

AVITA MEDICAL LIMITED

A.B.N. 28 058 466 523

FULL FINANCIAL REPORT

For the year ended 30 June 2018

Corporate Information
ABN 28 058 466 523

This annual report covers the consolidated entity comprising Avita Medical Limited (the Parent Company) and its controlled subsidiaries (the Group). The Parent Company's functional and 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. The Directors' Report does not form part of the financial report.

Directors

Mr Lou Panaccio (Non-Executive 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)
Professor Suzanne Crowe (Non-Executive Director)

Company Secretaries

Mr Mark Licciardo and Ms Kate Goland
of Mertons Corporate Services Pty Ltd

Registered Office

c/o Mertons Corporate Services Pty Ltd
Level 7
330 Collins Street
Melbourne VIC 3000, Australia

Principal Place of Business

28159 Avenue Stanford, Suite 220
Valencia, CA 91355
USA

Share Register

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth, WA 6000 Australia

Solicitors

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

Auditor

Grant Thornton Audit Pty Ltd
Level 43 Central Park, 152-158 St Georges Terrace
Perth, WA 6000 Australia

Principal Bankers

National Australia Bank Limited
1238 Hay Street
West Perth, WA 6000 Australia

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 2018 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

(Non-Executive 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 20 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, Health Networks Australia Group 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 (ASX)* (Appointed June 2005)
- Genera Biosystems Limited (ASX)* (Appointed 25 November 2010)
- Rhythm Biosciences Limited (ASX)* (Appointed 1 August 2017)

* denotes current directorship

Dr Michael Perry

(Executive Director)

Dr Perry was appointed to the Board on 6 February 2013 and currently serves as Chief Executive Officer of the Company. From 2016 – 2017, he served 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 (NASDAQ)* (Appointed December 2011)
- AmpliPhi Biosciences Corporation Inc (NYSE)* (Appointed November 2005)
- BioScience Managers Pty Ltd* (Appointed October 2017)
- Gamida Cell Ltd* (Appointed June 2017)

* 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, Chairman of International Bioscience Managers Ltd and Avena Therapeutics and Non-Executive Director of Rex Bionics Pty Ltd, SummatiX Ltd and Smart Matrix Ltd. During the past three years Mr Curnock Cook has also served as a director of the following other listed companies:

- Phylogica Limited (ASX) (Appointed March 2012, resigned April 2017)
- Adherium Ltd (ASX)* (Appointed July 2015)

AVITA MEDICAL LIMITED

DIRECTORS' REPORT (continued)

- AmpliPhi Biosciences Corporation Inc (NYSE)* (Appointed July 1995)
- Sea Dragon Limited (NZX)* (Alternate Director) (Appointed October 2012)

* 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 AmpliPhi Biosciences Corporation (NYSE) and Surface Pharmaceuticals, Inc. 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. During the past three years Mr Louis Drapeau has also served as a director of the following other listed companies:

- AmpliPhi Biosciences Corporation Inc (NYSE)* (Appointed March 2011)
- BIO-RAD Laboratories Inc (NYSE) (Appointed 2007, Resigned 2017)

* denotes current directorship

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

UK-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 currently CEO of LivaNova plc having previously served as Chief Operating Officer. Prior to that, he was 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, where he led a \$1.5 billion group of dental consumable companies. Earlier in his tenure, he was Group President of Kerr where he and his team focused on building a strong research and development pipeline while improving operational performance utilising the Denaher Business System. He has also 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. During the past three years Mr Damien McDonald has also served as a director of the following other listed companies:

- LivaNova plc (NASDAQ GS)* (Appointed January 2017)

* denotes current directorship

Professor Suzanne Crowe (AM) **(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 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 SECRETARIES

Mark Licciardo **(Joint Company Secretary)**

Mark Licciardo, (B Bus(Acc), GradDip CSP, FGIA, GAICD) was appointed as Joint Company Secretary on 19 March 2018. Mark is Managing Director of Mertons Corporate Services Pty Ltd (Mertons) which provides company secretarial and corporate governance consulting services to ASX listed and unlisted public and private companies. Prior to establishing Mertons, he was Company Secretary of the Transurban Group and Australian Foundation Investment Company Limited. He has also had an extensive commercial banking career with the Commonwealth Bank and State Bank Victoria. Mark is a former Chairman of the Governance Institute Australia (GIA) in Victoria and the Melbourne Fringe Festival, a fellow of GIA, the Institute of Chartered Secretaries (CIS), the Australian Institute of Company Directors (AICD) and former Non-Executive Director of iCar Asia Limited. Mr Licciardo is currently a Non-Executive Director of ASX listed Frontier Digital Ventures Limited and Mobilicom Limited as well as several other public and private companies.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

Kate Goland

(Joint Company Secretary)

Kate Goland, (CPA, GIA (Cert)) was appointed as Joint Company Secretary on 19 March 2018. Kate works with Mertons Corporate Services and is an experienced accounting and company secretarial professional. She has demonstrated expertise in supporting clients in meeting their corporate obligations and ASIC compliance requirements. She joined Mertons from BDO where she assisted clients within the company secretarial division. Kate is a current Company Secretary of various public and private companies. She has a strong understanding of corporate compliance matters.

Gabriel Chiappini BBus, CA, GAICD (former Company Secretary resigned on 19 March 2018)

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 18 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.

Gabriel currently manages his own consulting firm specialising in providing Director, company secretarial, corporate governance and investor relation services.

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	1,440,871	-
J Curnock Cook ¹	-	-
M Perry ¹	61,654	50,000,000 (RSU)
L Drapeau	33,938	-
D McDonald	578,402	-
S Crowe	106,910	-

1. 81,747,669 shares held in the name of One Funds Management Limited <Asia Pac Health Fund II A/C>, and 33,333,334 shares held in the name of BioScience Managers Translation Fund I at 30 June 2018 are managed and beneficially owned by BioScience Managers Pty Ltd of which Mr Curnock Cook is an officer and Mr Perry is a Director.

EARNINGS PER SHARE

Earnings per share for the current year was a loss of 1.77 cents per share compared to a loss of 1.72 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 934,312,458.

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 2018 was 55 (30 June 2017: 37).

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity focused on the Company's RECELL® System, the Premarket Approval (PMA) application filed with the U.S. Food and Drug Administration (FDA) to market the RECELL System in the U.S. for the treatment of severe burns, preparation for the planned U.S. launch of the RECELL System, limited commercial sales efforts in selected markets in which the RECELL System is approved for sale, and preparation for the further clinical development of the RECELL System.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

OPERATING AND FINANCIAL REVIEW

Group Overview

Avita Medical Limited and the Group is a regenerative medicine company with a technology platform designed to address unmet medical needs in patients with burns, chronic wounds, and aesthetics indications. The Group's patented and proprietary collection and application technology provides innovative treatment solutions derived from the regenerative properties of a patient's own skin. The Group's medical devices work by preparing a Regenerative Epidermal Suspension (RES™), an autologous suspension comprised of the patient's own skin cells and wound healing factors that are necessary to regenerate natural healthy epidermis. This autologous suspension is then sprayed onto the areas of the patient requiring treatment. Medical devices based on the RES technology are sold on a limited basis in certain regions of the world in which the products are approved for sale. In September 2017 the Group filed a PMA seeking approval to market the RECELL System in the United States. Subsequent to year end, on 20 September 2018, the FDA approved the Group's PMA application to market the RECELL System to treat patients with severe thermal burns in the U.S.

Operating Results for the Year

Sale of goods totaled \$1,652,161 for the year ended 30 June 2018, an increase of \$471,529 or 40% over the \$1,180,632 recognized during fiscal 2017. The largest increase in sale of goods occurred in Asia Pacific. Gross margins for the years ended 30 June 2018 and 2017 were consistent at 57%.

Other revenue totaled \$9,719,400 for the year ended 30 June 2018, an increase of \$2,767,686 or 40% over the \$6,951,714 recognized during fiscal 2017. As in prior periods, the majority of other revenue consisted of funding from the Biomedical Advanced Research and Development Authority (BARDA), under the Assistant Secretary for Preparedness and Response, within the U.S. Department of Health and Human Services, under ongoing USG Contract No. HHSO100201500028C. Under the BARDA contract, income of \$9,650,783 was recognized during the year ended 30 June 2018 compared to income of \$6,606,980 for fiscal 2017. Funding provided by BARDA during the year ended 30 June 2018 focused primarily on support of the U.S. PMA application for the RECELL System, the Continued Access and Compassionate Use programs which provide access to the RECELL System for U.S. patients while the PMA is under review, and development of a health economic model by a major health care information and technology provider to quantify the economic value of the RECELL System versus standard of care for the treatment of severe burns.

As the result of investments in commercial, manufacturing, leadership and system capabilities in preparation for the planned U.S. launch of the RECELL System and related research and development and corporate initiatives, operating expenses increased during the year ended 30 June 2018. Operating and administrative expenses totaled \$9,119,527 for the year ended 30 June 2018, an increase of \$2,006,508 or 28% over the \$7,113,019 recognized during fiscal 2017. Sales and marketing expenses totaled \$8,936,440, an increase of \$3,734,679 or 72% over the \$5,201,761 recognized during fiscal 2017. Clinical and research and development expenses totaled \$8,653,448 an increase of \$2,382,254 or 38% over the \$6,271,194 recognized during fiscal 2017. Total operating costs totaled \$28,571,158, an increase of \$8,385,187 or 42% over the \$20,185,971 recognized during fiscal 2017 and were in line with management expectations.

The net loss after tax benefit for the year ended 30 June 2018 was \$16,519,155, an increase of \$5,008,131 or 44% over \$11,511,024 recognized during fiscal 2017. The increase in net loss was driven by the higher operating costs described above, partially offset by the higher sale of goods and other revenue recognized during the year ended 30 June 2018. As the Company continues its preparations for the planned launch of the RECELL System in the U.S., operating expenses are expected to rise in future periods and will be offset in part by revenues under the BARDA contract as well as from sale of goods.

Review of Financial Condition

Capital Structure

During the year ended 30 June 2018, the Group completed a series of equity transactions. On 11 October 2017 the Company completed a placement of 100,982,978 fully paid ordinary shares at a price of \$0.045 per share raising gross proceeds of \$4,544,234 and incurring \$248,720 in capital raising expenses. On 7 November 2017 the Company completed a rights offering of 276,502,853 fully paid ordinary shares at a price of \$0.045 per share raising gross proceeds of \$12,442,628 and incurring capital raising costs of \$636,067. On 6 June 2018 the Company completed the first tranche of an institutional placement in which it issued 255,475,665 fully paid ordinary shares at a price of \$0.050 per share raising gross proceeds of \$12,773,783 and incurring \$777,285 in capital raising expenses.

Cash from Operations

Net cash outflows used in operations in the current year were \$16,372,024, an increase of \$7,814,500 or 91% compared to the \$8,557,524 used in operations in fiscal 2017.

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

There have been no significant changes in the state of affairs during the fiscal 2018 financial year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 20 September 2018, the FDA approved the Group's PMA application to market the RECELL System to treat patients with severe thermal burns in the U.S.

During the year ended 30 June 2018 the Group completed an institutional placement of shares to international and Australian institutional and sophisticated investors. The institutional placement included a second tranche totaling \$3.250 million of gross proceeds, contingent upon shareholder approval. Shareholder approval for Tranche 2 was received at an Extraordinary General Meeting held on 23 July 2018, and the net proceeds of \$3.041 million were received by the Group on 26 July 2018.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In anticipation of approval, AVITA Medical has undertaken substantial efforts to prepare for the U.S. market launch. These initiatives include the recruitment of sales and marketing leadership highly experienced in regenerative medicine and the treatment of burns, completion and assimilation of extensive direct market research, and establishment of pricing and reimbursement strategies and support infrastructure. With the receipt of PMA approval on 20 September 2018, the Company will finalize its product packaging and promotional materials to reflect the final approval details and will complete the recruitment and hiring of its field sales team. The Company expects to formally launch the RECELL System in the U.S. in the fourth calendar quarter of 2018. The primary focus of the Company during fiscal 2019 will be the U.S. launch of the RECELL system and the expansion of the clinical development of the RECELL system into additional indications beyond the treatment of burns.

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 29,131,664 unissued ordinary shares under options represented by:
1,110,000 exercisable at \$0.08 expiring 31 December 2018 issued to an employee on 1 July 2017.
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.
1,038,333 exercisable at \$0.08 expiring 27 June 2027 issued to employees on 27 June 2017.
4,000,000 exercisable at \$0.063 expiring 6 September 2027 issued to an employee on 6 September 2017.
4,000,000 exercisable at \$0.061 expiring 3 January 2028 issued to an employee on 3 January 2018.

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	Non-Executive 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
Dale Sander	Chief Financial Officer
Erin Liberto	Chief Commercialization Officer
Timothy Rooney	Chief Administrative Officer
Andrew Quick	SVP, Clinical Development

The Company was pleased to announce on 31 August 2017 and 5 December 2017 the recruitment of Dale Sander as Chief Financial Officer and Erin Liberto as Chief Commercial Officer, respectively. Further, on 5 December 2017, the Company appointed of Timothy Rooney as Chief Administrative 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)

In prior years we identified a number of key areas for additional emphasis 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 2017 Annual General Meeting ("AGM")

At the 2017 AGM, 79.95% of the votes received supported the adoption of remuneration report for the year ended 30 June 2017. 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 fiscal year 2018 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)
2018	1,652,161	(17,734,436)	(17,877,983)	(16,519,155)	(1.77)	6.9
2017	1,180,632	(12,543,267)	(12,682,970)	(11,511,024)	(1.72)	6.9
2016	1,002,007	(8,776,515)	(8,860,239)	(7,778,015)	(1.56)	8.2
2015	2,750,176	(7,743,958)	(7,806,582)	(7,107,497)	(2.01)	6.4
2014	2,683,133	(6,755,728)	(6,819,439)	(5,147,391)	(1.58)	8.8

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

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.

The main focus of executives and of performance assessment for Fiscal 2018 was related to the U.S. PMA application for the RECELL System, related activities required to support FDA approval, and preparation for the planned market launch of the RECELL System in the U.S. For the upcoming year, the primary focus will be the successful market launch of the RECELL System in the U.S. and advancement of the Company's pipeline. 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 2018 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.

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 number 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 2018 financial year there were no benefits paid in kind (2017: 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.

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 2018 financial year

In addition to the before mentioned CEO Long Term Incentive Plan (Operating and Financial Review), 9,110,000 share options were granted during FY18. 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
CFO	Mr Dale Sander	Open ended contract	6-month notice period	6 months
CAO	Mr Timothy Rooney	Open ended contract	12-month notice period	12 months
CCO	Ms Erin Liberto	Open ended contract	6-month notice period	6 months
SVP, Clinical Development	Mr Andrew Quick	Open ended contract	3-month notice period	Payment in lieu of notice only, no other benefits specified
Non-Executive 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
	Professor 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 2018

	Short-term Benefits			Post-employment Benefits	Equity-settled Share-based Payments		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	Pension and superannuation	Shares/ Units	Options/ Rights		Non-salary Cash based Incentives	Shares/ Units	
	\$	\$	\$	\$	\$	\$	\$	%	%	%
Non-Executive Directors										
L Panaccio – Non-Executive Chairman	58,758	-	-	7,481	19,992	-	86,231	0%	0%	77%
J Curnock Cook	61,040	-	-	-	-	-	61,040	0%	0%	100%
L Drapeau	56,213	-	-	-	-	-	56,213	0%	0%	100%
D McDonald	-	-	-	-	56,549	-	56,549	0%	0%	0%
S Crowe	45,989	-	-	5,296	9,755	-	61,040	0%	0%	84%
Sub-total Non-Executive Directors	222,000	-	-	12,777	86,296	-	321,073			
Other Key Management Personnel & Executives										
M Perry – CEO	662,022	327,337	73,271	-	701,408	-	1,764,038	19%	40%	42%
A Kelliher – CEO (resigned 1 June 2017)	372,149	87,860	24,004	15,905	-	-	499,917	0%	0%	82%
D Sander – CFO	236,156	63,395	40,900	8,226	-	89,384	438,061	0%	0%	65%
T Rooney – CAO	406,791	97,143	41,670	20,808	-	367,384	933,797	0%	0%	50%
T Barring – COO (resigned 16 June 2017)	-	-	-	-	-	34,474	34,474	0%	0%	0%
E Liberto – CCO	311,938	226,601	63,066	12,891	-	123,231	737,728	0%	0%	53%
A Quick – SVP, Clinical Development	341,138	67,888	52,802	19,905	-	194,191	675,924	0%	0%	61%
G Chiappini – Company Secretary (resigned March 2018)	52,010	-	-	-	-	-	52,010	0%	0%	100%
Sub-total executive KMP & Executives	2,382,203	870,224	295,713	77,735	701,408	808,664	5,135,948			
Totals	2,604,203	870,224	295,713	90,512	787,704	808,664	5,457,021			

On the 30 November 2017, 50,000,000 LTI's were issued to Dr Michael Perry based on the following milestones:

1. Tenure – total of 16,666,666 LTIs issued but to vest over the three-year period commencing 1 July 2017;
2. Company Share Price – total of 16,666,666 LTIs issued but to vest in three equal tranches subject to the Volume Weighted Average Price (VWAP) of Company share price (as at close of trade on the ASX on relevant date) achieving multiples of 2x, 3x and 4x the Company's share price as at shareholder approval; and
3. Milestone performance – total of 16,666,668 LTIs issued, but to vest in two equal tranches with one tranche to vest upon the achievement of the following milestones:
 - a. FDA PMA approval of RECELL for burns
 - b. Initial BARDA procurement under CLIN2 of the BARDA Contract

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Remuneration paid as a cash bonus is determined by % of the employee's annual salary, linked to individual performance through achievement of KPI's.

Table 2: Remuneration for the year ended 30 June 2017

	Short-term Benefits				Post-employment Benefits	Equity-settled Share-based Payments		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	Shares/ Units	Options/ Rights		Non-salary Cash based Incentives	Shares/ Units	
	\$	\$	\$	\$	\$	\$	\$	\$	%	%	%
Non-Executive Directors											
L Panaccio – Non-Executive Chairman	78,750	-	-	-	7,481	4,998	-	91,229	0%	0%	100%
J Curnock Cook	61,040	-	-	-	-	-	-	61,040	0%	0%	100%
L Drapeau	57,799	-	-	-	-	3,000	-	60,799	0%	0%	100%
D McDonald	57,799	-	-	-	-	10,900	-	68,699	0%	0%	100%
S Crowe	55,744	-	-	-	5,296	2,440	-	63,480	0%	0%	100%
Sub-total Non-Executive Directors	311,132	-	-	-	12,777	21,338	-	345,247			
Other Key Management Personnel & Executives											
M Perry – CEO (appointed 1 June 2017)	51,494	-	2,049	-	-	5,450	-	58,993	0%	0%	91%
A Kelliher – CEO (resigned 1 June 2017)	479,323	87,025	25,129	-	32,346	1,189,021	-	1,812,844	0%	0%	30%
T Rooney – CFO	419,675	-	47,847	-	21,069	-	145,836	634,427	0%	0%	77%
T Barrington – COO (resigned 16 June 2017)	607,678	118,530	91,075	556	24,809	-	-	842,648	0%	0%	88%
A Quick - SVP, Clinical Development	342,471	-	56,309	-	21,033	-	111,381	531,194	0%	0%	67%
G Chiappini – Company Secretary	36,000	-	-	-	-	-	-	36,000	0%	0%	100%
Sub-total executive KMP & Executives	1,936,641	205,555	222,409	556	99,257	1,194,471	257,217	3,916,106			
Totals	2,247,773	205,555	222,409	556	112,034	1,215,809	257,217	4,261,353			

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Table 3: Compensation of Key Management Personnel

	2018 \$	2017 \$
Short-term employee benefits	3,770,141	2,933,510
Post-employment employee benefits	90,512	112,034
Share-based payment	1,596,368	1,215,809
Total compensation	5,457,021	4,261,353

Table 4: Option holdings of Key Management Personnel

30 June 2018	Balance at 1 July 2017 No.	Issued Date	Grant Details No.	Value \$ (Note1)	Exercised No. Value \$	Cancelled No.	Lapsed No.	Balance at 30 June 2018	Exercisable	Vested Unexercisable	Total at 30 June 2018	Unvested Total at 30 June 2018
Directors												
All	-	-	-	-	-	-	-	-	-	-	-	-
Other KMP												
T Rooney	7,800,000	-	-	-	-	-	-	7,800,000	4,360,000	-	4,360,000	3,440,000
A Quick	4,518,750	-	-	-	-	-	-	4,518,750	2,903,750	-	2,903,750	1,615,000
T Barring	-	1 July 2017	1,110,000	34,474	-	-	-	1,110,000	-	-	-	1,110,000
E Liberto	-	6 September 2017	4,000,000	123,231	-	-	-	4,000,000	-	-	-	4,000,000
D Sander	-	3 January 2018	4,000,000	89,384	-	-	-	4,000,000	-	-	-	4,000,000
	12,318,750		9,110,000	\$247,089	-	-	-	21,428,750	7,263,750	-	7,263,750	14,165,000

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.

The options issued in the period have vesting criteria based on the following performance conditions:

- Tenure with the Group
- Revenue target
- FDA PMA approval of RECELL for burns
- Initial BARDA procurement under CLIN2 of the BARDA Contract
- US Quotation

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Table 4: Option holdings of Key Management Personnel (continued)

30 June 2017	Balance at 1 July 2016 No.	Issued Date	Grant Details No.	Value \$ (Note 1)	Exercised No.	Value \$	Lapsed No.	Balance at 30 June 2017	Exercisable	Vested Unexercisable	Total at 30 June 2017	Unvested Total at 30 June 2017
Directors												
All	-	-	-	-	-	-	-	-	-	-	-	-
Other KMP												
A Kelliher	40,000,000	-	40,000,000	1,189,021	-	-	-	40,000,000	7,000,000	-	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	-	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	-	1,000,000	3,518,750
	43,250,000		52,318,750	1,446,238	-	-	(3,250,000)	52,318,750	9,000,000	-	9,000,000	43,318,750

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
FDA	United States Food and Drug Administration
LTI	Long Term Incentives
STI	Short Term Incentives
RES	Regenerative Epidermal Suspension

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:	4	3	3
Number of meetings attended:			
Lou Panaccio	4	N/A	3
Jeremy Curnock Cook	4	3	N/A
Michael Perry	4	N/A	N/A
Louis Drapeau	4	3	3
Damien McDonald	4	N/A	2
Suzanne Crowe	2	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)	Suzanne Crowe (c)
Lou Panaccio	Louis Drapeau
Damien McDonald	Jeremy Curnock Cook

Notes

(c) Designates the Chairman of each Committee

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 'M Perry', is positioned above the printed name and title of the signatory.

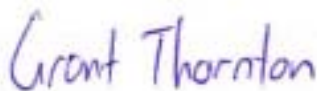
Michael Perry
Chief Executive Officer
Dated: 27 September 2018
Valencia, California, United States

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 2018, 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, 27 September 2018

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Consolidated 2018 \$	2017 \$
Continuing operations			
Sale of goods	4	1,652,161	1,180,632
Cost of sales	4	(704,972)	(505,636)
Gross profit		947,189	674,996
BARDA revenue	4	9,650,783	6,606,980
Other income	4	68,617	344,734
Operating costs			
Operating and administrative expenses		(9,119,527)	(7,113,019)
Sales and marketing expenses		(8,936,440)	(5,201,761)
Clinical and research and development expenses		(8,653,448)	(6,271,194)
Share based payment expenses	18	(1,835,157)	(1,587,243)
Finance costs	4	(26,586)	(12,754)
Total operating costs		(28,571,158)	(20,185,971)
Loss from continuing operations before income tax benefit		(17,904,569)	(12,559,261)
Income tax benefit	6	1,385,414	1,048,237
Loss for the period	5	(16,519,155)	(11,511,024)
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit and loss:</i>			
Foreign currency translation		563,279	(83,293)
Fair value gain on available for sale financial assets		-	(265,261)
Other comprehensive income (loss) for the period, net of tax		563,279	(348,554)
Total other comprehensive loss for the period		(15,955,876)	(11,859,578)
Loss for the period attributable to owners of the parent		(16,519,155)	(11,511,024)
Total comprehensive loss attributable to owners of the parent		(15,955,876)	(11,859,578)
Basic loss per share attributable to ordinary equity holders of the parent	5	(1.77) cents	(1.72) cents
Diluted loss per share attributable to ordinary equity holders of the parent	5	(1.77) cents	(1.72) cents

The accompanying notes form part of the consolidated financial statements.

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	Consolidated	
		2018	2017
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	7	14,825,532	3,790,491
Trade and other receivables	8	5,437,357	2,070,534
Prepayments and other assets		855,716	382,026
Inventories	9	1,155,826	1,037,490
Total Current Assets		22,274,431	7,280,541
Non-Current Assets			
Plant and equipment	10	742,583	387,380
Total Non-Current Assets		742,583	387,380
TOTAL ASSETS		23,017,014	7,667,921
LIABILITIES			
Current Liabilities			
Trade and other payables	11	3,487,582	2,363,734
Provisions	12	395,535	182,355
Total Current Liabilities		3,883,117	2,546,089
Finance Lease		134,338	-
Total Non-Current Liabilities		134,338	-
TOTAL LIABILITIES		4,017,455	2,546,089
NET ASSETS		18,999,559	5,121,832
EQUITY			
Equity attributable to equity holders of the parent:			
Contributed equity	13	162,801,028	134,806,022
Accumulated losses	14	(148,592,879)	(132,218,352)
Reserves	14	4,791,410	2,534,162
TOTAL EQUITY		18,999,559	5,121,832

The accompanying notes form part of the consolidated financial statements.

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

		Consolidated	
	Notes	2018	2017
		\$	\$
Cash flows from operating activities			
Payments to suppliers and employees		(25,681,347)	(17,676,710)
Receipts from customers		1,582,345	1,207,943
Government grants received		-	13,200
R&D tax refund received		-	972,283
Interest received		65,656	123,709
Interest paid		(26,586)	(12,754)
BARDA income and other income received		7,687,908	6,814,805
Net cash flows used in operating activities	15	(16,372,024)	(8,557,524)
Cash flows from investing activities			
Payments for plant and equipment		(498,749)	(432,592)
Proceeds from the sale of financial assets		-	627,837
Net cash flows (used in)/provided by investing activities		(498,749)	195,245
Cash flows from financing activities			
Proceeds from issuance of shares and options		29,760,563	9,048,102
Capital raising expenses		(1,825,643)	(506,452)
Purchase of finance leased asset		-	(303,521)
Net cash flows provided by financing activities		27,934,920	8,238,129
Net increase/(decrease) in cash and cash equivalents		11,064,147	(124,150)
Cash and cash equivalents at beginning of period		3,790,491	4,171,879
Impact of foreign exchange		(29,106)	(257,238)
Cash and cash equivalents at end of period	7	14,825,532	3,790,491

The accompanying notes form part of the consolidated financial statements.

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

Consolidated	Contributed equity	Accumulated losses	Share based payment reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$
At 1 July 2017	134,806,022	(132,218,352)	2,811,179	(277,017)	5,121,832
Loss for the period	-	(16,519,155)	-	-	(16,519,155)
Other comprehensive income					
Foreign currency translation	-	-	-	563,279	563,279
Total comprehensive loss for the year	-	(16,519,155)	-	563,279	(15,955,876)
<i>Transactions with owners in their capacity as owners</i>					
Expired options	-	141,188	(141,188)	-	-
Forfeiture options	-	3,440	(31,832)	-	(28,392)
Share based payments	-	-	1,866,989	-	1,866,989
New shares	29,846,859	-	-	-	29,846,859
Cost of share placement	(1,851,853)	-	-	-	(1,851,853)
Balance at 30 June 2018	162,801,028	(148,592,879)	4,505,148	286,262	18,999,559

The accompanying notes form part of the consolidated 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

The accompanying notes form part of the consolidated financial statements.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

The financial report of Avita Medical Limited ('the Company') for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 27 September 2018.

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

The consolidated financial statements are general purpose consolidated financial statements that have been prepared in accordance with the requirements of the *Corporations Act 2001* of Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Company's consolidated financial statements include the assets and liabilities of all subsidiaries of the Company as at 30 June 2018 and the results of the subsidiaries for the year then ended. Inter-entity transactions with, or between, subsidiaries are eliminated in full on consolidation.

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 which is ASX's functional and presentation currency.

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 2018. Those that are relevant to the Group include:

AASB 9 Financial Instruments (applicable to reporting periods on or after 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- a. Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c. Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New standards and interpretations not yet adopted (continued)

- d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- i. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
 - ii. the remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The Group is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:

- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue.

The Group is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 16 replaces AASB 117 Leases and some lease-related Interpretations:

- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases,
- provides new guidance on the application of the definition of lease and on sale and lease back accounting,
- largely retains the existing lessor accounting requirements in AASB 117, and
- requires new and different disclosures about leases.

The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

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 2018

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- to 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 2018

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 2018

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 2018

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

The Company's fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation are computed based on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of estimated useful lives for the principal classes of assets are as follows:

Laboratory equipment – 5 years
Computer equipment – 5 years
Fixtures and fittings – 7 years

The Company reviews its long-lived assets for impairment annually, or when events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. An asset is considered impaired when the fair value, which is the expected undiscounted cash flows over the remaining useful life, is less than the net book value. The excess of the net book value over its fair value is charged as impairment loss to profit and loss account.

Repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred. Gains and losses on disposal are determined by comparing the proceeds on disposal with the carrying amount and are included in profit or loss.

(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.

(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.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Interest-bearing loans and borrowings (continued)

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.

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.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial Instruments (continued)

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.

(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).

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Share-based payment transactions (continued)

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.

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);

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Contributed equity (continued)

- 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 2018, the Group has generated a loss for the period of \$16,519,155 (2017: \$11,511,024) and the Group has used cash in operations of \$16,372,024 (2017: \$8,557,524).

During the year ended 30 June 2018, the Group completed a series of equity transactions. On 11 October 2017 the Company completed a placement of 100,982,978 fully paid ordinary shares at a price of \$0.045 per share raising gross proceeds of \$4,544,234 and incurring \$248,720 in capital raising expenses. On 7 November 2017 the Company completed a rights offering of 276,502,853 fully paid ordinary shares at a price of \$0.045 per share raising gross proceeds of \$12,442,628 and incurring capital raising costs of \$636,067. On 6 June 2018 the Company completed the first tranche of an institutional placement in which it issued 255,475,665 fully paid ordinary shares at a price of \$0.050 per share raising gross proceeds of \$12,773,783 and incurring \$777,285 in capital raising expenses. The institutional placement included a second tranche totaling \$3.250 million of gross proceeds, contingent upon shareholder approval. Shareholder approval for Tranche 2 was received at an Extraordinary General Meeting held on 23 July 2018, and the net proceeds of \$3.041 million were received by the Group on 26 July 2018.

The Group also benefits from cash inflows from the series of BARDA contracts, the first of which was awarded to the Company in September 2015. These payments from BARDA offset the costs from various activities undertaken to support the FDA regulatory approval process for RECELL in the U.S., preparation for the planned commercial launch of RECELL in the U.S., and other RECELL clinical programs in the U.S. 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\$10.2m), expected to be initiated in 2019.

The Group is a development stage biotechnology company and as such expects to be utilizing cash reserves until its research and development activities are commercialized in the U.S. and other major markets. The Group has historically funded its research and development activities through raising capital by issuing securities in the Company, and 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 or other programs.

As a result of the above, the directors are satisfied that there is sufficient working capital to support the committed research development programs and other 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.

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 17. 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 2018

4. REVENUES AND EXPENSES

	2018	2017
	\$	\$
(a) Revenue		
Sale of goods	1,652,161	1,180,632
Other income	9,719,400	6,951,714
Total revenue	11,371,561	8,132,346

The Group had been granted a BARDA contract in September 2015, wherein BARDA will fund the Company to support the ongoing U.S. clinical regulatory program towards FDA Premarket Approval and Compassionate Use program, and clinical and health economics research in U.S. pediatric burn care. The objectives support BARDA's overarching goal of building burn care preparedness, by securing effective medical countermeasures for burn injuries for use in case of a mass casualty.

	2018	2017
	\$	\$
(b) Other income		
Bank interest income	65,656	123,709
Contracts received	-	13,200
Other income	2,961	207,825
Total other income	68,617	344,734

	2018	2017
	\$	\$
(c) Finance costs		
Other loans	26,586	12,754
	26,586	12,754

	2018	2017
	\$	\$
(d) Depreciation, impairment and amortisation included in profit or loss		
Depreciation	143,546	139,703
Profit on disposal of plant and equipment	-	(1,347)
	143,546	138,356

	2018	2017
	\$	\$
(e) Cost of sales	704,972	505,636

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

4. REVENUES AND EXPENSES (continued)

	2018	2017
	\$	\$
(f) Lease payments and other expenses included in profit or loss	<u>463,095</u>	<u>418,193</u>
	2018	2017
	\$	\$
(g) Employee benefits expense		
Salaries and wages	8,057,869	6,143,458
Share-based expenses	1,835,157	1,587,243
Defined contribution superannuation expense	374,435	341,586
	<u>10,267,461</u>	<u>8,072,287</u>

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:

	2018	2017
	\$	\$
Net loss for the period	<u>(16,519,155)</u>	<u>(11,511,024)</u>
Weighted average number of ordinary shares for basic and diluted loss per share	<u>934,312,458</u>	<u>669,930,538</u>

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 consolidated financial statements.

A total of 29,131,664 options (2017: 24,797,286) 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 2018

6. INCOME TAX

(a) Income tax expense

The major components of income tax benefit are:

Current income tax benefit:

Current income tax benefit – R&D Claim

Adjustment for prior year tax

2018 \$	2017 \$
(1,420,752)	(1,048,634)
34,955	-
(1,385,797)	(1,048,634)

Income tax benefit reported in profit or loss – R&D Claim

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense

2018 \$	2017 \$
(17,904,569)	(12,559,261)
(17,904,569)	(12,559,261)

Tax at the Australian rate of 27.5% (2017: 27.5%)

Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:

Other

Tax losses not brought to account

Research and development tax offset

Adjustment for prior year research and development tax offset

Adjustment due to change in tax rate

(4,923,756)	(3,767,778)
1,464,746	792,798
3,537,629	2,974,980
(1,420,751)	(1,048,634)
34,955	-
66,341	-
(1,240,837)	(1,048,634)

Movement in deferred tax asset

Deferred tax assets not brought to account as realisation is not considered probable

Income tax benefit

-	41,629
(144,960)	(41,629)
(1,385,797)	(1,048,634)

(c) Non-current assets – Deferred tax assets

The balance comprises temporary differences attributable to:

Provisions

Property, plant and equipment

Intangible assets

Other

Total deferred tax assets

2018 \$	2017 \$
122,243	48,513
10,155	12,945
1,025,616	735,400
2,378	(766)
1,160,392	796,092

Set off deferred tax liabilities pursuant to set-off provisions

-	-
1,160,392	796,092

Deferred tax assets not brought to account as realisation is not considered probable

Deferred tax assets recognised

(1,160,392)	(796,092)
-	-

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

6. INCOME TAX (continued)

Movements – Consolidated	Provisions	Plant and equipment	Intangible assets	Other	Total
	\$	\$	\$	\$	\$
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
At 30 June 2017	48,513	12,945	735,400	(766)	796,092
(Charged) / credited to the consolidated statement of profit or loss and other comprehensive income	73,730	(2,790)	(219,044)	3,144	(144,960)
(Charged) / credited directly to equity	-	-	509,260	-	509,260
At 30 June 2018	122,243	10,155	1,025,616	2,378	1,160,392

Tax losses

The Group has income tax losses for which no deferred tax asset is recognised on the consolidated statement of financial position of \$111,722,828 (2017: \$100,140,383) 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	42,786,807	27.50	11,766,372
United States	28,875,605	30.00	8,662,681
United Kingdom	40,060,416	20.75	8,312,536
Total	111,722,828		28,741,589

Unrecognised temporary differences

At 30 June 2018, there is no recognised or unrecognised deferred income tax liability (2017: \$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 (2017: \$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 2018

7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2018	2017
	\$	\$
Cash at bank and in hand	14,825,532	3,790,491

8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2018	2017
	\$	\$
Trade receivables	263,421	259,012
Allowance for doubtful debts	(23,452)	(88,859)
	239,969	170,153
R&D Tax claim	2,434,430	1,048,634
BARDA and other receivables	2,762,958	851,747
Carrying amount of trade and other receivables	5,437,357	2,070,534

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30 to 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 (2017: \$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:

	2018	2017
	\$	\$
At 1 July	88,859	-
Received during the year	-	-
Write off during the year	(88,859)	-
Charge for the year	23,452	88,859
At 30 June	23,452	88,859

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

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**
2018	Consolidated	263,421	129,979	82,406	6,173	42,792	2,071
2017	Consolidated	259,012	95,180	32,866	40,374	1,733	88,859

* Past due not impaired ("PDNI")

** Considered impaired ("CI")

The Company's trade receivables past due but not considered impaired amounted to \$23,452 at 30 June 2018 (2017: \$nil). 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

	2018 \$	2017 \$
Raw materials and components at cost	778,947	804,052
Finished goods at cost	376,879	233,438
Total inventories at cost	1,155,826	1,037,490

A provision of \$42,412 (2017: \$1,660) 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 2018 totalled \$38,107 (2017: \$408,052).

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

10. 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 2018	
At 1 July 2017, net of accumulated depreciation	387,380
Additions	498,749
Depreciation charge for the year	<u>(143,546)</u>
At 30 June 2018, net of accumulated depreciation	<u>742,583</u>

At 30 June 2018	
Cost	1,448,142
Accumulated depreciation	<u>(705,559)</u>
Net carrying amount	<u>742,583</u>

	<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	<u>(139,703)</u>
At 30 June 2017, net of accumulated depreciation	<u>387,380</u>

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

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

11. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2018	2017
	\$	\$
Trade payables	271,913	990,040
Accruals and other payables	3,215,669	1,373,694
Carrying amount of trade and other payables	3,487,582	2,363,734

(a) Fair value

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

(b) Interest rate, foreign exchange and liquidity risk

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

12. CURRENT LIABILITIES – PROVISIONS

	2018	2017
	\$	\$
Provision for annual leave (i)	376,535	136,822
Provision for long service leave (ii)	19,000	45,533
	395,535	182,355

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.

13. CONTRIBUTED EQUITY

	2018	2017
	\$	\$
<i>Ordinary shares</i>		
Authorised, issued and fully paid	162,801,028	134,806,022

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 2017	673,219,854	134,806,022
New shares	633,658,471	29,846,859
Cancelled shares	(29,500,000)	-
Capital issue costs	-	(1,851,853)
At 30 June 2018	1,277,378,325	162,801,028

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

13. 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.

For the year ended 30 June 2018, there were no dividends 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.

14. ACCUMULATED LOSSES AND RESERVES

(a) Movements in accumulated losses were as follows:

	2018	2017
	\$	\$
Balance 1 July	(132,218,352)	(121,108,408)
Net loss attributable to owners of Avita Medical Limited	(16,519,155)	(11,511,024)
Transfer from expired / lapsed options	141,188	401,080
Cancelled options	3,440	-
Balance 30 June	(148,592,879)	(132,218,352)

(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 17 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 2018

15. CONSOLIDATED STATEMENT OF CASH FLOWS RECONCILIATION

	2018 \$	2017 \$
Reconciliation of net loss after tax to net cash flows from operations		
Loss from ordinary activities after tax	(16,519,155)	(11,511,024)
Adjustments for non-cash items:		
Depreciation	143,546	139,703
Share options expensed	1,835,157	1,587,243
Share options cancelled classified as financing activities	62,681	
R&D claim accrual	(1,385,414)	
Foreign exchange differences	592,385	-
Changes in assets and liabilities:		
(Increase)/decrease in inventories	(118,336)	333,132
Increase in trade and other receivables	(1,980,566)	(49,040)
Increase in prepayments	(473,690)	(156,756)
Increase in trade and other payables	1,258,186	1,125,116
Increase/(decrease) in provisions	213,182	(25,898)
Net cash used in operating activities	(16,372,024)	(8,557,524)

16. 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:

Name	Country of Incorporation	% Equity interest at 30 June 2018	% Equity interest at 30 June 2017	Investment (\$) at 30 June 2018	Investment (\$) At 30 June 2017
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

	2018 \$	2017 \$
Short-term employee benefits	3,770,141	2,933,510
Post-employment employee benefits	90,512	112,034
Share-based expenses	1,596,368	1,215,809
Total compensation	5,457,021	4,261,353

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 2018.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

16. RELATED PARTY DISCLOSURE (continued)

The total amount of transactions entered into with Key Management Personnel for the year ended 30 June 2018 were \$157,728 Consultancy fees (2017: \$128,987) paid under normal terms and conditions to Bioscience Managers Pty Ltd of which Jeremy Curnock Cook and Michael Perry are Directors.

(d) Transactions with related parties

Subsidiaries of the Group:

During the reporting period, inter-company other revenue was made of \$2,819,592 (2017: \$2,087,051) 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.

17. 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:

	2018 \$	2017 \$
Expenses arising from equity-settled share-based payment transactions	1,835,157	1,587,243
Total expense arising from share-based payment transactions	1,835,157	1,587,243

The share-based payment plans are described below. There has been forfeiture of one share-based plan during fiscal 2018. Further, there have been no cancellations or modifications to any of the plans during 2017.

(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:

	2018 No	2018 WAEP	2017 No	2017 WAEP
Outstanding at the beginning of the year	24,797,286	0.09	11,147,289	0.14
Expired during the year	(3,937,289)	0.13	(4,710,000)	0.14
Cancelled	(838,333)	0.08	(2,500,000)	0.15
Granted during the year	9,110,000	0.06	20,859,997	0.08
Outstanding at the end of the year	29,131,664	0.078	24,797,286	0.084

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

17. SHARE-BASED PAYMENT PLANS (continued)

As at the reporting date, there were 29,131,664 unissued ordinary shares under options represented by:
1,110,000 exercisable at \$0.08 expiring 31 December 2018 issued to an employee on 1 July 2017.
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.
1,038,333 exercisable at \$0.08 expiring 27 June 2027 issued to employees on 27 June 2017.
4,000,000 exercisable at \$0.063 expiring 6 September 2027 issued to an employee on 6 September 2017.
4,000,000 exercisable at \$0.061 expiring 3 January 2028 issued to an employee on 3 January 2018.

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 2018 is 9.52 years (2017: 9.39 years).

(e) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.061 - \$0.126 (2017: \$0.079 - \$0.14).

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 \$247,089 (2017: \$578,879). The total fair value of the options granted during the year is \$247,089 (2017: \$578,879).

(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.

The options issued in the period have vesting criteria based on the following performance conditions:

- Tenure with the Group
- Revenue target
- FDA PMA approval of RECELL for burns
- Initial BARDA procurement under CLIN2 of the BARDA Contract
- US Quotation

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

17. SHARE-BASED PAYMENT PLANS (continued)

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:

	2018	2017
Grant date	18/05/2017	18/05/2017
Share price at date of grant	\$0.08	\$0.08
Dividend yield (%)	0%	0%
Expected volatility (%)	90%	90%
Risk-free interest rate (%)	1.5%	1.5%
Expected life of option	3,650	3,650
Fair value at date of grant	\$0.075	\$0.075
Option exercise price (\$)	\$0.085	\$0.085

At year end, 7,808,333 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:

	2018	2017
Grant date	26/05/2017	26/05/2017
Share price at date of grant	\$0.086	\$0.086
Dividend yield (%)	0%	0%
Expected volatility (%)	90%	90%
Risk-free interest rate (%)	1.5%	1.5%
Expected life of option	3,650	3,650
Fair value at date of grant	\$0.070	\$0.070
Option exercise price (\$)	\$0.082	\$0.082

At year end, 938,333 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:

	2018	2017
Grant date	27/06/2017	27/06/2017
Share price at date of grant	\$0.067	\$0.067
Dividend yield (%)	0%	0%
Expected volatility (%)	90%	90%
Risk-free interest rate (%)	1.5%	1.5%
Expected life of option	3,650	3,650
Fair value at date of grant	\$0.062	\$0.062
Option exercise price (\$)	\$0.08	\$0.08

At year end, 623,000 options were unvested.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

17. SHARE-BASED PAYMENT PLANS (continued)

iv) On 1 July 2017, 1,110,000 options were granted to employee at an exercise price of \$0.08 expiring on 31 December 2018.

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

	2018
Grant date	01/07/2017
Share price at date of grant	\$0.069
Dividend yield (%)	0%
Expected volatility (%)	90%
Risk-free interest rate (%)	1.5%
Expected life of option	552
Fair value at date of grant	\$0.031
Option exercise price (\$)	\$0.08

At year end, 1,110,000 options were unvested.

v) On 6 September 2017, 4,000,000 options were granted to employee at an exercise price of \$0.063 expiring on 6 September 2027.

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

	2018
Grant date	06/09/2017
Share price at date of grant	\$0.056
Dividend yield (%)	0%
Expected volatility (%)	90%
Risk-free interest rate (%)	1.5%
Expected life of option	3,650
Fair value at date of grant	\$0.052
Option exercise price (\$)	\$0.063

At year end, 4,000,000 options were unvested.

vi) On 3 January 2018, 4,000,000 options were granted to employee at an exercise price of \$0.061 expiring on 3 January 2028.

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

	2018
Grant date	03/01/2018
Share price at date of grant	\$0.061
Dividend yield (%)	0%
Expected volatility (%)	90%
Risk-free interest rate (%)	1.5%
Expected life of option	3,650
Fair value at date of grant	\$0.049
Option exercise price (\$)	\$0.061

At year end, 4,000,000 options were unvested.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

17. SHARE-BASED PAYMENT PLANS (continued)

(h) Long-term incentive rights

On the 30 November 2017, 50,000,000 LTI's were issued to Dr Michael Perry based on the following milestones:

1. Tenure – total of 16,666,666 LTIs issued but to vest over the three-year period commencing 1 July 2017;
2. Company Share Price – total of 16,666,666 LTIs issued but to vest in three equal tranches subject to the Volume Weighted Average Price (VWAP) of Company share price (as at close of trade on the ASX on relevant date) achieving multiples of 2x, 3x and 4x the Company's share price as at shareholder approval; and
3. Milestone performance – total of 16,666,668 LTIs issued, but to vest in two equal tranches with one tranche to vest upon the achievement of the following milestones:
 - a. FDA PMA approval of RECELL for burns
 - b. Initial BARDA procurement under CLIN2 of the BARDA Contract

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Grant date	30/11/2017	30/11/2017	30/11/2017	30/11/2017
Share price at date of grant	\$0.061	\$0.061	\$0.061	\$0.061
Exercise price	\$nil	\$nil	\$nil	\$nil
Vesting hurdle	n/a	n/a	n/a	\$0.122
Expiry period	30/11/2027	30/11/2027	30/11/2027	30/11/2027
Dividend yield (%)	0%	0%	0%	0%
Expected volatility (%)	70%	70%	70%	70%
Risk-free interest rate (%)	2.47%	2.47%	2.47%	2.47%

	Tranche 5	Tranche 6	Tranche 7	Tranche 8
Grant date	30/11/2017	30/11/2017	30/11/2017	30/11/2017
Share price at date of grant	\$0.061	\$0.061	\$0.061	\$0.061
Exercise price	\$nil	\$nil	\$nil	\$nil
Vesting hurdle	\$0.183	\$0.244	n/a	n/a
Expiry period	30/11/2027	30/11/2027	30/11/2027	30/11/2027
Dividend yield (%)	0%	0%	0%	0%
Expected volatility (%)	70%	70%	70%	70%
Risk-free interest rate (%)	2.47%	2.47%	2.47%	2.47%

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

18. 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, Europe and Americas including Canada. The Chief Executive Officer monitors the performance of all these segments separately. The Group does not operate in any other geographic segment.

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

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

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 2018 is as follows:

	<i>Asia Pacific</i>	<i>EMEA</i>	<i>Americas</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2018				
Revenue				
Sale of goods	709,907	488,955	453,299	1,652,161
Other revenues from external customers	-	2,961	9,650,783	9,653,744
Interest received	59,552	438	5,667	65,657
Total revenue and other income per consolidated statement of profit or loss and other comprehensive income	769,458	492,354	10,109,749	11,371,562
Segment net loss before tax benefit	(1,341,200)	(2,181,622)	(9,539,295)	(13,062,117)
Reconciliation of segment net result before tax to loss before income tax:				
Corporate charges including share based expenses				(4,842,452)
Loss before income tax benefit				(17,904,569)

The Group's revenue in its Americas including Canada operating segment includes \$9,650,783 from BARDA, representing 85%.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

18. 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:

	2018 %	2017 %
Australia	6.8	9.4
Other	93.2	90.6
Total revenue	100.0	100.0

	<i>Asia Pacific</i> \$	<i>EMEA</i> \$	<i>Americas</i> \$	<i>Total</i> \$
Year ended 30 June 2018				
Segment assets				
Segment operating assets	532,926	579,081	17,079,653	18,191,660
Segment non-current assets	5,662	18,214	703,100	726,977
Unallocated assets	-	-	-	4,098,377
Total assets per the consolidated statement of financial position				23,017,014
Segment liabilities				
Segment operating liabilities	189,531	176,461	3,314,423	3,680,415
Unallocated liabilities	-	-	-	337,040
Total liabilities per the consolidated statement of financial position				4,017,455

	<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)

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

18. SEGMENT INFORMATION (continued)

	<i>Asia Pacific</i>	<i>EMEA</i>	<i>Americas</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2017				
Segment assets				
Segment operating assets	227,359	1,166,946	2,342,846	3,737,150
Segment non-current assets	6,624	20,375	360,380	387,380
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

19. 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:

	2018	2017
	\$	\$
Financial Assets		
Cash and cash equivalents	14,825,532	3,790,491
Trade and other receivables	5,437,357	2,070,534
Financial Liabilities		
Trade and other payables	(3,487,582)	(2,363,734)
Provisions	(395,535)	(182,355)
Net	16,379,772	3,314,936

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.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	2018 \$	2017 \$
Financial Assets		
Cash and cash equivalents	14,825,532	3,790,491
Net exposure	14,825,532	3,790,491

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 2018 and 2017, there were no cash and cash equivalents recorded at a fixed rate of interest.

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 two-year period.

At 30 June 2018, 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:

	Post Tax Loss (Higher)/Lower		Equity Higher/(Lower)	
	2018 \$	2017 \$	2018 \$	2017 \$
+1% (100 basis points)	148,255	37,905	148,255	37,905
-1% (100 basis points)	(148,255)	(37,905)	(148,255)	(37,905)

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 93% (2017: 94%) of the Group's sales are denominated in currencies other than the functional currency, whilst approximately 74% (2017: 60%) of costs are denominated in the functional currency.

At 30 June 2018, the Group had the following exposure to foreign currencies:

	2018 \$	2017 \$
Financial Assets		
Cash and cash equivalents	13,046,513	1,726,568
Trade and other receivables	2,847,542	926,501
	15,894,055	2,653,069
Financial Liabilities		
Trade and other payables	(3,356,546)	(1,209,902)
Net exposure	12,537,509	1,443,167

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 two-year period.

At 30 June 2018, 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)	
	2018	2017	2018	2017
	\$	\$	\$	\$
AUD/GBP + 10%	54,761	(62,731)	54,761	(62,731)
AUD/GBP – 5%	27,380	31,366	27,380	31,366
AUD/USD +10%	1,827,003	(67,791)	1,827,003	(67,791)
AUD/USD – 5%	913,502	33,895	913,502	33,895
AUD/EUR +10%	8,663	(13,795)	8,663	(13,795)
AUD/EUR – 5%	4,332	6,897	4,332	6,897

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.

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 2018.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	2018 \$	2017 \$
6 months or less	3,487,582	2,363,734
6-12 months	-	-
1-3 years	-	-
	3,487,582	2,363,734

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.

	< 6 months \$	6-12 months \$	1-5 years \$	Total \$
Year ended 30 June 2018				
Financial Assets				
Cash and cash equivalents	14,825,532	-	-	14,825,532
Trade and other receivables	5,437,357	-	-	5,437,357
	20,262,889	-	-	20,262,889
Financial Liabilities				
Trade and other payables	(3,487,582)	-	-	(3,487,582)
Net maturity	16,775,307	-	-	16,775,307
 Year ended 30 June 2017				
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 2018

20. COMMITMENTS AND CONTINGENCIES

Finance Leases as Lessee

The Group's furniture and IT equipment are held under lease arrangements. As of 30 June 2018, the net carrying amount of the furniture and IT equipment held under lease arrangements is \$159,043.

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

	<u>2018</u>
Finance Lease liabilities	
Current:	86,883
Non-current:	<u>72,160</u>
	<u>159,043</u>

	Minimum Lease Payment Due			
	Within 1 Year	1-5 Years	After 5 Years	Total
30 June 2018				
Lease Payments	114,650	92,515	-	207,165
Finance charges	(27,767)	(20,355)	-	(48,122)
Net Present Values	86,883	72,160	-	159,043

Operating Leases as Lessee

The Group leases space under operating leases. Future minimum lease payments as of 30 June 2018 are as follows:

	Minimum Lease Payment Due			
	Within 1 Year	1-5 Years	After 5 Years	Total
30 June 2018	525,919	856,541	-	1,382,460
30 June 2017	344,431	879,079	-	1,223,509

21. AUDITORS' REMUNERATION

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

	<u>2018</u>	<u>2017</u>
	\$	\$
<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	89,535	91,520
<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	92,905	28,846
Other services in relation to the entity and any other entity in the Group		
- Taxation advice	46,811	62,635
	<u>229,251</u>	<u>183,001</u>

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

22. PARENT ENTITY INFORMATION

Information relating to Avita Medical Limited:

	2018	2017
	\$	\$
Current assets	4,098,378	3,156,011
Total assets	4,098,378	3,156,011
Current liabilities	(337,040)	(179,934)
Total liabilities	(337,040)	(179,934)
Net assets	3,761,338	2,976,077
Issued capital	162,801,028	134,806,022
Accumulated losses	(163,541,196)	(135,034,498)
Share option reserves	4,501,506	3,204,553
Total shareholders' equity	3,761,338	2,976,077
Loss of parent entity after income tax	(3,258,675)	(4,741,808)
Total comprehensive loss of the parent entity	(3,258,675)	(4,741,808)
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 \$21,368,073 (2017: \$5,983,551) of intercompany loans to subsidiaries and investments in subsidiaries. The impairment charges are eliminated on consolidation.

23. 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 Australian Securities and Investments Commission ('ASIC') Corporations (Wholly-owned Companies) Instrument 2016/785.

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 2018

23. 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	2018 \$	2017 \$
Sale of goods	709,907	452,662
Other revenue	59,552	129,958
Revenue	769,459	582,620
Cost of sales	(331,244)	(243,708)
Gross profit	438,215	338,912
Other income	-	184,088
Operating costs		
Administrative expenses	(4,660,971)	(3,085,503)
Research and development expenses	(43,048)	(2,365,647)
Impairment of inter-company loans	(21,368,073)	(5,983,551)
Sales and marketing expenses	(1,250,976)	(834,600)
Finance costs	-	(41)
Loss from continuing operations before income tax	(26,884,853)	(11,746,342)
Income tax benefit	1,385,796	1,048,634
Total comprehensive loss for the period	(25,499,057)	(10,697,708)

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

23. DEED OF CROSS GUARANTEE (continued)

	2018 \$	2017 \$
Current Assets		
Cash and cash equivalents	1,779,019	2,063,923
Trade and other receivables	2,589,816	1,144,033
Prepayments	130,055	155,112
Inventories	132,414	26,925
Total Current Assets	4,631,304	3,389,993
Non-Current Assets		
Plant & equipment	5,662	6,625
Total Non-Current Assets	5,662	6,625
TOTAL ASSETS	4,636,966	3,396,618
LIABILITIES		
Current Liabilities		
Trade and other payables	477,366	248,497
Provisions	49,205	84,938
Total Current Liabilities	526,571	333,435
TOTAL LIABILITIES	526,571	333,435
NET ASSETS	4,110,395	3,063,183
EQUITY		
Contributed equity	162,801,028	134,806,022
Accumulated losses	(163,194,156)	(134,977,180)
Reserves	4,503,523	3,234,341
TOTAL EQUITY	4,110,395	3,063,183

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2018

24. EVENTS AFTER THE REPORTING DATE

On 20 September 2018, the FDA approved the Group's PMA application to market the RECELL System to treat patients with severe thermal burns in the U.S.

During the year ended 30 June 2018 the Group completed an institutional placement of shares to international and Australian institutional and sophisticated investors. The institutional placement included a second tranche totaling \$3.250 million of gross proceeds, contingent upon shareholder approval. Shareholder approval for Tranche 2 was received at an Extraordinary General Meeting held on 23 July 2018, and the net proceeds of \$3.041 million were received by the Group on 26 July 2018.

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 2018 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 ended 30 June 2018.

On behalf of the Board



Michael Perry
Chief Executive Officer
Dated: 27 September 2018
Valencia, California, United States

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 2018, 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 the Group 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 2018 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 auditor 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.

Material uncertainty related to going concern

We draw attention to Note 2(y) in the financial statements, which indicates that the Group incurred a net loss of \$16,519,155 during the year ended 30 June 2018, and as of that date, the Group's cash outflows from operating activities totalled \$16,372,024. As stated in Note 2(y), 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 Group'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
Recognition of R&D Tax Incentive (Note 6) Under the research and development (R&D) tax incentive scheme, the Group receives a 43.5% refundable tax offset (2017: 43.5%) 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 2018, a receivable of \$1,385,797 has been recorded. 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.	Our procedures included, amongst others: • 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; • vouching a sample of expenditure to source documents; • 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 2018, 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.

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

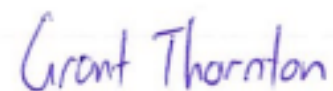
Opinion on the remuneration report

We have audited the Remuneration Report included in pages 9 to 19 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Pearl Group Limited (formerly 'Citation Resources Limited'), for the year ended 30 June 2018 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, 27 September 2018