ASX | News Release
30 January 2016

CEO Shareholder Letter and Quarterly Report

Dear Shareholder,

As we conclude another quarter, I would like to bring you, our owners, up-to-date with some key events in recent months. Much of our fundamental activity has been in the US, where our FDA approval trial is nearing completion, and we remain on track for submitting our Premarket Authorization dossier to the FDA. We are also delivering on the key terms of our USD$61.9m contract with the US Biomedical Advanced Research and Development Authority (BARDA), the US Federal disaster preparedness agency. And while attending scientific and medical forums, we have detected genuine excitement amongst the various US burns surgeons who have used ReCell™ to superb effect under clinical and Compassionate Use settings. There is a sense within our team of a real anticipation at key US burns centers about using the device should we get FDA approval. So all these elements have informed our view that success in the US Market will be a value catalyst for the Company. Achieving this is our key strategic focus, and so that is where we are allocating resources, quite sensibly given the support provided under the BARDA contract.

Our US Team is Strengthened

Momentum has been maintained in our recruitment drive to build our team in California. During the last quarter, we have been delighted to recruit several more personnel in the fields of finance, clinical education, regulatory, training and quality. All this talent is needed to ensure we achieve our strategic goals in the US in 2017. Financial support from BARDA has been crucial in funding this increased headcount to execute on the necessary tasks, and towards this, the agency is being invoiced monthly.

The natural outcome of having a larger team – now totaling 21 in the US -- is that we outgrew our Northridge office. So Avita Medical Americas has moved to Valencia, in the northerly adjacent Santa Clarita Valley. The new facility has enough space to accommodate additional staff as we keep building out the team. Good work will be done in Valencia.

How we can save Lives, and Money

We know that our medical devices provide a powerful, safe and effective approach to trigger the healing of burns, chronic wounds and other skin conditions. But we have also come to understand that our robust clinical dossier is not enough to convince all parties involved in the sales process. We must also show how our approach can deliver real savings to any medical institutions that adopt it. In the last

quarter, the team have been working intensively with QuintilesIMS™, a global leader in Health Economics, to resolve a strategy for the US burns sector. Within the project, they are reviewing data generated at a US hospital, which showed a reduction in length of stay by 42% amongst their Compassionate Use cohort compared to age-matched averages from their database. This mirrors similar data generated in the UK, and we are confident that at the end of this process with QuintilesIMS™ we will have a very strong narrative on how we can add great value to any US burns center that deploys our devices.

In tandem, we have also recruited a Reimbursement Manager, who will be focused on ensuring that we have the right structure in place amongst payers when we come to launch in the US. And in the last quarter we also pushed ahead with the implementation in the US of a clinical education program, also funded by BARDA.

So we are gearing up for the US launch, and the more thorough approach being implemented is based on the learnings and experiences derived from other markets, in which the clinical and safety aspects have all been well proven. By adding these other necessary elements – Health Economics, Reimbursement and robust training – we will have a strong platform for success in the world's largest healthcare market.

Diabetic Foot Ulcer Trial Commences

In the UK, we have started enrolling our first patients in a new indication area for Diabetic Foot Ulcers (DFU). The commercial rationale needs little explanation: it is estimated that 415 million people are living with diabetes in the world, which is estimated to be 1 in 11 of the world's adult population. Some 46% of people with diabetes are undiagnosed. The figure is expected to rise to 642 million people living with diabetes worldwide by 2040[1]. Given that about 15% of this patient group can expect to develop foot ulcers during their lifetimes, it is clear that this will be a large addressable market.

The background to our interest emerged from early proof of concept work in Italy, which showed that applying our suspension of cells could support wound closure. This was further supported by work conducted in China. The success of our randomised trial in the UK on 52 Venous Leg Ulcer patients gave us assurance that applying our skin cell suspension to other chronic wounds could be of benefit.

Our trial is being run at three leading UK diabetes centres; Manchester Royal Infirmary, and two London hospitals; King's College and Northwick Park. We intend to enroll up to 24 patients, each of whom will be monitored for 24 weeks post-treatment with ReGenerCell™. The intent of the trial is to evaluate safety and effectiveness of our novel approach. By applying a suspension of cells to a DFU, we hope to determine if our treatment can be used as an adjunct to standard of care treatments, such as debridement, cleansing, dressings, and offloading. So, we will have primary outcome measures of evaluating the incidence of healing and rate of wound closure, but the study will also explore patient

[1] International Diabetes Federation, IDF Diabetes Atlas 7th Edition http://www.diabetesatlas.org/across-the-globe.html

and physician satisfaction, and inform us on Health Economic benefits too. We hope to have this fully enrolled in coming months, and will keep you all posted as we move ahead with this very promising new trial.

Market and Financial Updates

While our strategic focus is on the US market, we are still pushing ahead with selling our devices in various markets in which we have presence, with good progress in the Asia-Pacific region. In China, leading hospitals in main cities have now completed their clinical evaluations in the field of burns, and we are pleased to report that the medical professionals have seen positive results. Ordering has now commenced, in modest initial quantities, as we build up our collateral with key opinion leaders in the burns space in this potentially lucrative market. Our activity resulted in a year over year increase in China of 122%, and we fully intend to build on this base. Sales also increased in Australia/NZ by 21%.

In Europe, the Middle East and Africa, there was a more mixed story. New markets, such as South Africa, showed positive traction, but we have had to review our distributors in some European markets due to their sales performance. In Germany and the UK, we will again deploy a direct sales model, which we anticipate will give us greater clarity in the sales narrative and process.

Overall receipts from customers were $155,000 in the quarter, which represents a decrease of $126,000 as compared with the previous quarter, as we transitioned our sales model from distributor to direct in some markets. This was offset by receipts from BARDA of $1.645m as reimbursement for activities stipulated under our USD$61.9m contract; a $301,000 (22.4%) increase compared with the previous quarter ending 30 September 2016.

Total operating expenses in the quarter decreased by $257,000 from the previous quarter, a 6% decrease. The December quarter net cash outflows of $2.26m were an improvement over last quarter by 10.5% ($2.53m) and 7.8% as compared to the same quarter previous year ($2.45m) and are in-line with Company expectations for both the quarter and YTD. Total cash and cash equivalents held by Avita at the end of the December quarter were $8.4 million.

In all our interactions with various parties, we have been explaining that 2017 will be a pivotal year for Avita. We have significant value catalysts as declared milestones: the march towards FDA approval and achieving BARDA's first stockpile order valued at USD$8m. My talented and growing team will be executing on these strategic goals, which we are sure will bring value to our shareholder base.

Yours faithfully

ADAM KELLIHER
Chief Executive Officer

ABOUT AVITA MEDICAL LIMITED

Avita Medical 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, and a pivotal U.S. approval trial is underway. ReGenerCell™ is CE-marked for Europe and is not available for sale in the United States. To learn more, visit www.avitamedical.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This letter includes forward-looking statements. These forward-looking statements generally can be identified by the use of words such as "anticipate," "expect," "intend," "could," "may," "will," "believe," "estimate," "look forward," "forecast," "goal," "target," "project," "continue," "outlook," "guidance," "future," other words of similar meaning and the use of future dates. Forward-looking statements in this letter include, but are not limited to, statements concerning, among other things, our ongoing clinical trials and product development activities, regulatory approval of our products, the potential for future growth in our business, and our ability to achieve our key strategic, operational and financial goal. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Each forward-looking statement contained in this letter is subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statement. Applicable risks and uncertainties include, among others, the timing of regulatory approvals of our products; physician acceptance, endorsement, and use of our products; failure to achieve the anticipated benefits from approval of our products; the effect of regulatory actions; product liability claims; risks associated with international operations and expansion; and other business effects, including the effects of industry, economic or political conditions outside of the company's control. Investors should not place considerable reliance on the forward-looking statements contained in this letter. Investors are encouraged to read our publicly available filings for a discussion of these and other risks and uncertainties. The forward-looking statements in this letter speak only as of the date of this release, and we undertake no obligation to update or revise any of these statements.

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FOR FURTHER INFORMATION:

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+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Avita Medical Limited

ABN	**Quarter ended ("current quarter")**
28 058 466 523	31 December 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	155	436
1.1a	Receipts from BARDA	1,645	2,989
1.2	Payments for		
	(a) research and development	(384)	(1,382)
	(b) product manufacturing and operating costs	(691)	(1,040)
	(c) advertising and marketing	(218)	(714)
	(d) leased assets	(86)	(143)
	(e) staff costs	(1,733)	(3,378)
	(f) administration and corporate costs	(992)	(1,809)
1.3	Dividends received (see note 3)		
1.4	Interest received	42	79
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)	1	175
1.9	**Net cash from / (used in) operating activities**	**(2,261)**	**(4,787)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(46)	(81)
	(b) businesses (see item 10)		
	(c) investments		

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
	(d) intellectual property		
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments		628
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities	26	5
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	**Net cash from / (used in) investing activities**	**(20)**	**552**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares		8,508
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	**Net cash from / (used in) financing activities**	**-**	**8,508**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of quarter/year to date	10,642	4,172
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,261)	(4,787)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(20)	552
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	8,508

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.5	Effect of movement in exchange rates on cash held	28	(56)
4.6	**Cash and cash equivalents at end of quarter**	**8,389**	**8,389**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	743	390
5.2	Call deposits	7,646	10,252
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**8,389**	**10,642**

6.	Payments to directors of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	(126)
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

6.1 Directors fees (95k), Clinical Advisory Board fees (10k) and Bioscience Consultancy (21k)

7.	Payments to related entities of the entity and their associates	Current quarter $A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
8.1	Loan facilities		
8.2	Credit standby arrangements		
8.3	Other (please specify)		

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Research and development	575
9.2	Product manufacturing and operating costs	857
9.3	Advertising and marketing	298
9.4	Leased assets	168
9.5	Staff costs	2,042
9.6	Administration and corporate costs	499
9.7	Other (provide details if material)	
9.8	**Total estimated cash outflows**	**4,439**

10.	**Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)**	**Acquisitions**	**Disposals**
10.1	Name of entity		
10.2	Place of incorporation or registration		
10.3	Consideration for acquisition or disposal		
10.4	Total net assets		
10.5	Nature of business		

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Gabriel Chiappini, Company Secretary

30 January 2017

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.