**AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

1. CORPORATE INFORMATION

The financial report of Avita Medical Limited ('the Company') for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 29 September 2017.

Avita Medical Limited, the parent entity, is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and statement of compliance

Avita Medical Limited is the Group's ultimate parent company and is a public company incorporated and domiciled in Australia.

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Avita Medical Limited is a for-profit entity for the purpose of preparing the financial statements.

Except for cash flow information, the financial report has been prepared on an accrual basis and is based on historical costs, modified, where applicable, for financial liabilities and assets held at fair value through profit or loss and is presented in Australian dollars.

b) New and amended accounting standards and interpretations adopted by the Group

The Group has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

c) New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2017. Those that are relevant to the Group include:

- AASB 9 Financial Instruments (applicable to reporting periods on or after 1 January 2018)
- AASB 15 Revenue from Contracts with Customers (applicable to reporting periods on or after 1 January 2018)
- AASB 16 Leases (applicable to reporting periods on or after 1 January 2019).

The Group is yet to undertake a detailed assessment of the impact of the above standards. However, based on the Group's preliminary assessment, these standards are not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted, as the Group's current accounting methods related to financial instruments, revenue from contracts, and its lease obligations are not expected to materially change from the adoption of new standards.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Avita Medical Limited and its subsidiaries ('the Group') as at the reporting date each year.

The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(e) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Chief Executive Officer.

The company aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB8 Operating Segments are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

(f) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of shipment of the goods to the customer.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Government and other grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants are not credited directly to shareholders equity.

When the grant relates to an asset, the fair value is credited to deferred income and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

(h) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(i) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprises of cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the consolidated statement of financial position.

(j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an on-going basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments and debts more than 90 days overdue may be considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for at purchase cost on a first-in, first-out basis. Assembly costs as invoiced by a third party are factored into the cost of finished goods.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(l) Foreign currency translation

Functional and presentational currency

Both the functional and presentational currency of Avita Medical Limited and its Australian subsidiaries is Australian dollars (\$). The United Kingdom's subsidiary's functional currency is Pound Sterling and the United States' subsidiary's functional currency is United States Dollars. These are translated to the presentational currency (see below).

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Group Companies functional currency to presentational currency

The results of the overseas subsidiaries are translated into Australian Dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date. Profit and loss items are translated at average rates and equity items are translated at the date of each transaction. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in overseas subsidiaries are taken to the foreign currency translation reserve. If an overseas subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in profit or loss.

(m) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Included in income tax benefits are research and development claims.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax and other taxes (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Avita Medical Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

The parent entity, Avita Medical Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Avita Medical Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax and other taxes (continued)

Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(p) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Plant and equipment – over 2 to 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(q) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs, other than borrowing costs relating to qualifying assets, are recognised as an expense when incurred.

(s) Financial Instruments

Recognition, Initial Measurement and Derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and Subsequent Measurement of Financial Assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables;
- Financial assets at Fair Value Through Profit or Loss ('FVTPL');
- Held-To-Maturity ('HTM') investments; or
- Available-For-Sale ('AFS') financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in the Statement of Profit or Loss and Other Comprehensive Income are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial Instruments (continued)

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses for AFS debt securities are recognised in profit or loss if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For AFS equity investments impairment reversals are not recognised in profit or loss and any subsequent increase in fair value is recognised in other comprehensive income.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

(t) Provisions and employee leave benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognized in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognized when the leave is taken and are measured at the rates paid or payable.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Share-based payment transactions

The Group provides benefits to employees (including Key Management Personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Group has in place an Employee Share Option Plan (ESOP) which provides benefits to Senior Executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to profit or loss is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

The expense recognised by Avita Medical Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Contributed equity (continued)

Basic loss per share is calculated as net loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted loss per share is calculated as net loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(x) Research and development costs

Expenditures during the research phase of a project are recognised as expenses when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and amortised on a systematic basis based on the future economic benefits over the useful life of the project.

(y) Going Concern

These financial statements have been prepared on the basis of going concern, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. During the financial year ended 30 June 2017, the Group has generated a loss for the period of \$11,511,024 (2016: \$7,778,015) and the Group has used cash in operations of \$8,557,524 (2016: \$7,938,557).

On 11 July 2016 the Company completed a placement of 100,164,831 fully paid ordinary shares at a price of \$0.09 per share raising \$9,048,102, of which \$506,452 has been recognized as capital raising expenses. The Group also benefits from monthly cash inflows from the BARDA (Biomedical Advanced Research and Development Authority) contract that was awarded to the Company on 29 September 2015. These monthly payments from BARDA offset the costs from various activities towards the FDA regulatory approval process in the US. Another anticipated source of capital for the Company is the potential triggering of the BARDA contract line item covering the initial purchase, storage, and delivery of ReCell devices in the amount of US\$7,594,620 (~A\$10m).

The Group is a development stage biotechnology company and as such expects to be utilizing cash reserves until its research activities are globally commercialized. The Group has historically funded its research activities through raising capital by issuing securities in the Company, it is expected that similar funding will be obtained to provide working capital as and when required. If the Group is unable to raise capital in the future, the Group may need to curtail expenditures by scaling back certain research and development programs.

As a result of the above, the directors are satisfied that there is sufficient working capital to support the committed research and commercialization activities over the next 12 months and the Group has the ability to realize its assets and pay its liabilities and commitments in the normal course of business. Accordingly, the directors have prepared the financial report on a going concern basis.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(i) Significant accounting estimates and assumptions

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, using the assumptions detailed in note 18. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(ii) Significant accounting judgments

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in note 4(d).

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the consolidated statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the consolidated statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to profit or loss.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

4. REVENUES AND EXPENSES

| | 2017 | 2016 |
|----------------------|------------------|------------------|
| | \$ | \$ |
| (a) Revenue | | |
| Sale of goods | 1,180,632 | 1,002,007 |
| Other income | 6,951,714 | 2,544,517 |
| Total revenue | 8,132,346 | 3,546,524 |

| | 2017 | 2016 |
|-------------------------|------------------|------------------|
| | \$ | \$ |
| (b) Other income | | |
| Bank interest | 123,709 | 110,364 |
| Contracts received | 13,200 | 6,965 |
| BARDA income | 6,606,980 | 2,424,357 |
| Other income | 207,825 | 2,831 |
| | 6,951,714 | 2,544,517 |

| | 2017 | 2016 |
|--------------------------|---------------|-------------|
| | \$ | \$ |
| (c) Finance costs | | |
| Other loans | 12,754 | 21 |
| | 12,754 | 21 |

| | 2017 | 2016 |
|---|-------------|-------------|
| | \$ | \$ |
| (d) Depreciation, impairment and amortisation included in profit or loss | | |
| Depreciation | 139,703 | 83,724 |
| Loss/(Profit) on disposal of plant & equipment | (1,347) | 440 |

| | 2017 | 2016 |
|--------------------------|-------------|-------------|
| | \$ | \$ |
| (e) Cost of sales | 505,636 | 401,568 |

Inventories recognised as an expense as a result of expiration for the year ended 30 June 2017 totalled \$408,052 (2016: \$182,150).

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

4. REVENUES AND EXPENSES (continued)

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| (f) Lease payments and other expenses included in profit or loss | 418,193 | 283,412 |
| | | |
| | 2017 \$ | 2016 \$ |
| (g) Employee benefits expense | | |
| Wages and salaries | 6,143,458 | 4,669,718 |
| Defined contribution superannuation expense | 341,586 | 311,435 |
| Share-based expenses | 1,587,243 | 956,658 |
| | 8,072,287 | 5,937,811 |

5. LOSS PER SHARE

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted loss per share computations:

| | 2017 \$ | 2016 \$ |
|---|--------------|-------------|
| Net loss for the period | (11,511,024) | (7,778,015) |
| | | |
| Weighted average number of ordinary shares for basic and diluted loss per share | 669,930,538 | 498,786,987 |

Transactions involving ordinary shares or potential ordinary shares that would change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of the completion of these financial statements are disclosed in note 25 to the financial statements.

A total of 24,797,286 options (2016: 11,147,289) were not included in the dilutive loss per share calculation as they are anti-dilutive.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

6. INCOME TAX

| | | |
|--|---------------------|--------------------|
| (a) Income tax expense | 2017 | 2016 |
| The major components of income tax benefit are: | \$ | \$ |
| <i>Current income tax benefit:</i> | | |
| Current income tax benefit – R&D Claim | (1,048,634) | (972,282) |
| | <hr/> | <hr/> |
| Income tax benefit reported in profit or loss – R&D Claim | (1,048,634) | (972,282) |
| | <hr/> | <hr/> |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | 2017 | 2016 |
| | \$ | \$ |
| Loss from continuing operations before income tax expense | (12,559,261) | (11,243,843) |
| Profit for the period from discontinued operations | - | 2,493,947 |
| | <hr/> | <hr/> |
| | (12,559,261) | (8,749,896) |
| | <hr/> | <hr/> |
| Tax at the Australian rate of 27.5% (2016 – 30%) | (3,767,778) | (2,624,969) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Other | 792,798 | 921,793 |
| Tax losses not brought to account | 2,974,980 | 1,703,176 |
| Research and development tax offset | (1,048,634) | (972,282) |
| | <hr/> | <hr/> |
| | (1,048,634) | (972,282) |
| | <hr/> | <hr/> |
| Movement in deferred tax asset | 41,629 | (451,777) |
| Deferred tax assets not brought to account as realisation is not considered probable | (41,629) | 451,777 |
| | <hr/> | <hr/> |
| Income tax benefit | (1,048,634) | (972,282) |
| | <hr/> | <hr/> |
| (c) Non-current assets – deferred tax assets | 2017 | 2016 |
| | \$ | \$ |
| The balance comprises temporary differences attributable to: | | |
| Provisions | 48,513 | 82,074 |
| Property, plant and equipment | 12,945 | 13,905 |
| Intangible assets | 735,400 | 611,343 |
| Other | (766) | - |
| | <hr/> | <hr/> |
| Total deferred tax assets | 796,092 | 707,322 |
| | <hr/> | <hr/> |
| Set off deferred tax liabilities pursuant to set-off provisions | - | - |
| | <hr/> | <hr/> |
| | 796,092 | 707,322 |
| | <hr/> | <hr/> |
| Deferred tax assets not brought to account as realisation is not considered probable | (796,092) | (707,322) |
| | <hr/> | <hr/> |
| Deferred tax assets recognised | - | - |
| | <hr/> | <hr/> |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

6. INCOME TAX (continued)

| Movements – Consolidated | Provisions | Plant and equipment | Intangible assets | Other | Total |
|---|-------------------|----------------------------|--------------------------|----------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| At 30 June 2015 | 56,525 | 15,713 | 963,007 | (1,164) | 1,034,081 |
| (Charged) / credited to the consolidated statement of profit or loss and other comprehensive income | 25,459 | (1,808) | (351,664) | 1,164 | (326,759) |
| (Charged) / credited directly to equity | - | - | - | - | - |
| At 30 June 2016 | 82,074 | 13,905 | 611,343 | - | 707,322 |
| (Charged) / credited to the consolidated statement of profit or loss and other comprehensive income | (33,561) | (960) | 124,057 | (766) | 88,770 |
| (Charged) / credited directly to equity | - | - | - | - | - |
| At 30 June 2017 | 48,513 | 12,945 | 735,400 | (766) | 796,092 |

Tax losses

The Group has income tax losses for which no deferred tax asset is recognised on the consolidated statement of financial position of \$100,140,383 (2016: \$89,534,487) which are available indefinitely for offset against future taxable profits subject to continuing to meet relevant statutory tests. The total losses of the Group are broken down in the following table:

| Jurisdiction | Total Losses | Relevant Tax Rate | Relevant Tax |
|---------------------|---------------------|--------------------------|---------------------|
| | \$ | % | \$ |
| Australia | 40,105,690 | 30.00% | 12,031,707 |
| United States | 22,026,142 | 30.00% | 6,607,843 |
| United Kingdom | 38,008,551 | 20.75% | 7,886,774 |
| Total | 100,140,383 | | 26,526,324 |

Unrecognised temporary differences

At 30 June 2017, there is no recognised or unrecognised deferred income tax liability (2016: \$nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. The Group has no liability for additional taxation should unremitted earnings be remitted (2016: \$nil).

Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

Avita Medical Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. Avita Medical Limited is the parent entity of the tax consolidated group. Members of the group have not entered into a tax sharing arrangement or a tax funding arrangement.

(ii) Tax effect accounting by members of the tax consolidated group

No amounts have been recognised as tax consolidation contribution adjustments in preparing the accounts of Avita Medical Limited.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | 2017 | 2016 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Cash at bank and in hand | 3,790,491 | 2,472,722 |
| Short-term deposits | - | 1,699,157 |
| | 3,790,491 | 4,171,879 |

8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | 2017 | 2016 |
|---|------------------|------------------|
| | \$ | \$ |
| Trade receivables | 259,012 | 659,371 |
| Allowance for doubtful debts | (88,859) | - |
| | 170,153 | 659,371 |
| R&D Tax claim | 1,048,634 | 972,282 |
| Other receivables | 851,747 | 389,841 |
| Carrying amount of trade and other receivables | 2,070,534 | 2,021,494 |

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for impairment loss is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

A gain of \$nil (2016: \$nil) has been recognised by the Group in the current year on recovery of these previously impaired receivables.

Movements in the allowance for impairment loss were as follows:

| | 2017 | 2016 |
|--------------------------|---------------|-------------|
| | \$ | \$ |
| At 1 July | - | - |
| Received during the year | - | - |
| Charge for the year | 88,859 | - |
| At 30 June | 88,859 | - |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (continued)

At 30 June, the aging analysis of trade receivables is as follows:

| | | Total | 0-30 days | 31-60 days | 61-90 days | +91 days PDNI* | +91 days CI** |
|------|--------------|---------|--------------|---------------|---------------|----------------------|---------------------|
| 2017 | Consolidated | 259,012 | 95,180 | 32,866 | 40,374 | 1,733 | 88,859 |
| 2016 | Consolidated | 659,371 | 577,778 | 19,140 | 2,770 | 59,683 | - |

* Past due not impaired ("PDNI")

** Considered impaired ("CI")

Receivables past due but not considered impaired are: \$nil (2016: \$59,683). Payment terms on these amounts have not been re-negotiated however each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables which have similar terms as trade receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(c) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 20.

9. CURRENT ASSETS – INVENTORIES

| | 2017 \$ | 2016 \$ |
|--------------------------------------|------------------|------------------|
| Raw materials and components at cost | 804,052 | 954,160 |
| Finished goods at cost | 233,438 | 416,462 |
| Total inventories at cost | 1,037,490 | 1,370,622 |

A provision of \$1,660 (2016: \$1,766) has been allocated against raw materials to reduce the carrying amount of certain inventory items to nil net realisable value. The change in provision of inventory has been included in the cost of sales line item as a cost of inventories in the consolidated statement of profit or loss and other comprehensive income.

Inventory expense

Inventories recognised as an expense as a result of expiration for the year ended 30 June 2017 totalled \$408,052 (2016: \$182,150).

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

10. CURRENT ASSETS – INVESTMENTS

| | 2017 | 2016 |
|--------------------------------------|-------------|----------------|
| | \$ | \$ |
| Investment in MVP shares | - | 453,892 |
| Fair value gain on investment | - | 265,261 |
| Carrying amount of investment | - | 719,153 |

The 2016 Investments of \$719,153 was due to the holding in escrow of 117,894 shares of Medical Developments International Ltd (ASX: MVP) originating from the sale of Avita's Respiratory Business in February 2016. Consideration for the divestment was \$2,029,478 in cash plus the MVP shares which were valued at \$453,892 at the closing of the transaction on 5 February 2016. The statement of profit and loss reflects a fair value gain of \$265,261 in other comprehensive income on these escrowed shares, as these shares had a fair value at the reporting date of \$719,153.

Since the end of the reporting date all 117,894 MVP shares treated as available for sale financial assets at a fair value of \$719,153 at the 2016 reporting date have been sold for proceeds amounting to \$627,837 resulting in a loss of \$91,316 which was recognised in administrative expenses.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

11. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

Reconciliation of carrying amounts at the beginning and end of the period

| | <i>Plant and Equipment</i> \$ |
|---|--------------------------------------|
| Year ended 30 June 2017 | |
| At 1 July 2016, net of accumulated depreciation | 94,491 |
| Additions | 432,592 |
| Depreciation charge for the year | (139,703) |
| At 30 June 2017, net of accumulated depreciation | <u>387,380</u> |

| | |
|----------------------------|-----------------------|
| At 30 June 2017 | |
| Cost | 1,307,367 |
| Accumulated depreciation | (919,987) |
| Net carrying amount | <u>387,380</u> |

| | <i>Plant and Equipment</i> \$ |
|---|--------------------------------------|
| Year ended 30 June 2016 | |
| At 1 July 2015, net of accumulated depreciation | 133,490 |
| Exchange movements | (3,123) |
| Additions | 48,289 |
| Disposals | (440) |
| Depreciation charge for the year | (83,724) |
| At 30 June 2016, net of accumulated depreciation | <u>94,491</u> |

| | |
|----------------------------|----------------------|
| At 30 June 2016 | |
| Cost | 874,775 |
| Accumulated depreciation | (780,284) |
| Net carrying amount | <u>94,491</u> |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

12. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | 2017 | 2016 |
|--|------------------|------------------|
| | \$ | \$ |
| Trade payables | 990,040 | 1,027,437 |
| Accruals and other payables | 1,373,694 | 514,702 |
| Carrying amount of trade and other payables | 2,363,734 | 1,542,139 |

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(a) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 20.

13. CURRENT LIABILITIES – PROVISIONS

| | 2017 | 2016 |
|---------------------------------------|----------------|----------------|
| | \$ | \$ |
| Provision for annual leave (i) | 136,822 | 165,772 |
| Provision for long service leave (ii) | 45,533 | 42,481 |
| | 182,355 | 208,253 |

Employee benefits

- (i) A provision is recognised for annual leave due to employees at the end of the year.
- (ii) A provision is recognised for long service leave due to employees at the end of the year.

14. CONTRIBUTED EQUITY

| | 2017 | 2016 |
|-----------------------------------|-------------|-------------|
| | \$ | \$ |
| <i>Ordinary shares</i> | | |
| Authorised, issued and fully paid | 134,806,022 | 126,264,372 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

| <i>Movement in ordinary shares on issue</i> | Number | \$ |
|---|--------------------|--------------------|
| At 1 July 2016 | 532,751,995 | 126,264,372 |
| New shares | 100,164,831 | 9,048,102 |
| Capital issue costs | - | (506,452) |
| At 30 June 2017 | 632,916,826 | 134,806,022 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

14. CONTRIBUTED EQUITY (continued)

Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Group regularly reviews the capital structure and seeks to take advantage of available opportunities to improve outcomes for the Group and its shareholders.

During 2017, no dividends were paid and management has no plans to commence the payment of dividends. Management has no current plans to issue further shares on the market but will continue to assess market conditions and the company's cash flow requirements to ensure the company is appropriately funded.

The Group monitors capital on the basis of the gearing ratio, however there is no significant external borrowing at the reporting date. Neither the Company nor any of the subsidiaries are subject to externally imposed capital requirement.

15. ACCUMULATED LOSSES AND RESERVES

(a) Movements in accumulated losses were as follows:

| | 2017 | 2016 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Balance 1 July | (121,108,408) | (113,457,640) |
| Net loss attributable to owners of Avita Medical Limited | (11,511,024) | (7,778,015) |
| Transfer from expired / lapsed options | 401,080 | 127,247 |
| Balance 30 June | (132,218,352) | (121,108,408) |

(b) Nature and purpose of reserves

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including Key Management Personnel, as part of their remuneration. Refer to note 18 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Available for Sales reserve

Available for sale reserve is used to record the gain from measuring financial assets at fair value.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

16. CONSOLIDATED STATEMENT OF CASH FLOWS RECONCILIATION

| | 2017 | 2016 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Reconciliation of net loss after tax to net cash flows from operations | | |
| Loss from ordinary activities after tax | (11,511,024) | (7,778,015) |
| Adjustments for non-cash items: | | |
| Depreciation | 139,703 | 83,724 |
| Share options expensed | 1,587,243 | 956,658 |
| Investment | - | (453,892) |
| (Profit) / loss on disposal of PPE | - | 3,124 |
| Changes in assets and liabilities: | | |
| (Increase) / decrease in inventories | 333,132 | (776,105) |
| (Increase) / decrease in trade and other receivables | (49,040) | (516,052) |
| (Increase) / decrease in prepayments | (156,756) | 17,892 |
| Increase / (decrease) in trade and other payables | 1,125,116 | 494,561 |
| Increase / (decrease) in provisions | (25,898) | 29,549 |
| Net cash used in operating activities | (8,557,524) | (7,938,557) |

17. RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of Avita Medical Limited and the subsidiaries listed in the following table:

| <i>Name</i> | <i>Country of Incorporation</i> | <i>% Equity interest at 30 June 2017</i> | <i>% Equity interest at 30 June 2016</i> | <i>Investment (\$) at 30 June 2017</i> | <i>Investment (\$) At 30 June 2016</i> |
|----------------------------|---------------------------------|--|--|--|--|
| C3 Operations Pty Ltd | Australia | 100% | 100% | - | - |
| Avita Medical Europe Ltd | United Kingdom | 100% | 100% | - | - |
| Avita Medical Americas LLC | United States | 100% | 100% | - | - |
| Infamed Pty Limited | Australia | 100% | 100% | - | - |
| Visionmed Group Pty Ltd | Australia | 100% | 100% | 4,643,888 | 4,643,888 |
| | | | | 4,643,888 | 4,643,888 |

(b) Ultimate parent

Avita Medical Limited is the ultimate parent entity in the wholly-owned group.

(c) Key Management Personnel

The total remuneration paid to key management personnel of the Group during year is detailed below

| | 2017 | 2016 |
|-----------------------------------|------------------|------------------|
| | \$ | \$ |
| Short-term employee benefits | 2,933,510 | 1,904,993 |
| Post-employment employee benefits | 112,034 | 108,486 |
| Share-based expenses | 1,215,809 | 902,959 |
| Total compensation | 4,261,353 | 2,916,438 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

17. RELATED PARTY DISCLOSURE (continued)

Refer to the remuneration report contained the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2017.

(d) Transactions with related parties

Subsidiaries of the Group:

During the reporting period, inter-company other revenue was made of \$2,087,051 (2016: \$1,995,041) by Avita Medical Europe Ltd and Avita Medical Americas LLC to Avita Medical Limited. These have been eliminated on consolidation.

Employees

Contributions to superannuation funds on behalf of employees are disclosed in note 4(g).

Terms and conditions of transactions with related parties

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

18. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

| | 2017 | 2016 |
|---|------------------|----------------|
| | \$ | \$ |
| Expenses arising from equity-settled share-based payment transactions | 1,587,243 | 956,658 |
| Total expense arising from share-based payment transactions | 1,587,243 | 956,648 |

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2017 and 2016.

(b) Types of share-based payment plans

Employee Share Option Plan (ESOP)

Share options are granted to Senior Executives and employees under the Employee Share Option Plan at the discretion of the Board. The exercise price of the options is based on a weighted average market price of the shares preceding the date of grant. The options vest at the time of grant and the contractual life of each option granted is ten years. There are no cash settlement alternatives.

Subject to shareholder approval, options may also be granted to Directors at the discretion of the Board. The exercise price of the options is based on a weighted average market price of the shares preceding the date of grant. The options vest either at the time of grant or are subject to performance conditions at the discretion of the Board and the contractual life of each option granted is three years. There are no cash settlement alternatives.

(c) Summaries of options granted under ESOP arrangements

The following table illustrates the number (No) and weighted average exercise price (WAEP) of, and movements in, share options issued during the year:

| | 2017 | 2017 | 2016 | 2016 |
|---|-------------------|--------------|-------------------|--------------|
| | No | WAEP | No | WAEP |
| Outstanding at the beginning of the year | 11,147,289 | 0.14 | 9,441,250 | 0.14 |
| Expired during the year | (4,710,000) | 0.14 | (1,450,000) | 0.14 |
| Cancelled | (2,500,000) | 0.15 | - | - |
| Granted during the year | 20,859,997 | 0.08 | 3,156,039 | 0.16 |
| Lapsed during the year | - | - | - | - |
| Outstanding at the end of the year | 24,797,286 | 0.084 | 11,147,289 | 0.149 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

18. SHARE-BASED PAYMENT PLANS (continued)

As at the reporting date, there were 24,797,286 unissued ordinary shares under options represented by:
 1,406,250 exercisable at \$0.14 expiring 30 November 2017, issued to the ex-Chief Executive Officer at the Annual General Meeting held on 30 November 2010.
 375,000 exercisable at \$0.14 expiring 30 November 2018, issued to the ex-Chief Executive Officer at the Annual General Meeting held on 30 November 2010.
 2,156,039 exercisable at \$0.126 expiring 31 December 2020 issued to an investor on 31 December 2015.
 17,910,415 exercisable at \$0.085 expiring 18 May 2027 issued to employees on 18 May 2017.
 1,072,916 exercisable at \$0.082 expiring 26 May 2027 issued to an employee on 26 May 2017.
 1,876,666 exercisable at \$0.08 expiring 27 June 2027 issued to employees on 27 June 2017.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related corporate body.

Shares issued as a result of the exercise of options

During the financial year and up to the date of this report, no options were exercised to acquire fully paid ordinary shares in the Company.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2017 is 9.39 years (2016: 2.882 years).

(e) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.079 - \$0.14 (2016: \$0.10 - \$0.175).

As the range of exercise prices is wide, refer to section (c) above for further information in assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

(f) Weighted average fair value

The weighted average fair value of options granted during the year was \$578,879 (2016: \$191,589). The total fair value of the options granted during the year is \$578,879 (2016: \$191,589).

(g) Option pricing model: ESOP and Investor

Equity-settled transactions

The fair value of the equity-settled share options granted under the ESOP is estimated at the date of grant using a Binomial Model taking into account the terms and conditions upon which the options were granted.

i) On 18 May 2017, 17,910,415 options were granted to employees at an exercise price of \$0.085 expiring on 18 May 2027.

The following table lists the inputs to the models used for the options granted to employees each year:

| | 2017 | 2016 |
|---|------------|----------|
| Dividend yield (%) | 0% | 0% |
| Expected volatility (%) | 90% | 100% |
| Risk-free interest rate (%) | 1.5% | 2.0% |
| Expected life of option | 3,650 | 1,096 |
| Option exercise price (\$) | \$0.085 | \$0.16 |
| Weighted average share price at grant date (\$) | \$0.075426 | \$0.0508 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

18. SHARE-BASED PAYMENT PLANS (continued)

At year end, 15,310,415 options were unvested.

ii) On 26 May 2017, 1,072,916 options were granted to employees at an exercise price of \$0.082 expiring on 26 May 2027.

The following table lists the inputs to the models used for the options granted to employees each year:

| | 2017 | 2016 |
|---|-------------|-------------|
| Dividend yield (%) | 0% | 0% |
| Expected volatility (%) | 90% | 100% |
| Risk-free interest rate (%) | 1.5% | 2.0% |
| Expected life of option | 3,650 | 1,096 |
| Option exercise price (\$) | \$0.082 | \$0.16 |
| Weighted average share price at grant date (\$) | \$0.070019 | \$0.0508 |

At year end, 1,072,916 options were unvested.

iii) On 27 June 2017, 1,876,666 options were granted to employees at an exercise price of \$0.08 expiring on 27 June 2027.

The following table lists the inputs to the models used for the options granted to employees each year:

| | 2017 | 2016 |
|---|-------------|-------------|
| Dividend yield (%) | 0% | 0% |
| Expected volatility (%) | 90% | 100% |
| Risk-free interest rate (%) | 1.5% | 2.0% |
| Expected life of option | 3,650 | 1,096 |
| Option exercise price (\$) | \$0.08 | \$0.16 |
| Weighted average share price at grant date (\$) | \$0.062108 | \$0.0508 |

At year end, 1,876,666 options were unvested.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

19. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segment and to assess its performance.

The Group's chief operating decision maker has been identified as the Chief Executive Officer.

The Chief Executive Officer reviews the financial and operating performance of the business primarily from a geographic perspective. On this basis, management have identified three reportable operating segments being the Asia Pacific region, the Americas including Canada, the EMEA region (Europe, Middle East and Africa). The Chief Executive Officer monitors the performance of all these segments separately. The Group does not operate in any other geographic location.

The Asia Pacific operating segment derives its revenues from the sale of Recell Devices.

The America operating segment derives its revenues from the sale of Recell Devices to Compassionate use cases at various hospitals that is paid by BARDA.

The EMEA operating segment derives its revenues from the sale of Recell Devices.

The Chief Executive Officer assesses the performance of the operating segments based on a measure of gross margin and net profit before tax.

The Group does not report its revenue and non-current assets by individual country as the operating segment is based on a group of countries and it would be inefficient to report at a country level.

Unallocated

The following items of income and expense and associated assets are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Corporate revenue
- Corporate charges
- Amortisation of intellectual property

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 30 June 2017 is as follows:

| | <i>Asia Pacific</i> \$ | <i>EMEA</i> \$ | <i>Americas</i> \$ | <i>Total</i> \$ |
|---|---------------------------|-------------------|-----------------------|---------------------|
| Year ended 30 June 2017 | | | | |
| Revenue | | | | |
| Sale of goods | 452,662 | 448,714 | 279,256 | 1,180,632 |
| Other revenues from external customers | 197,488 | 23,537 | 6,606,980 | 6,828,005 |
| Interest received | 116,559 | 1,218 | 5,932 | 123,709 |
| Total revenue and other income per consolidated statement of profit or loss and other comprehensive income | 766,709 | 473,469 | 6,892,168 | 8,132,346 |
| Segment net operating profit / (loss) before tax | (1,559,592) | (2,836,165) | (2,373,062) | (6,768,819) |
| Reconciliation of segment net result before tax to loss before income tax: | | | | |
| Corporate charges including share based expenses | | | | (5,790,442) |
| Loss before income tax | | | | (12,559,261) |

The Group's revenue in its Americas including Canada operating segment includes \$6,606,980 from BARDA, representing 97%.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

19. SEGMENT INFORMATION (Continued)

Revenue is attributed to geographic location based on the location of the customers. The percentages of external revenues from external customers that are attributable to foreign countries are as shown below:

| | 2017 % | 2016 % |
|----------------------|------------|------------|
| Australia | 9.4 | 15.4 |
| Other | 90.6 | 84.6 |
| Total revenue | 100 | 100 |

| | <i>Asia Pacific</i> \$ | <i>EMEA</i> \$ | <i>Americas</i> \$ | <i>Total</i> \$ |
|---|---------------------------|-------------------|-----------------------|--------------------|
| Year ended 30 June 2017 | | | | |
| Segment assets | | | | |
| Segment operating assets | 233,983 | 1,187,321 | 2,703,226 | 4,124,530 |
| Unallocated assets | | | | 3,156,011 |
| Total assets per the consolidated statement of financial position | | | | 7,280,541 |
| Segment liabilities | | | | |
| Segment operating liabilities | 153,502 | 468,996 | 1,743,657 | 2,366,155 |
| Unallocated liabilities | | | | 179,934 |
| Total liabilities per the consolidated statement of financial position | | | | 2,546,089 |

| | <i>Asia Pacific</i> \$ | <i>EMEA</i> \$ | <i>Americas</i> \$ | <i>Total</i> \$ |
|---|---------------------------|-------------------|-----------------------|---------------------|
| Year ended 30 June 2016 | | | | |
| Revenue | | | | |
| Sale of goods | 436,101 | 565,906 | - | 1,002,007 |
| Other revenues from external customers | 2,358 | 474 | 2,431,321 | 2,434,153 |
| Interest received | 109,789 | 492 | 83 | 110,364 |
| Total revenue and other income per consolidated statement of profit or loss and other comprehensive income | 548,248 | 566,872 | 2,431,405 | 3,546,524 |
| Segment net operating profit / (loss) before tax | (1,553,744) | (3,222,858) | (1,461,569) | (6,238,171) |
| Reconciliation of segment net result before tax to loss before income tax: | | | | |
| Corporate charges | | | | (5,005,672) |
| Loss before income tax | | | | (11,243,843) |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

19. SEGMENT INFORMATION (continued)

| | <i>Continuing Operations</i> | | | |
|---|------------------------------|-------------|-----------------|------------------|
| | <i>Asia Pacific</i> | <i>EMEA</i> | <i>Americas</i> | <i>Total</i> |
| | \$ | \$ | \$ | \$ |
| Year ended 30 June 2016 | | | | |
| Segment assets | | | | |
| Segment operating assets | 254,672 | 1,649,931 | 2,746,915 | 4,651,518 |
| Unallocated assets | | | | 3,951,391 |
| Total assets per the consolidated statement of financial position | | | | 8,602,909 |
| Segment liabilities | | | | |
| Segment operating liabilities | 163,992 | 622,146 | 727,167 | 1,513,305 |
| Unallocated liabilities | | | | 237,087 |
| Total liabilities per the consolidated statement of financial position | | | | 1,750,392 |

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

The Group manages its exposure to key financial risks, including interest rate and foreign currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rates and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, and liquidity risk is monitored through the development of future rolling cash flow forecasts. The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Finance Manager under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below including foreign currency and interest rate risk, credit allowances and future cash flow forecast projections.

At the reporting date, the Group had the following financial assets and liabilities:

| | 2017 | 2016 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Financial Assets | | |
| Cash and cash equivalents | 3,790,491 | 4,171,879 |
| Trade and other receivables | 2,070,534 | 2,021,494 |
| Financial Liabilities | | |
| Trade and other payables | (2,363,734) | (1,542,139) |
| Provisions | (182,355) | (208,253) |
| Net | 3,314,936 | 4,442,981 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to short-term deposits with a floating interest rate.

At reporting date, the Group had the following mix of financial assets exposed to Australian Variable interest rate risk:

| | 2017 \$ | 2016 \$ |
|---------------------------|------------------|------------------|
| Financial Assets | | |
| Cash and Cash Equivalents | 3,790,491 | 4,171,879 |
| Net exposure | 3,790,491 | 4,171,879 |

The Group's policy is to manage its finance costs and revenue using a mix of fixed and variable interest rates depending on the forecast funding requirements of the Group. At 30 June 2017, \$0 of the Group's cash balances were at a fixed rate of interest (2016: 2.8%).

The following sensitivity analysis is based on the interest rate exposures in existence at the reporting date. The 1% sensitivity is based on reasonably possible changes over a financial year, using the observed range of historical rates for the preceding 2 year period.

At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

| Judgements of reasonably possible movements: | Post Tax Loss (Higher)/Lower | | Equity Higher/(Lower) | |
|---|---|------------|----------------------------------|------------|
| | 2017 \$ | 2016 \$ | 2017 \$ | 2016 \$ |
| +1% (100 basis points) | 37,905 | 41,719 | 37,905 | 41,719 |
| -1% (100 basis points) | (37,905) | (41,719) | (37,905) | (41,719) |

The movements in loss are due to higher/lower finance revenue from variable rate cash balances.

Foreign currency risk

The Group has investment operations in Europe and the United States. The Group's consolidated statement of financial position can be affected by movements in exchange rates and the Group does not currently hedge this exposure.

The Group also has transactional currency exposures. Such exposures arise from sales or purchases by an operating entity in currencies other than the functional currency.

Approximately 94% (2016: 87%) of the Group's sales are denominated in currencies other than the functional currency, whilst approximately 60% (2016: 51%) of costs are denominated in the functional currency.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 30 June 2017, the Group had the following exposure to foreign currencies:

| | 2017 \$ | 2016 \$ |
|------------------------------|------------------|------------------|
| Financial Assets | | |
| Cash and cash equivalents | 1,726,568 | 1,914,468 |
| Trade and other receivables | 926,501 | 941,066 |
| | 2,653,069 | 2,855,534 |
| Financial Liabilities | | |
| Trade and other payables | (1,209,902) | (1,179,045) |
| Net exposure | 1,443,167 | 1,676,489 |

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date. The percentage sensitivity is based on reasonably possible changes over a financial year, using the observed range of historical rates for the preceding 2 year period.

At 30 June 2017, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgments of reasonably possible movements:

| | Post Tax Loss (Higher)/Lower | | Equity Higher/(Lower) | |
|---------------|---|------------|----------------------------------|------------|
| | 2017 \$ | 2016 \$ | 2017 \$ | 2016 \$ |
| AUD/GBP + 10% | (62,731) | (74,765) | (62,731) | (74,765) |
| AUD/GBP – 5% | 31,366 | 37,383 | 31,366 | 37,383 |
| AUD/USD +10% | (67,791) | (70,732) | (67,791) | (70,732) |
| AUD/USD – 5% | 33,895 | 35,366 | 33,895 | 35,366 |
| AUD/EUR +10% | (13,795) | (22,151) | (13,795) | (22,151) |
| AUD/EUR – 5% | 6,897 | 11,076 | 6,897 | 11,076 |

Management believe the reporting date risk exposures are representative of the risk exposure inherent in the financial instruments. The Group has no processes and objectives for managing foreign exchange risks.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant.

A significant balance of cash is held in National Australia Bank. This is a highly rated institution which effectively manages its risk profile and therefore the group considers its cash balances to be secure.

There is no concentration of debt amongst the creditors.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities. For all obligations, the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017.

The remaining contractual maturities of the Group's financial liabilities are:

| | 2017 \$ | 2016 \$ |
|------------------|------------------|------------------|
| 6 months or less | 2,363,734 | 1,542,139 |
| 6-12 months | - | - |
| 1-3 years | - | - |
| | 2,363,734 | 1,542,139 |

Maturity analysis of financial assets and liabilities are based on management's expectation.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our on-going operations such as property, plant, equipment and investments in working capital including inventories and trade receivables. These assets are considered in the Group's overall liquidity risk.

| Year ended 30 June 2017 | < 6 months \$ | 6-12 months \$ | 1-5 years \$ | Total \$ |
|------------------------------|------------------|-------------------|-----------------|------------------|
| Financial Assets | | | | |
| Cash & cash equivalents | 3,790,491 | - | - | 3,790,491 |
| Trade & other receivables | 2,070,534 | - | - | 2,070,534 |
| | 5,861,025 | - | - | 5,861,025 |
| Financial Liabilities | | | | |
| Trade & other payables | (2,363,734) | - | - | (2,363,734) |
| Net maturity | 3,497,291 | - | - | 3,497,291 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

| Year ended 30 June 2016 | < 6 months \$ | 6-12 months \$ | 1-5 years \$ | Total \$ |
|--------------------------------|-----------------------------|---------------------------|-------------------------|---------------------|
| Financial Assets | | | | |
| Cash & cash equivalents | 4,171,879 | - | - | 4,171,879 |
| Trade & other receivables | 2,021,494 | - | - | 2,021,494 |
| | 6,193,373 | - | - | 6,193,373 |
| Financial Liabilities | | | | |
| Trade & other payables | (1,542,139) | - | - | (1,542,139) |
| Net maturity | 4,651,234 | - | - | 4,651,234 |

Fair Value

The methods for estimating fair value are outlined in the relevant notes to the consolidated financial statements.

Fair Value (Volatility of Share Price Risk)

Volatility of share price through fair value risk is the risk that the Group is exposed to in the fair valuation of the financial liabilities. Volatility of share price is the tendency of the share price to change over time.

Changes in the volatility of the share price will affect the fair value of the financial liabilities. The more volatile the share price is, the higher the fair value placed on the financial liabilities. Conversely, the less volatile the share price is, the lower the fair value placed on the convertible note.

Changes in the interest rates and exchange rates would not have a material effect on the valuation of the financial liabilities at fair value. As such, no change in these two variables has been taken into account when considering the sensitivity of changes in the fair value of the convertible notes. The Group does not have any policy in place to manage share price volatility.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

21. COMMITMENTS AND CONTINGENCIES

Finance Leases as Lessee

The Group's furniture and IT equipment are held under lease arrangements. As of 30 June 2017, the net carrying amount of the furniture and IT equipment held under lease arrangements is \$66,408.

The Group's finance lease liabilities, which are secured by the related assets held under finance leases are classified as under:

| | 2017 | | | |
|----------------------------------|----------------|----------------|---------------------------|----------------|
| Finance Lease liabilities | | | | |
| Current: | 110,417 | | | |
| Non-current: | <u>192,894</u> | | | |
| | 303,311 | | | |
| | | | Minimum Lease Payment Due | |
| | Within 1 Year | 1-5 Years | After 5 Years | Total |
| 30 June 2017 | | | | |
| Lease Payments | 194,111 | 346,103 | - | 540,214 |
| Finance charges | (83,694) | (153,209) | - | (236,903) |
| Net Present Values | <u>110,417</u> | <u>192,894</u> | <u>-</u> | <u>303,311</u> |

Operating Leases as Lessee

The Group leases space under operating leases. Future minimum lease payments as of 30 June 2017 are as follows:

| | Minimum Lease Payment Due | | | |
|--------------|---------------------------|-----------|---------------|-----------|
| | Within 1 Year | 1-5 Years | After 5 Years | Total |
| 30 June 2017 | 344,431 | 879,079 | - | 1,223,509 |
| 30 June 2016 | 190,706 | 438,554 | - | 629,260 |

22. AUDITORS' REMUNERATION

The auditors of Avita Medical Limited and its subsidiaries are Grant Thornton Audit Pty Ltd.

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$ | \$ |
| <i>Amounts received or due and receivable by Grant Thornton Audit Pty Ltd for:</i> | | |
| An audit or review of the financial report of the Company and any other entity in the Group | 91,520 | 81,000 |
| <i>Amounts received or due and receivable by other Grant Thornton offices for:</i> | | |
| An audit or review of the financial report of the subsidiaries of the Parent | 28,846 | 50,586 |
| Other services in relation to the entity and any other entity in the Group | | |
| - Taxation advice | 62,635 | 30,397 |
| | 183,001 | 161,983 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

23. PARENT ENTITY INFORMATION

| Information relating to Avita Medical Limited: | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| Current assets | 3,156,011 | 3,951,392 |
| Total assets | 3,156,011 | 3,951,392 |
| Current liabilities | (179,934) | (237,087) |
| Total liabilities | (179,934) | (237,087) |
| Net assets | 2,976,077 | 3,714,305 |
| Issued capital | 134,806,022 | 126,264,372 |
| Accumulated losses | (135,034,498) | (124,300,854) |
| Share option reserves | 3,204,553 | 1,750,787 |
| Total shareholders' equity | 2,976,077 | 3,714,305 |
| Loss of parent entity after income tax | (4,741,808) | (1,808,836) |
| Total comprehensive loss of the parent entity | (4,741,808) | (1,808,836) |
| Details of any contingent liabilities of the parent entity | None | None |
| Details of any contractual commitments by the parent entity for the acquisition of property, plant and equipment | None | None |

During the period, the parent entity impaired \$5,983,551 (2016: \$nil) of intercompany loans to subsidiaries and investments in subsidiaries. The impairment charges are eliminated on consolidation.

24. DEED OF CROSS GUARANTEE

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Avita Medical Limited
C3 Operations Pty Ltd
Visiomed Group Pty Ltd
Infamed Pty Limited

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross guarantee that are controlled by Avita Medical Limited, they also represent the 'Extended Closed Group'.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

24. DEED OF CROSS GUARANTEE (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the 'Closed Group'.

| Continuing operations | 2017 | 2016 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Sale of goods | 452,662 | 436,101 |
| Other revenue | 129,958 | 109,789 |
| Revenue | 582,620 | 545,890 |
| Cost of sales | (243,708) | (210,200) |
| Gross profit | 338,912 | 335,690 |
| Other income | 184,088 | 2,226,911 |
| Operating costs | | |
| Administrative expenses | (3,085,503) | (3,782,183) |
| Research and development expenses | (2,365,647) | (2,136,849) |
| Impairment of inter-company loans | (5,983,551) | (7,515,021) |
| Sales and marketing expenses | (834,600) | (978,429) |
| Finance costs | (41) | (3) |
| Loss from continuing operations before income tax | (11,746,342) | (11,849,884) |
| Income tax benefit | 1,048,634 | 972,282 |
| Profit from discontinued operations | - | 269,394 |
| Total comprehensive loss for the period | (10,697,708) | (10,608,208) |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

24. DEED OF CROSS GUARANTEE (continued)

| | 2017 | 2016 |
|--------------------------------------|------------------|------------------|
| | \$ | \$ |
| Current Assets | | |
| Cash and cash equivalents | 2,063,923 | 2,257,412 |
| Trade and other receivables | 1,144,033 | 1,072,728 |
| Prepayments | 155,112 | 106,962 |
| Inventories | 26,925 | 43,486 |
| Investment | - | 719,153 |
| Total Current Assets | 3,389,993 | 4,199,742 |
| Non-Current Assets | | |
| Plant & equipment | 6,625 | 6,325 |
| Intercompany loans | - | - |
| Total Non-Current Assets | 6,625 | 6,325 |
| TOTAL ASSETS | 3,396,618 | 4,206,067 |
| LIABILITIES | | |
| Current Liabilities | | |
| Trade and other payables | 248,497 | 304,018 |
| Provisions | 84,938 | 97,061 |
| Total Current Liabilities | 333,435 | 401,079 |
| Non-Current Liabilities | | |
| Intercompany loans | - | - |
| Total Non-Current Liabilities | - | - |
| TOTAL LIABILITIES | 333,435 | 401,079 |
| NET ASSETS | 3,063,183 | 3,804,988 |
| EQUITY | | |
| Contributed equity | 134,806,022 | 126,264,372 |
| Accumulated losses | (134,977,180) | (124,239,969) |
| Reserves | 3,234,341 | 1,780,585 |
| TOTAL EQUITY | 3,063,183 | 3,804,988 |

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

25. EVENTS AFTER THE REPORTING DATE

No subsequent events have occurred since the Balance Sheet Date which require disclosure in this report.

**AVITA MEDICAL LIMITED
DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Avita Medical Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2017.

On behalf of the Board

A handwritten signature in blue ink, appearing to read 'Lou Panaccio', with a long horizontal stroke extending to the right.

Lou Panaccio

Chairman

Dated: 29 September 2017

Melbourne, Victoria

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Independent Auditor's Report to the Members of Avita Medical Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Avita Medical Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Avita Medical Limited, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Liability limited by a scheme approved under Professional Standards Legislation.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(y) in the financial statements, which indicates that the Company incurred a net loss of \$11,859,578 during the year ended 30 June 2017, and cash outflows from operating activities of \$8,557,524. These events or conditions, along with other matters as set forth in Note 2(y), indicate that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| Revenues – BARDA Income: Note 4 Avita has an ongoing contract with the US Government to receive a grant for expenses incurred in undertaking clinical trials and in obtaining approval of their product by the Federal Drug Authority. The contract is worth approximately \$54M USD over the next 5 years. The process to measure the amount of revenue to recognise in the financial statements, including the determination of the appropriate timing of recognition, involves significant management judgement. Pressure to perform against market expectation provides incentive to distort revenue recognition. This area is a key audit matter due to the degree of management judgement required to determine the appropriate timing and amount of revenue to be recognised. | Our procedures included, amongst others: <ul style="list-style-type: none"> • understanding controls over the process to enter into, record and process revenue from the specific long-term contract; • challenging management's judgements regarding timing and recoverability of revenue; • confirming the terms of these contracts directly with the grantor; • testing all related expenditure invoices to ensure criteria met in line with AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>, which includes sighting third party contractor invoices, and agreeing terms to contract; • testing related journal entries recorded by management; and • determining the appropriateness of the related disclosures within the financial statements. |
| Revenues – Product Sales: Note 4 The Group recognises revenue on the sale of products when the risk and rewards have transferred from Avita Medical Limited to the customer in accordance with AASB 118 <i>Revenue</i> . The process to measure the amount of revenue to recognise in the financial statements, including the determination of the appropriate timing of recognition, involves management judgement. There is pressure to perform against market expectation provides incentive to distort revenue recognition. This area is a key audit matter due to Revenue from Product sales is the largest item in the Statement of Profit or Loss and is a key audit matter given the fraud risk due to pressure and incentive to misstate revenues. | Our procedures included, amongst others: <ul style="list-style-type: none"> • understanding controls over the process to enter into, record and process revenue from product sales; • performing a sample of invoices and agreeing to supporting documentation to ensure transactions were recorded in the appropriate period; • sampling the product sales revenue for the period and agreeing to invoices, shipping documents, and cash payments or accounts receivable; • testing manual journal entries recorded by management to product sales accounts to determine if transactions meet the revenue recognition criteria under AASB 118 <i>Revenue</i>; • analysing product sales by month to identify trends and corroborating management's explanations of any outliers; and • determining the appropriateness of the related disclosures within the financial statements. |

| Income tax benefit - Research & Development Claim: Note 6 | |
|--|--|
| <p>Under the research and development (R&D) tax incentive scheme, the Group receives a 43.5% refundable tax offset (2016: 45%) of eligible expenditure if its turnover is less than \$20 million per annum, provided it is not controlled by income tax exempt entities. An R&D plan is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash. Management performed a detailed review of the Group's total R&D expenditure to estimate the refundable tax offset receivable under the R&D tax incentive legislation. As at 30 June 2017, a receivable of \$1,048,634 has been recorded.</p> <p>Judgment is involved and interpretation as per eligible expenditures. Management has an incentive to classify expenditures as R&D to receive tax incentive scheme.</p> <p>This area is a key audit matter due to the size of the accrual and the degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Comparing the nature of the R&D expenditure included in the current year estimate to the prior year claim; • Utilising an internal R&D tax specialist to review the expenditure methodology employed by management for consistency with the R&D tax offset rules; • Considering the nature of the expenditure against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria; • Comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger; • Inspecting copies of relevant correspondence with AusIndustry and the ATO related to historic claims; and; • Assessing the appropriateness of financial statement disclosures. |

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the Financial Report

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

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



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Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 19 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Avita Medical Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M P Hingeley
Partner - Audit & Assurance

Perth, 29 September 2017