# Appendix 4E

Preliminary Final Report

Name of entity

| |
|---|
| Admedus Limited |

| ABN | Financial year ended ("current period") |
|---|---|
| 35 088 221 078 | 30 June 2015 |

*For announcement to the market* *$A'000's*

| | | | | |
|---|---|---|---|---|
| Revenues from ordinary activities | Up | 28.76% | to | 10,224 |
| Loss from ordinary activities after tax | Up | 226.52% | to | (26,800) |
| Loss for the year attributable to members | Up | 281.68% | to | (25,254) |

| Dividends | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend proposed | NIL¢ | NIL¢ |
| Interim dividend | NIL¢ | NIL¢ |
| | 2015 | 2014 |
| Net Tangible Asset Backing | 1.94 cents | 2.08 cents |

Results Commentary

RESULTS

Admedus' results for the financial year ending 30 June 2015 reflect a productive period for the Company as it continues to establish itself as a specialist healthcare company with growing revenues. During the year, the Company invested further into operational infrastructure that will support the manufacture and international roll-out of CardioCel®. Admedus also progressed its technology pipelines in regenerative medicine and therapeutic vaccines and focused on growing its global sales and marketing teams to support product sales in new markets.

The past year has seen a rise in revenue for Admedus by 28% to $10.2M, with sales of CardioCel® over $2.5M over the period, the first full year on the market in Europe and the initial year of launch in the US. During the 12 months the Company also added over 70 new centres using CardioCel®, which provides a solid foundation for ongoing growth in use of the product and related growth in sales in the coming years.

The loss for the period was $26.8M, which included approximately $2M in depreciation of plant and equipment, amortisation of intangible assets and asset write-downs. In addition the company has grown its sales and marketing teams for CardioCel® as it continues to expand the market for the product and open new markets with a view that this expenditure is necessary to build sales in the coming 12 months and beyond. The Company is also actively undertaking R&D activities to further expand its bio-scaffold product portfolio, as well as continued investment into therapeutic vaccines with Professor Ian Frazer. In addition, the Company has also increased expenditure on the manufacturing facility to supply increasing international demand for CardioCel® and for the potential sales growth of the product.

The Company had a closing cash balance of $24M after a positive capital raising during the period, which is up from the corresponding period last year.

OPERATIONS

## Sales & Marketing Division

The Sales and Marketing Division had another growth year with revenue of $9.8M, including CardioCel® sales of over $2.5M and the infusion franchise up slightly from the previous year to $7.3M. The Sales and Marketing Division currently has 30 employees across the various sales and clinical teams in the US, Europe and Asia Pacific.

The continued strong sales from the infusion team were driven by the extensive range of infusion products on the market in Australia and New Zealand. During the period Admedus also launched Arcomed's Chroma infusion system into the Australian and New Zealand market to complement the existing Arcomed product range.

During the period the Company spent funds launching and promoting CardioCel® globally including a number of important symposium and presenting events at major international conferences. CardioCel® is now used in over 90 centres, mainly in Europe and the US, with the Company launching in Canada, Singapore and Hong Kong during the year. The base built over the past 12 months, and the related capital expenditure provides the Company with the foundation for growth of sales over the next 12 months and beyond. With sales and marketing operations established in Europe, the US and in the Asia Pacific region, the Sales and Marketing Division is now well positioned to grow sales for CardioCel® and our other products once approved.

As part of the global launch of CardioCel, earlier this year Admedus also announced its partnership with Genpharm to expand the use of CardioCel into the Middle East and North African (MENA) regions. This partnership is anticipated to also drive sales for Admedus in the coming years. The company will seek similar partnerships in regions where it is not going to build its own direct sales teams.

## Admedus Regenerative Medicine Division

The Admedus Regenerative Medicine division continues to build on the success from the previous year with CardioCel® approvals in Canada, Hong Kong and Singapore; and expanding the CardioCel® product range to now include a 2cm X 8cm product suited to cardiac disease and related vascular repairs.

In addition the Admedus Regenerative medicine team continues to expand the portfolio with ongoing R&D to increase the CardioCel® range, as well as build additional products. Admedus announced the positive results from an initial study for the use of an ADAPT® manufactured bio-scaffold in the repair of dura-mater. These positive results mean the Company will continue to progress this product range to market in the coming financial year.

In addition, over the past 12 months the team has also been working on additional R&D projects and as these progress, the Company will provide shareholders with updates on these programmes.

## Admedus Biomanufacturing Division

During the financial year Admedus Biomanufacturing expanded its manufacturing operations and enhanced its processes to increase production of CardioCel® to meet the increasing demand for this product. CardioCel® is now produced from this facility for shipment to the US, European countries, Canada, Singapore, Hong Kong and will supply other markets such as MENA once the product is approved there.

The quality systems in place enable the biomanufacturing teams to identify potential improvements in methodologies to enhance the efficiencies in the manufacturing process. The expanded Admedus Biomanufacturing capability enables the company to manufacture additional products based on the ADAPT® platform.

During the year Admedus also completed a R&D capability within the facility which will assist the Company in future product development.

## Admedus Immunotherapies Division

Building on the success of the Phase I clinical data for its therapeutic HSV-2 vaccine, Admedus has continued to invest in Admedus Vaccines which has designed and initiated a Phase II clinical study of its HSV-2 therapeutic vaccine in HSV-2 infected individuals. The study is designed to monitor safety and the therapeutic effect of the vaccine by evaluating changes in T-cell counts, and the ability to reduce HSV-2 viral shedding and viral load. The first patients were dosed in April 2015 and by June 2015 over 70% of study participants had commenced the screening stage with 25% having received their initial dose of the vaccine. The Company anticipates some interim results in the 2016 financial year and the full study results in calendar year 2016.

The Admedus Immunotherapies Division continues to work on an HPV therapeutic vaccine, which has demonstrated very positive results in preclinical studies, and as a result is progressing in its preparation for Phase Ib clinical studies.

## Annual General Meeting

The Annual General Meeting will be held on the 13th of November 2015.

## Audit

The financial statements on which this report is based have been audited.

ADMEDUS LIMITED
ABN 35 088 221 078

# ANNUAL REPORT 30 JUNE 2015

# CORPORATE DIRECTORY

Registered Office and Principal Place of Business

26 Harris Road
Malaga, Western Australia 6090

T +61 (0)8 6240 6100

F +61 (0)8 6240 6100

Website and Email Address

www.admedus.com

info@admedus.com

Stock Exchange

Shares listed on the Australian Stock Exchange

ASX Code: AHZ

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco, Western Australia 6008

Share Registry

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth, Western Australia 6000

T 1300 850 505 (within Australia)

+61 (0)9323 2000

F +61 (0)8 9323 2033

Solicitors

Norton Rose Fulbright Australia
Level 30, 108 St Georges Terrace
Perth, Western Australia 6000

Bankers

ANZ
77 St Georges Terrace
Perth, Western Australia 6000

# CONTENTS

# DIRECTORS' REPORT

Your Directors present their report on Admedus Limited ("the Company") and the consolidated entity (referred to hereafter as the Group) for the year ended 30 June 2015.

## DIRECTORS

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

- Chris Catlow
- Lee Rodne
- Graeme Rowley
- Michael Bennett
- Peter Turvey
- John Seaberg (appointed 10 October 2014)
- Wayne Paterson (appointed 10 October 2014)

## PRINCIPAL ACTIVITIES

During the year, the principal continuing activities of the Group consisted of:

- Sales and distribution within the infusion, surgery and cardiac hospital markets;
  This has recently been expanded with the successful launch of CardioCel®, the Group's lead regenerative tissue product, in key international markets.
- The ADAPT® Tissue Engineering Technology;
  This produces implantable tissue scaffolds for use in soft tissue repair such as the repair of congenital heart defects or repair of heart valves. The lead product in the regenerative tissue portfolio is CardioCel®.
- Admedus Bio-manufacturing;
  The Group manufacturing facility is now fully functional and producing CardioCel® for the international market.
- Immunotherapies.
  The Group is also developing immunotherapies that are led by Professor Ian Frazer and his team.

## OPERATING RESULT

The operating result for the year:

| | CONSOLIDATED 2015 $ | CONSOLIDATED 2014 $ |
|---|---|---|
| Loss before Income Tax | (23,871,337) | (9,395,476) |
| Income Tax (Expense)/Benefit | (2,928,633) | 1,187,761 |
| Loss for the Year | (26,799,970) | (8,207,715) |

## DIVIDENDS

No dividend was paid during the year and the Board has not recommended the payment of a dividend.

## SHARE CAPITAL

1,845,399,035 Ordinary Shares and 125,980,068 Unlisted Options were on issue as at 30 June 2015.

## OPERATING AND FINANCIAL REVIEW

*Group Overview*

The Company's Mission is to make a difference to patients' lives. We do this by bringing innovative technologies and products to market which have the ability to prevent, treat and repair, and to positively influence patient outcomes and improve their quality of life.

Admedus Limited is a specialist healthcare company focused on developing next generation technologies to expand its product range and grow its revenues via its existing medical sales and distribution business. The Company has global operations across research & development, clinical and product development and sales, marketing and distribution.

Over the past year the Group continued to commercialise its innovative tissue engineering technology for regenerative medicine and launching its lead bio-scaffold product CardioCel® globally. In addition, the Company continued to develop its portfolio of bio-scaffold products for use in surgical procedures.

# DIRECTORS' REPORT (continued)

Admedus is also developing the next generation of vaccines with a Brisbane-based research group led by Professor Ian Frazer. The vaccine programmes target diseases with significant global potential such as Herpes Simplex 2 (HSV-2) and Human Papillomavirus (HPV). The lead program has progressed into Phase II clinical studies targeting HSV-2, with its HPV program also progressing into clinical studies in people infected with the virus.

*Review of Operations*

The loss for the consolidated entity after providing for income tax amounted to $26,799,970, with a cash flow operating loss of $21.5M, up 238% from the previous year (2014: $10.6M). Key factors contributing to the current year's performance are discussed below:

Income for the Company over the period was $9.6M, an increase of 19% on the prior year, with additional income for the Company from tax rebates and Government grants, bringing the total income for the group to over $10.2M for the year. This was an increase in revenue and overall income for the Company compared to the corresponding period last year and a reflection of continued growth, particular in the sales of CardioCel®.

The increase in expenditure for the period compared to corresponding period relates to the increase in activities across the Company with a need to build the infrastructure, sales teams and product promotion to grow continuous demand for its products, which the Company anticipates will relate directly to future sales growth. Admedus has been growing its sales teams and increasing its promotional activities for CardioCel® over the past year, as more cardiovascular surgeons and centres become familiar with the product and its benefits over alternative products and will aim to leverage this position to grow the Company in the coming 12 months and beyond.

As the demand for CardioCel® grows, Admedus invests more into its manufacturing of CardioCel® at its facility in Malaga, Western Australia (now called Admedus Biomanufacturing) and on growing its sales and marketing teams for CardioCel® in the US and Europe. As a direct result, the Group's employment costs have increased significantly. Related administration costs, travel expenses and operational costs have increased in line with the Group's activities during the year. The R&D and consultancy costs have increased due to regulatory expenditures for CardioCel®, the building of the bio-scaffold product pipeline and the ongoing development of the therapeutic vaccine programs.

Property, plant and equipment balance decreased from $3.3M to $3.0M due to depreciation, which net off the increase from acquisitions. The intangibles have decreased from $9.9M to $8.8M due to amortisation of intellectual property held within Admedus Immunotherapies and Regenerative Medicine Divisions.

As at 30 June 2014, Admedus held 57.2% of Admedus Vaccines. During the year the Company acquired additional shares in Admedus Vaccines to increase this holding to 66.3% at 30 June 2015. In July 2015 the Company acquired additional shares to increase its holding in Admedus Vaccines to 72.1%.

*Financial Position*

During the year the Company issued new shares to raise $28M and as at 30 June 2015 had $24M cash, compared to $19M a year earlier.

During the period, inventory levels remained in line with market demand and as anticipated with the ongoing launch of CardioCel® in the US, Europe and Asia. During the period the Company also maintained suitable inventory for the infusion product inventory.

*Material Business Risks*

The Group has identified the below specific risks which could impact upon its future prospects.

*Commercial risk*

As with all businesses there is always a commercial risk that not all customers will use your product, or that competing products are used in preference to the Company's product and therefore 100% market penetration is rare. With CardioCel® now on the market in the US, Europe, Canada, Hong Kong and Singapore and in over 90 centres globally, the Company is making good progress in obtaining market penetration and product awareness. The Company continually monitors the market and feedback from cardiovascular surgeons as well as attending key industry events and conferences to manage any potential commercial risk.

Admedus has numerous ongoing R&D programmes in both its bio-scaffold and therapeutic vaccines areas to further develop the two key platform technologies within the Company. The development of additional bio-scaffold products highlights the quality of the platform technology, as well as reducing the commercial risk by having an increased number of products on the market.

The Company currently maintains a range of patents across the various technologies and continues to monitor these patents, as well as exploring new patents based on the R&D currently being undertaken by the Company.

*Clinical trial risk*

The development of innovative products in the biomedical and healthcare industries has an element of risk associated with it. Admedus is working with Professor Ian Frazer to develop therapeutic vaccines with the lead program in a clinical study and the second program scheduled to enter clinical studies in the coming financial year. In addition Admedus continues to develop products from its ADAPT® platform technology, albeit de-risked, as a result of the lead product CardioCel® being on market and actively used in patients. As a result of these ongoing activities there is an inherent risk associated with clinical studies and R&D and it is subject to many factors beyond the Company's control. The Company continuously monitors the progress of all of these studies and aims to manage these risks.

*Competition*

Admedus actively monitors its markets and the activities of potential competing products. As a Company, we feel it is highly likely that other companies and organisations may be trying to develop competing products. Admedus believes that its platform technologies and products have clear advantages over other technologies and products and continues to undertake R&D to further illustrate and explore these advantages and benefits.

Regardless of the diligent activities of the Admedus team, there is no assurance that the Group's competitors will not succeed in developing technologies that compete with the Admedus technologies.

Despite the existence of a general statutory framework in Australia and international conventions which are intended to protect against certain anti-competitive practices, there can be no assurance that the applicable laws will be enforced sufficiently to protect the Group from anti-competitive practices by its competitors or that major competitors will not use their strategic positions to gain a competitive advantage in some future period, whether by means of price reductions or by other means.

*Financial performance*

To date Admedus has not declared a dividend. The amount, timing and payment of any dividend will depend on a range of factors, including future capital and R&D activities and associated capital requirements and the financial position generally of the Group at the time. There will also be factors that affect the ability of the Group to pay dividends and the timing of those dividends that will be outside the control of the Group and its Directors. The Directors are, therefore, unable to give any assurance regarding the payment of dividends in the future.

*Intellectual property*

The Group's success will depend, in part, on its ability to obtain adequate and valid patent protection, maintain trade secret protection and operate without infringing the proprietary rights of third parties or having third parties circumvent the Group's rights. Admedus prepares files and maintains patents in countries relevant to the use and manufacturing of products using our technologies.

While the Group believes it has taken appropriate steps to protect its proprietary technology, the law may not adequately protect it in all places the Group does business or enable the Group's rights to be enforced with sufficient adequacy.

The enforceability of a patent is dependent on a number of factors which may vary between jurisdictions, including the validity of the patent and the scope of protection it provides. The validity of a patent depends upon factors such as the novelty of the invention, the requirement in many jurisdictions that the invention not be obvious in light of the prior art (including any prior use or documentary disclosure of the invention), the utility of the invention and the extent to which the patent specification clearly discloses the best method of working or carrying out the invention. The legal interpretation of these requirements often varies between jurisdictions. The scope of rights provided by a patent can also differ between jurisdictions. There can be no assurance even if the Group succeeded or succeeds in obtaining the grant of patents, that others will not seek to imitate the Group's products, and in doing so, attempt to design their products in such a way as to circumvent the Group patent rights. Additionally, the ability of the legal process to provide efficient and effective procedures for dealing with actual or suspected infringements can vary considerably between jurisdictions.

Regarding the Group's patent applications, no guarantee can be given that such protection will be obtained by the Group. If such patents are not granted, it may be possible for a third party to imitate and use the Group's intellectual property without its authorisation or to develop and use similar technology independently. The Group will pursue vigorously both its existing and all future patent applications for Australian and foreign patent applications. No guarantee can be given nor does the grant of a patent guarantee that the patent concerned is valid, or that the patented technology does not infringe the rights of others.

The Group may wish to expand into additional foreign countries in the future and the laws of many foreign countries treat the protection of proprietary rights differently from the laws in Australia. Those laws may not protect the Group's proprietary rights to the same extent as do laws in Australia.

*Staff*

Admedus' success is dependent on the skills and abilities of its employees. As a result, the Company maintains a positive work environment and incentives for staff to perform well. Competition for skilled employees can be intense and there can be no assurance that the Group will be able to retain its key managerial, R&D, and technical employees or that it will be able to attract and retain additional highly qualified personnel in the future. The inability to attract and retain the necessary personnel could have a material and adverse effect upon the Group's business, results of operations and financial condition.

## DIRECTORS' REPORT (continued)

*Likely Developments*

*Outlook*

The past 12 months have been very productive for Admedus and it has built a foundation for continued growth for the Company, while further de-risking its technologies.

Over the next 12 months the Company is looking forward to:

- Growing sales and additional CardioCel® country approvals and continuing international launch of the product with more centres and surgeons using the product as our sales team continues to promote the clear advantages of the product to both surgeon and patient. The Company will also be seeking to launch CardioCel® into other countries and markets, and where appropriate seek partnerships to help drive sales.
- Expanding the cardiovascular product pipeline to leverage off the existing CardioCel® product success and provide surgical teams and patients with a range of products required to repair and reconstruct cardiovascular defects.
- Expanding the ADAPT® tissue bio-scaffold applications into new therapeutic areas, such as dura mater to leverage the value in this platform technology and utilise the benefits of these bio-scaffolds for numerous surgical areas as already shown in the cardiovascular area.
- The interim results from the ongoing HSV-2 Phase II study and the final study results which will provide further understanding of the potential for the therapeutic vaccine technology, with interim results anticipated within the coming financial year.
- The progression of the HPV therapeutic vaccine into initial clinical studies and its potential as a therapeutic in the treatment of HPV related cancers.

Admedus has the infrastructure and two platform technologies from which to continue to grow as a specialist healthcare company. The past 12 months has been very productive for Admedus as it builds the foundation for future growth through its established sales teams for CardioCel®, a growing pipeline of bio-scaffold products for use in cardiovascular surgery and its expanding pipeline in regenerative medicine products, not just for cardiovascular surgery, but for other surgical applications such as dura mater repairs. The Company has made important progress with its therapeutic vaccine programs and anticipates additional clinical data and studies in the coming year.

*Business Strategies*

The Group's business strategies to achieve the above goals include:

- The continued uptake of CardioCel® into surgical centres internationally;
- Additional market approvals for CardioCel®;
- Expanding the CardioCel® product range for the cardiovascular therapeutic area;
- Continuing product development of other ADAPT® products to expand the regenerative tissue portfolio;
- Progressing the clinical development of the therapeutic vaccines, in particular the HPV therapeutic vaccine into a Phase I study and the anticipated HSV-2 Phase II results.

The next 12 months and beyond will be a period of continued revenue growth, product development and R&D focus as the Company expands into global markets as an integrated healthcare company. This will provide Admedus with growing revenue, an expanding portfolio of regenerative tissue products and exciting programmes in therapeutic vaccines.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year not otherwise disclosed in this report and the Financial Statements.

During the financial period, Admedus Investments Pty Ltd, a subsidiary of Admedus Ltd, acquired additional shares in Admedus Vaccines Pty Ltd to increase its interest to 66.3%. Admedus Vaccines is a medical R&D business and operates the Immunotherapies Division of the consolidated entity. More recently the Company acquired an additional investment into Admedus Vaccines to increase the shareholding to 72.1%.

### EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 1 July 2015, the Group acquired additional shares in Admedus Vaccines to increase the shareholding to 72.1%.

On 22 July 2015, the Group announced the issue of 13,500,000 unlisted $0.144 options expiring 21 July 2020 to employees under the ESOP.

On 3 August 2015, the Group announced the issue of 1,016,667 ordinary shares on exercise of 1,016,667 options exercisable at $0.06.

On 17 August 2015, the Group announced the issue of 143,196 shares each at an issue price of $0.077 to executives of Admedus Ltd for achieving the key performance indicators stipulated in their contracts in lieu of bonuses.

Also on 17 August, the Group announced the allotment of 604,166 ordinary shares to executives for achieving the key performance indicators stipulated in their contracts in lieu of bonuses totalling $36,250 on exercise of 604,166 options exercisable at $0.06.

ENVIRONMENTAL REGULATIONS

The Company is subject to environmental regulation and other licences in connection with its research, development and manufacturing. The Company complies with all relevant Federal, State and Local environmental regulations. The Board is not aware of any breach of applicable environmental regulations by the Company.

GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

The Group have reviewed the reporting requirements of both the *Energy Efficiency Opportunities Act 2006* and the *National Greenhouse and Energy Reporting Act 2007* and the Group is not currently subject to any reporting obligations.

INFORMATION ON DIRECTORS

<table>
<tr><th rowspan="2">Director</th><th rowspan="2">Experience</th><th rowspan="2">Special Responsibilities</th><th colspan="2">Particulars of Director's Interest in Shares and Options of the Company</th></tr>
<tr><th>Ordinary Shares</th><th>Options</th></tr>
<tr><td>C. Catlow</td><td>Non-Executive Chairman appointed 16 June 2011.<br><br>Qualification:<br><br>Mr Catlow has over 25 years' experience in various senior roles in major operating companies and has considerable experience in raising both equity and debt for large projects. Mr Catlow was the inaugural CFO and senior executive for 7 years at Fortescue Metals Group Ltd and played a central role in its development and in raising more than US$4 billion.<br><br>Other current directorships<br>Triton Minerals Ltd.<br><br>Former directorships in last 3 years<br>Indo Mines Ltd; and<br>Sirius Minerals Plc</td><td>Chairman<br><br>Member of audit and risk management committee<br><br>Chair of remuneration committee</td><td>17,807,411</td><td>16,900,000</td></tr>
<tr><td>L. Rodne</td><td>Executive Director appointed as Managing Director 16 June 2011.<br><br>Qualification:<br><br>Mr Rodne has over 15 years of leadership experience in healthcare, technology, medical devices, and mining & renewable energy sectors in North America, UK and Australia. Mr Rodne has been in executive leadership roles in both public and private enterprises. Mr Rodne also led consulting services to the U.S. Healthcare, Device and Technology industries including Hospitals, Clinics, Multi-National Medical Device companies, Healthcare Insurance markets and various technology driven companies.<br><br>Other current directorships<br>None<br><br>Former directorships in last 3 years<br>None</td><td>Managing Director</td><td>26,993,684</td><td>23,000,000</td></tr>
</table>

# DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS

<table>
<tr><th rowspan="2">Director</th><th rowspan="2">Experience</th><th rowspan="2">Special Responsibilities</th><th colspan="2">Particulars of Director's Interest in Shares and Options of the Company</th></tr>
<tr><th>Ordinary Shares</th><th>Options</th></tr>
<tr><td>G. Rowley</td><td>Non-Executive Director appointed 16 June 2011.<br><br>Qualification:<br><br>Mr Rowley played a central role in the development of Fortescue Metals Group Ltd from its inception in 2003. Previously he was an executive with Rio Tinto Plc holding senior positions in Hamersley Iron and Argyle Diamonds.<br><br>Other current directorships<br>None<br><br>Former directorships in last 3 years<br>Fortescue Metals Group Limited</td><td>Member of audit and risk management committee<br><br>Member of remuneration committee</td><td>20,059,215</td><td>8,500,000</td></tr>
<tr><td>M. Bennett</td><td>Executive Director appointed as Managing Director since 16 July 2003. Resigned as Managing Director and appointed Executive Director since 16 June 2011.<br><br>Qualification:<br><br>Mr Bennett has over 35 years sales and marketing experience working for US and European medical device companies and has been involved in the introduction of many new medical and surgical device technologies to the Australian market. Since 1979 he owned and operated his own private surgical supply company and has exclusively represented some major overseas medical device manufacturing companies.<br><br>Other current directorships<br>None<br><br>Former directorships in last 3 years<br>None</td><td>Nil</td><td>12,574,000</td><td>3,800,000</td></tr>
<tr><td>P. Turvey</td><td>Non-Executive Director appointed 18 May 2012.<br><br>Qualification:<br><br>Mr Turvey has spent the last 30 years involved in the biotechnology industry, most of which were as General Counsel and Company Secretary in Australia's largest biotechnology company, CSL Limited. Mr Turvey was heavily involved in CSL's acquisitions and divestments over those years and directly responsible for the protection and licensing of its intellectual property.<br><br>Other current directorships<br>Starpharma Holdings Limited; and<br>Viralytics Limited<br><br>Former directorships in last 3 years<br>None</td><td>Chair of audit and risk management committee<br><br>Member of remuneration committee</td><td>3,172,039</td><td>833,334</td></tr>
</table>

# DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS

| | | | | |
|---|---|---|---|---|
| J. Seaberg | Non-Executive Director appointed 10 October 2014.<br><br>Qualification:<br>Mr Seaberg has significant experience in cardiovascular products and markets. He was Founder, Chairman and CEO of NeoChord Inc, a mitral valve repair technology from its inception in 2007 to 2014. Previously he was a senior executive with Guidant Corp (acquired by Boston Scientific) where he oversaw sales and marketing activities in its cardiac rhythm management and cardiac surgery divisions. He also served as Chairman of the Board of a bovine tissue company, Synovis Inc until its sale to Baxter International in 2012.<br><br>Other current directorships<br>None<br><br>Former directorships in last 3 years<br>None | Member of audit and risk management committee<br><br>Member of remuneration committee | Nil | Nil |
| W. Paterson | Non-Executive Director appointed 10 October 2014.<br><br>Qualification:<br><br>Mr Paterson has spent the last 25 years involved as an executive in the Global biotechnology industry. Previously he was a senior executive with Merck Serono and Roche Pharmaceuticals.<br><br>Other current directorships<br>Cepheid (NASDAQ CPHD)<br><br>Former directorships in last 3 years<br>None | Member of audit and risk management committee<br><br>Member of remuneration committee | Nil | Nil |

COMPANY SECRETARY

Stephen Mann has over ten years of experience in a variety of business finance, accounting, risk and administration roles. He is experienced in the areas of accounting, corporate governance, operational and financial management. He holds a Bachelor of Business Degree (Acc & Bus Law) and is a member of the Institute of Chartered Accountants.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2015, and the numbers of meetings attended by each Director were:

| Directors | Full Meetings of Directors | | Meetings of Audit Committee | | Meetings of Remuneration Committee | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| Chris Catlow | 6 | 6 | 4 | 4 | 2 | 2 |
| Lee Rodne | 6 | 6 | * | * | * | * |
| Graeme Rowley | 2 | 6 | 1 | 4 | 1 | 2 |
| Michael Bennett | 6 | 6 | * | * | * | * |
| Peter Turvey | 6 | 6 | 4 | 4 | 1 | 1 |
| John Seaberg | 5 | 5 | 3 | 3 | 1 | 1 |
| Wayne Paterson | 5 | 5 | 3 | 3 | 1 | 1 |

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a member of the relevant committee

The Board meets regularly on an informal basis in addition to the above meetings.

Details of the membership of the committees of the Board are presented in the Corporate Governance Statement.

## REMUNERATION REPORT (Audited)

The remuneration report is set out under the following main headings:

| | |
|---|---|
| A | Principles Used To Determine the Nature and Amount of Remuneration |
| B | Remuneration Governance |
| C | Details of Remuneration |
| D | Service Agreements |
| E | Share-Based Compensation |
| F | Additional information |
| G | Additional disclosures relating to key management personnel |
| H | Loans to key management personnel |

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001.* The remuneration arrangements detailed in this report are for Non-Executive and Executive Directors as follows:

- Chris Catlow — Chairman
- Lee Rodne — Managing Director
- Graeme Rowley — Non-Executive Director
- Michael Bennett — Executive Director
- Peter Turvey — Non-Executive Director
- John Seaberg — Non-Executive Director
- Wayne Paterson — Non-Executive Director

In addition, Julian Chick (Chief Operating Officer), and Stephen Mann's (Chief Financial Officer/Company Secretary) remuneration arrangements have been disclosed as they are considered by the Directors to be key management personnel.

REMUNERATION REPORT (continued)

A Principles Used to Determine the Nature and Amount of Remuneration

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered and set to attract the most qualified and experienced candidates.

Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executive officers, in the context of prevailing market conditions.

The Company embodies the following principles in its remuneration framework:

- the Board seeks independent advice on remuneration policies and practices including recommendations on remuneration packages and other terms of employment for Directors; and
- in determining remuneration, advice is sought from external consultants on current market practices for similar roles, the level of responsibility, performance and potential of the Director and performance of the Group.

In accordance with best practice corporate governance, the structure of Non-Executive and Executive remuneration is separate and distinct. Remuneration Committee responsibilities are carried out by Christopher Catlow, Graeme Rowley, Peter Turvey, John Seaberg and Wayne Paterson.

*Non-Executive Directors*

Fees and payments to the Non-Executive Directors reflect the demands which are made on and the responsibilities of the Directors. The Non-Executive Director's fees and payments are reviewed annually by the Remuneration Committee and approved by the Board. The Non-Executive Chairman's fees are determined based on competitive roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

The Non-Executive Directors' fees and payments were reviewed by the remuneration committee to ensure they were appropriate and in line with the market. The Chairman currently receives a fixed fee for his services as a Director.

The Company's Non-Executive Directors' remuneration package contains the following key elements:

- primary benefits – quarterly director's fees.
- equity – share options under the Admedus Share Option Incentive Plan (as approved by shareholders at the 2012 Annual General Meeting).

The Non-Executive Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $700,000 per annum and was approved by shareholders at the 2014 Annual General Meeting.

No retirement benefits are provided other than compulsory superannuation.

*Executive Directors*

The Company's Executive Directors' remuneration packages contain the following key elements:

- primary benefits – fees via base service agreements.
- equity – share options under the Admedus Share Option Incentive Plan (as approved by shareholders at the Annual General Meeting on 20 November 2012).

The combination of these components comprises the Executive Directors' total remuneration.

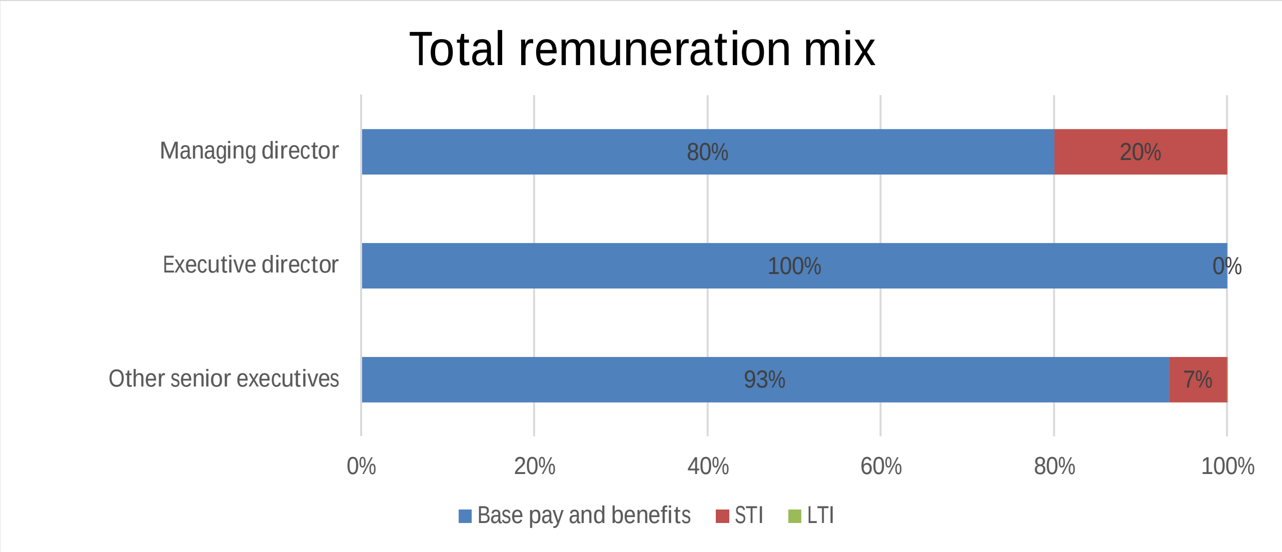
Service agreements are in place for Executive Directors which provide for a fixed base fee per annum. External remuneration information provides benchmark information to ensure the base pay is set to reflect the market for a comparable role. Base fees are reviewed annually to ensure the level is competitive with the market. There is no guaranteed base fee increases included in any Executive Director contracts. A parking bay is also provided as an additional benefit to Executive Directors.

There are no performance conditions on options issued to directors and employees.

# DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

*Executive remuneration mix*
The following chart sets out the executives' target remuneration mix:




CONSOLIDATED ENTITY PERFORMANCE AND LINK TO REMUNERATION

Remuneration for certain individuals is directly linked to performance of the consolidated entity. A portion of bonus and incentive payments are dependent on defined key performance indicators being met. The remaining portion of the bonus and incentive payments are at the discretion of the Remuneration Committee. Refer to section F of the Remuneration Report for details of the last five years earnings and total shareholders return.

The Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

USE OF REMUNERATION CONSULTANTS

The Company's objective is to ensure that remuneration policies are fair and competitive and aligned with the long-term interests of the Company. In doing this, during the year the Remuneration Committee sought advice from Aon Hewitt as an independent remuneration consultant to benchmark executive and non-executive director wages and fees.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2014 ANNUAL GENERAL MEETING

The Company received more than 90% of "yes" votes on its remuneration report for the 2014 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

B Remuneration Governance

The Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework;
- the operation of the incentive plans which apply to executive directors and senior executives, including key performance indicators and performance hurdles;
- the remuneration levels of executives; and
- Non-Executive Director fees.

The Corporate Governance Statement provides further information on this committee.

# DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

C Details of Remuneration

Details of the remuneration of the Directors of the Group is set out below:

| | Short-term benefits | | | | Post-employment benefits | Share based benefits | Total | Percentage remuneration consisting of shares/options for the year | Performance related |
|---|---|---|---|---|---|---|---|---|---|
| **2015** | Directors fees $ | Consulting fees $ | Salary $ | Bonus $ | Super-annuation $ | Equity shares/options $ | $ | % | % |
| *Non-Executive Director* | | | | | | | | | |
| C. Catlow | 100,000 | - | - | - | 10,000 | - | 110,000 | - | - |
| G. Rowley | 70,000 | - | - | - | 7,000 | - | 77,000 | - | - |
| P. Turvey | 70,000 | - | - | - | 7,000 | - | 77,000 | - | - |
| J. Seaberg[2] | 57,750 | - | - | - | - | - | 57,750 | - | - |
| W, Paterson[2] | 57,750 | - | - | - | - | - | 57,750 | - | - |
| *Executive Directors* | | | | | | | | | |
| L. Rodne | - | - | 400,209 | 100,000[3] | 50,021 | - | 550,230 | - | 20 |
| M. Bennett | - | 240,000 | - | - | 24,000 | - | 264,000 | - | - |
| Total directors compensation (Group) | 355,500 | 240,000 | 400,209 | 100,000 | 98,021 | - | 1,193,730 | | |
| *Key Management Personnel* | | | | | | | | | |
| S. Mann | - | - | 205,382 | - | 20,538 | 40 | 225,960 | - | - |
| J. Chick | - | - | 286,518 | 36,000[4] | 32,252 | 40 | 354,810 | - | 15 |
| Total key management personnel compensation (Group) | - | - | 491,900 | 36,000 | 52,790 | 80 | 580,770 | | |
| TOTAL | 355,500 | 240,000 | 892,109 | 136,000 | 150,811 | 80 | 1,774,500 | | |
| **2014** | | | | | | | | | |
| *Non-Executive Director* | | | | | | | | | |
| C. Catlow | 45,000 | - | - | - | 4,500 | 16,198 | 65,698 | 25 | - |
| G. Rowley | 35,000 | - | - | - | 3,500 | 8,999 | 47,499 | 19 | - |
| P. Turvey | 35,000 | - | - | - | 3,500 | 8,999 | 47,499 | 19 | - |
| *Executive Directors* | | | | | | | | | |
| L. Rodne | - | - | 350,910 | - | 35,091 | 68,392 | 454,393 | 15 | - |
| M. Bennett | - | 240,000 | - | - | 24,000 | 23,397 | 287,397 | 8 | - |
| Total directors compensation (Group) | 115,000 | 240,000 | 350,910 | - | 70,591 | 125,985 | 902,486 | | |
| *Key Management Personnel* | | | | | | | | | |
| S. Mann | - | - | 191,500 | - | 19,150- | 11,094 | 221,744 | 5 | - |
| J. Chick | - | - | 240,000 | 75,340[4] | 31,534- | 62,377 | 409,251 | 15 | 23 |
| Total key management personnel compensation (Group) | - | - | 431,500 | 75,340 | 50,684 | 73,471 | 630,995 | | |
| TOTAL | 115,000 | 240,000 | 782,410 | 75,340 | 121,275 | 199,456 | 1,533,481 | | |

(1) There are no termination or retirement benefits for Non-Executive Directors (other than statutory superannuation).
(2) J. Seaberg and W. Paterson were appointed as Non-Executive Directors on 10 October 2014.
(3) L. Rodne achieved all performance milestones to receive bonus. No bonuses were forfeited or carried forward
(4) J Chick achieved all performance milestones to receive bonus. No bonuses were forfeited or carried forward.

REMUNERATION REPORT (continued)

D Service Agreements

On appointment, the Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter outlines the Board's policies and terms, including remuneration relevant to the office of director.

Remuneration and other terms of employment for the Managing Director and Executive Director are formalised in service agreements. The major provisions relating to remuneration are set out below.

Lee Rodne, Managing Director

- Term of agreement – shall continue until terminated;
- Base salary of $400,000 for the year ended 30 June 2015, to be reviewed annually;
- Superannuation of 10% is payable under the agreement; and
- The board may, at its discretion, elect to provide annual bonus up to an amount equal to 100% of the base salary.
- Contract may be terminated early by either party with twelve months' notice, subject to termination payments as outlined below.

Michael Bennett, Executive Director

- Term of agreement – 3 years from 1 April 2012;
- Base fee of $240,000 for the year ended 30 June 2015, to be reviewed annually;
- Superannuation of 10% is payable under the agreement; and
- No performance based benefits payable under the agreement.
- Contract may be terminated early by either party with six months' notice, subject to termination payments as outlined below.

*Termination benefits*

Post-employment benefits include accrued long service leave, which is due and payable after every seven consecutive years of service. The service agreements provide Executive Directors with three months of base fee in the event of redundancy. No other termination benefits are payable, unless the Company does not provide the required six month notice period of termination, then three months of base fee is payable.

E Share-based Compensation

*Options*

On 5 November 2014 employees received 4,100,000 options as a sign-on bonus under the ESOP.

On 30 June 2015 the Company issued 18,850,000 options to executives and employees under the ESOP.

333,333 shares have been issued to Directors as a result of the exercise of any Plan options in the current financial year. (2014: 333,333).

During the period 2,000,000 of the 22,950,000 ESOP options were issued to key management personnel (2014: nil).

Set out below are summaries of options granted by Admedus Limited to directors and key management personnel:

| Grant date | Expiry date | Exercise price $ | Balance at start of the year Number | Granted during the year Number | Cancelled Number | Exercised during the year Number | Balance at end of the year Number | Value at grant date |
|---|---|---|---|---|---|---|---|---|
| 12/8/2011 | 10/7/2016 | 0.06 | 4,500,000 | - | - | - | 4,500,000 | 182,700 |
| 22/8/2011 | 10/7/2016 | 0.06 | 48,800,000 | - | - | - | 48,800,000 | 419,680 |
| 18/5/2012 | 18/5/2017 | 0.06 | 2,466,667 | - | - | (333,333) | 2,133,334 | 55,986 |
| 18/6/2013 | 18/6/2018 | 0.095 | 5,000,000 | - | - | - | 5,000,000 | 57,295 |
| 16/12/2013 | 16/12/2018 | 0.27 | 7,000,000 | - | - | - | 7,000,000 | 125,985 |
| 30/6/2015 | 30/6/2020 | 0.117 | - | 2,000,000 | - | - | 2,000,000 | 80 |
| Total | | | 67,766,667 | 2,000,000 | - | (333,333) | 69,433,334 | 841,726 |

# DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

*Option holdings*

*The number of options over ordinary shares in the Company held during the financial year by each director of Admedus Limited, including their personally related parties, are set out below:*

| Option holder | Balance at the start of the year | Granted as compensation | Options beneficially held | Net change/ Cancelled | Purchased | Expired/ Exercised | Balance at the end of the year | Unvested | Vested and exercisable |
|---|---|---|---|---|---|---|---|---|---|
| 2015 | | | | | | | | | |
| Directors of Admedus Limited | | | | | | | | | |
| C. Catlow | 16,900,000 | - | - | - | - | - | 16,900,000 | 600,000 | 16,300,000 |
| L. Rodne | 23,000,000 | - | - | - | - | - | 23,000,000 | 2,533,334 | 20,466,666 |
| G Rowley | 8,500,000 | - | - | - | - | - | 8,500,000 | 333,334 | 8,166,666 |
| M. Bennett | 3,800,000 | - | - | - | - | - | 3,800,000 | 866,667 | 2,933,333 |
| P. Turvey | 1,166,667 | - | - | - | - | (333,333) | 833,334 | 333,334 | 500,000 |
| J.Seaberg | - | - | - | - | - | - | - | - | - |
| W. Paterson | - | - | - | - | - | - | - | - | - |
| Other key management personnel of the group | | | | | | | | | |
| S. Mann | 3,400,000 | 1,000,000 | - | - | - | - | 4,400,000 | 1,333,334 | 3,066,666 |
| J. Chick | 9,000,000 | 1,000,000 | - | - | - | - | 10,000,000 | 2,333,334 | 7,666,666 |
| 2014 | | | | | | | | | |
| Directors of Admedus Limited | | | | | | | | | |
| C. Catlow | 16,000,000 | 900,000 | - | - | - | - | 16,900,000 | 6,233,334 | 10,666,666 |
| L. Rodne | 19,200,000 | 3,800,000 | - | - | - | - | 23,000,000 | 10,200,000 | 12,800,000 |
| G Rowley | 8,000,000 | 500,000 | - | - | - | - | 8,500,000 | 3,166,667 | 5,333,333 |
| M. Bennett | 2,500,000 | 1,300,000 | - | - | - | - | 3,800,000 | 2,133,334 | 1,666,666 |
| P. Turvey | 1,000,000 | 500,000 | - | - | - | (333,333) | 1,166,667 | 833,334 | 333,333 |
| Other key management personnel of the group | | | | | | | | | |
| S. Mann | 3,400,000 | - | - | - | - | - | 3,400,000 | 1,466,667 | 1,933,333 |
| J. Chick | 9,000,000 | - | - | - | - | - | 9,000,000 | 4,333,334 | 4,666,666 |

Fair Value of Options Granted

The assessed fair value at grant date of options granted during the year ended 30 June 2015 was 4.35 cents per option for Tranche A. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2015 included:

Tranche A

(a) options issued under the ESOP are granted for no consideration and vest based on holders still being Directors or key management personnel of Admedus Limited over a three year period. Vested options are exercisable for a period up to expiry date.
(b) *exercise price:* $0.117
(c) *grant date:* 30 June 2015
(d) *expiry date:* 30 June 2020
(e) *share price at grant date:* $0.07
(f) *expected price volatility of the Company's shares:* 90%
(g) *risk-free interest rate:* 2.32%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

REMUNERATION REPORT (continued)

## F Additional information

The earnings of the consolidated entity for the five years to 30 June 2015 are summarised below:

| | 2015 $ | 2014 $ | 2013 $ | 2012 $ | 2011 $ |
|---|---|---|---|---|---|
| Sales revenue | 10,224,427 | 7,940,622 | 7,415,188 | 6,460,516 | 6,772,776 |
| EBITDA | (21,835,587) | (8,559,638) | (2,750,544) | (10,082,174) | (1,144,759) |
| EBIT | (23,852,595) | (9,846,302) | (3,023,324) | (10,357,773) | (1,958,526) |
| Profit/(Loss) after tax | (26,799,970) | (9,048,843) | (2,418,497) | (10,222,135) | (1,953,648) |

The factors that are considered to affect total shareholder return ('TSR') are summarised below:

| | 2015 $ | 2014 $ | 2013 $ | 2012 $ | 2011 $ |
|---|---|---|---|---|---|
| Share price at financial year end ($A) | 0.070 | 0.135 | 0.049 | 0.018 | 0.081 |
| Total dividends declared (cents per share) | - | - | - | - | - |
| Basic earnings per share (cents per share) | (1.648) | (0.622) | (0.208) | (1.507) | (0.990) |

## G Additional disclosure relating to key management personnel

*Shareholding*
*The number of shares in the Company held during the year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below. There were no shares granted during the reporting or comparative period as compensation.*

| Ordinary shareholders | Balance at the start of the year | Received during the year on exercise of options | Other changes during year | Balance at the end of the year |
|---|---|---|---|---|
| 2015 | | | | |
| Directors of Admedus Limited | | | | |
| C. Catlow | 17,807,411 | - | - | 17,807,411 |
| L. Rodne | 26,279,398 | - | 714,286 | 26,993,684 |
| G Rowley | 20,059,215 | - | - | 20,059,215 |
| M. Bennett | 12,494,000 | - | 80,000 | 12,574,000 |
| P. Turvey | 2,442,202 | 333,333 | 396,504 | 3,172,039 |
| J. Seaberg | - | - | - | - |
| W. Paterson | - | - | - | - |
| | | | | |
| Other key management personnel of the group | | | | |
| S. Mann | - | - | - | - |
| J. Chick | 4,100,000 | - | 585,713 | 4,685,713 |
| 2014 | | | | |
| Directors of Admedus Limited | | | | |
| C. Catlow | 14,635,477 | - | 3,171,934 | 17,807,411 |
| L. Rodne | 24,129,398 | - | 2,150,000 | 26,279,398 |
| G Rowley | 16,584,292 | - | 3,474,923 | 20,059,215 |
| M. Bennett | 10,620,000 | - | 1,874,000 | 12,494,000 |
| P. Turvey | 1,388,664 | 333,333 | 720,205 | 2,442,202 |
| | | | | |
| Other key management personnel of the group | | | | |
| S. Mann | - | - | - | - |
| J. Chick | 4,751,176 | - | (651,176) | 4,100,000 |

REMUNERATION REPORT (continued)

H Loans to key management personnel

No loans have currently been provided to key management personnel,

THIS IS THE END OF THE AUDITED REMUNERATION REPORT

SHARES UNDER OPTION

Unissued ordinary shares of Admedus Limited under option as at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares | Number under option | Value of option at grant date |
|---|---|---|---|---|
| 12 Aug 2011 | 10 Jul 2016 | 6 cents | 3,666,667 | 4.06 cents |
| 22 Aug 2011 | 10 Jul 2016 | 6 cents | 51,180,000 | 0.86 cents |
| 18 May 2012 | 18 May 2017 | 6 cents | 2,133,334 | 1.47 cents |
| 26 April 2013 | 1 March 2018 | 6 cents | 2,000,000 | 1.67 cents |
| 18 June 2013 | 18 June 2018 | 9.5 cents | 15,050,067 | 3.33 cents |
| 16 December 2013 | 16 December 2018 | 27 cents | 9,000,000 | 10.05 cents |
| 28 March 2014 | 1 February 2019 | 24.5 cents | 2,000,000 | 8.97 cents |
| 21 May 2014 | 1 July 2018 | 17 cents | 3,000,000 | 6.40 cents |
| 21 May 2014 | 21 May 2019 | 17 cents | 15,000,000 | 7.04 cents |
| 5 November 2014 | 5 November 2019 | 21 cents | 4,100,000 | 7.01 cents |
| 30 June 2015 | 30 June 2020 | 11.7 cents | 18,850,000 | 4.35 cents |
| Total | | | 125,9880,068 | |

No option holder has any right under the options to participate in any other share issue of the Company or any other entity. The options are exercisable at any time after vesting or before the expiry date.

During the period the following options lapsed:
4,975,000 unlisted options lapsed during the financial year (2014: 0).

INSURANCE OF OFFICERS

During the financial year, the Company paid a premium in respect of a contract insuring the Directors and Officers of the Company and any subsidiary against a liability incurred as a Director or Officer to the extent permitted by the Corporations Act 2001. Due to a confidentiality clause in the policy, the amount of the premium has not been disclosed.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

# DIRECTORS' REPORT (continued)

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties, where the auditors' expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor (BDO Audit (WA) Pty Ltd) for audit and non-audit services provided during the year are set out below.

The board of Directors has considered the position and, in accordance with the advice received for the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Non-audit Services | | |
| Taxation services | | |
| Related practices of BDO: | | |
| Corporate finance services | 8,058 | 12,728 |

AUDITOR

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

This report is made in accordance with a resolution of the Directors.

CHRISTOPHER CATLOW

Chairman
Perth, Western Australia

Dated 27 August 2015

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF ADMEDUS LIMITED

As lead auditor of Admedus Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Admedus Limited and the entities it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 27 August 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2015

| | Note | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|---|
| Revenue from continuing operations | 5 | 10,224,427 | 7,940,622 |
| Cost of sales | | (7,166,322) | (4,842,253) |
| Gross profit | | 3,058,105 | 3,098,369 |
| Other income | 5 | 1,172,785 | 2,624,054 |
| Gain on acquisition | | - | 2,684,300 |
| Employee benefits | 6 | (12,124,703) | (7,340,049) |
| Consultancy and legal fees | 6 | (2,869,674) | (1,541,674) |
| Travel and conference expenses | | (3,402,433) | (1,963,793) |
| Research and development costs | 6 | (2,545,522) | (1,885,205) |
| Share based payments | 27 | (1,054,649) | (446,674) |
| Asset write-downs | 6 | (203,961) | (145,482) |
| Depreciation and amortisation expense | 6 | (1,793,983) | (1,463,027) |
| Financing costs | | (72,225) | (62,379) |
| Other expense | | (4,035,077) | (2,953,916) |
| Loss before income tax from continuing operations | | (23,871,337) | (9,395,476) |
| Income tax (expense)/benefit | 7 | (2,928,633) | 1,187,761 |
| Loss after income tax for the year | | (26,799,970) | (8,207,715) |
| Total loss is attributable to: | | | |
| Equity holders of Admedus Limited | | (25,253,842) | (6,616,498) |
| Non-controlling interest | 20 | (1,546,128) | (1,591,217) |
| | | (26,799,970) | (8,207,715) |
| Loss per share from continuing operations attributable to ordinary equity holders of the Company (cents per share) | | Cents | Cents |
| Basic loss per share | 22(b) | (1.648) | (0.552) |
| Diluted loss per share | | n/a | n/a |

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

| | | CONSOLIDATED | |
|---|---|---|---|
| | Note | 2015<br>$ | 2014<br>$ |
| Loss for the year | | (26,799,970) | (8,207,715) |
| Other comprehensive income | | | |
| Total comprehensive loss | | (26,799,970) | (8,207,715) |
| Total comprehensive loss is attributable to: | | | |
| Equity holders of Admedus Limited | | (25,253,842) | (6,616,498) |
| Non-controlling interest | 20 | (1,546,128) | (1,591,217) |
| | | (26,799,970) | (8,207,715) |

The above Consolidated Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

| | Note | CONSOLIDATED 2015 $ | CONSOLIDATED 2014 $ |
|---|---|---|---|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 23 | 24,025,859 | 19,582,972 |
| Trade and other receivables | 8 | 2,459,352 | 1,639,917 |
| Inventories | 9 | 3,022,405 | 2,952,245 |
| Total Current Assets | | 29,507,616 | 24,175,134 |
| Non-Current Assets | | | |
| Property, plant & equipment | 10 | 2,957,922 | 3,297,854 |
| Intangibles | 11 | 8,794,928 | 9,947,161 |
| Deferred tax asset | 12 | - | 2,341,224 |
| Total Non-Current Assets | | 11,752,850 | 15,586,239 |
| TOTAL ASSETS | | 41,260,466 | 39,761,373 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 13 | 1,316,645 | 1,448,622 |
| Provisions | 14 | 924,424 | 683,538 |
| Income tax payable | 15 | - | 7,338 |
| Total Current Liabilities | | 2,241,069 | 2,139,498 |
| Non-Current Liabilities | | | |
| Deferred tax liability | 12 | - | - |
| Provisions | 16 | 460,915 | 455,000 |
| Total Non-Current Liabilities | | 460,915 | 455,000 |
| TOTAL LIABILITIES | | 2,701,984 | 2,594,498 |
| NET ASSETS | | 38,558,482 | 37,166,875 |
| EQUITY | | | |
| Contributed equity | 18 | 80,738,568 | 53,492,224 |
| Reserves | 19 | (8,646) | 533,415 |
| Accumulated losses | | (44,503,473) | (19,249,631) |
| Capital and reserves attributable to equity holders of Admedus | | 36,226,448 | 34,776,008 |
| Non-controlling interest | 20 | 2,332,034 | 2,390,867 |
| TOTAL EQUITY | | 38,558,482 | 37,166,875 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

| | Share Capital $ | Share-based payments reserve $ | Other Reserves $ | Foreign currency translation reserve $ | Accumulated Losses $ | Total $ | Non-controlling Interest $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 July 2013 | 25,035,391 | 845,442 | (537,094) | - | (12,633,133) | 12,710,606 | 3,760,477 | 16,471,083 |
| Loss for the year | - | - | - | - | (6,616,498) | (6,616,498) | (1,591,217) | (8,207,715) |
| Total comprehensive loss | - | - | | - | (6,616,498) | (6,616,498) | (1,591,217) | (8,207,715) |
| Transactions with non-controlling interest | - | - | (221,607) | - | - | (221,607) | 221,607 | - |
| Transactions with owners in their capacity as owners | | | | | | | | |
| Shares issued during the period | 28,840,201 | - | - | - | - | 28,840,201 | - | 28,840,201 |
| Options issued during the period | - | 446,674 | - | - | - | 446,674 | - | 446,674 |
| Capital raising costs | (1,514,010) | - | - | - | - | (1,514,010) | - | (1,514,010) |
| Recognise tax effect on capital raising costs | 288,192 | - | - | - | - | 288,192 | - | 288,192 |
| Shares issued as executive bonus | 18,000 | - | - | - | - | 18,000 | - | 18,000 |
| Shares issued in lieu of directors fees | 97,450 | - | - | - | - | 97,450 | - | 97,450 |
| Exercise of options | 727,000 | - | - | - | - | 727,000 | - | 727,000 |
| Balance at 30 June 2014 | 53,492,224 | 1,292,116 | (758,701) | - | (19,249,631) | 34,776,008 | 2,390,867 | 37,166,875 |
| Loss for the year | - | - | - | - | (25,253,842) | (25,253,842) | (1,546,128) | (26,799,970) |
| Total comprehensive loss | - | - | - | - | (25,253,842) | (25,253,842) | (1,546,128) | (26,799,970) |
| Transactions with non-controlling interest | - | - | (1,487,294) | - | - | (1,487,294) | 1,487,294 | - |
| Transactions with owners in their capacity as owners | | | | | | | | |
| Shares issued during the period | 28,149,234 | - | - | - | - | 28,149,234 | - | 28,149,234 |
| Options issued during the period | - | 1,024,648 | - | - | - | 1,024,648 | - | 1,024,648 |
| Capital raising costs | (1,648,743) | - | - | - | - | (1,648,743) | - | (1,648,743) |
| Recognise tax effect on capital raising costs | 587,409 | - | - | - | - | 587,409 | - | 587,409 |
| Foreign currency - subsidiaries | - | - | - | (79,415) | - | (79,415) | - | (79,415) |
| Shares issued in lieu of contractor fees | 30,000 | - | - | - | - | 30,000 | - | 30,000 |
| Exercise of options | 128,444 | - | - | - | - | 128,444 | - | 128,444 |
| Balance at 30 June 2015 | 80,738,568 | 2,316,764 | (2,245,995) | (79,415) | (44,503,473) | 36,226,448 | 2,332,034 | 38,558,482 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 30 JUNE 2015

| | | CONSOLIDATED | |
|---|---|---|---|
| | Note | 2015<br>$ | 2014<br>$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 9,436,178 | 7,829,769 |
| Payment to suppliers | | (32,123,910) | (21,097,165) |
| Income taxes paid | | - | (22,601) |
| R&D tax refund | | 1,024,795 | 702,529 |
| Grant Income | | 147,990 | 1,920,052 |
| Interest paid | | (72,225) | (17,462) |
| Interest received | | 90,968 | 40,527 |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 23(e) | (21,496,204) | (10,644,351) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Cash acquired on acquisition of subsidiaries | 4 | - | 97,093 |
| Payments for property, plant & equipment | | (433,631) | (264,536) |
| Payments for intangible assets | | (91,213) | (103,649) |
| Additional shares acquired in subsidiary | | (165,000) | - |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | (689,844) | (271,092) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from share or options issues | | 28,277,678 | 29,567,201 |
| Share issue transaction costs | | (1,648,743) | (1,514,209) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | 26,628,935 | 28,052,992 |
| NET INCREASE IN CASH HELD | | 4,442,887 | 17,137,549 |
| CASH AT BEGINNING OF THE YEAR | | 19,582,972 | 2,445,423 |
| CASH AT END OF THE YEAR | 23(a) | 24,025,859 | 19,582,972 |

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

*AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*
The consolidated entity has applied AASB 2012-3 from 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

*AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*
The consolidated entity has applied AASB 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

*AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)*
The consolidated entity has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the AASB and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Admedus Limited ('company' or 'parent entity') as at 30 June 2015 and the results of all subsidiaries for the year then ended. Admedus Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly inequity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it de-recognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

*Reverse Acquisition*

In accordance with AASB 3 “Business Combinations”, when Admedus Limited (the legal parent) acquired Admedus Investments Pty Limited group (being Admedus Investments Pty Limited and its controlled entities Admedus (Australia) Pty Limited and Admedus (NZ) Limited) (the legal subsidiary), the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing shareholders of Admedus Investments Pty Limited have effectively acquired Admedus Limited. Under reverse acquisition accounting, the consolidated financial statements are prepared as if Admedus Investments Pty Limited had acquired Admedus Limited and its controlled entity, not vice versa represented by the legal position.

- In reverse acquisition accounting, the cost of the business is deemed to have been incurred by the legal subsidiary (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (the acquiree for accounting purposes). However, due to the fact that the fair value of the equity instruments of the legal subsidiary (Admedus Investments Pty Limited) was not clearly evident at the date which the control was passed, the alternative method was elected (per AASB 3, para B6), where the cost of the business combination was determined as the total fair value of all the issued equity instruments of the legal parent (Admedus Limited) immediately prior to the business combination.
- In the separate financial statements of the legal parent (Admedus Limited), the investment in legal subsidiary (Admedus Investments Pty Limited) was accounted for at cost.

As a consequence:

- An exercise is performed to fair value the assets and liabilities of the legal acquirer, Admedus Limited;
- The cost of the investment held by the legal parent (Admedus Limited) in the legal subsidiary (Admedus Investments Pty Limited) is reversed on consolidation and the cost of reverse acquisition is eliminated on consolidation against the consolidated equity and reserves of Admedus Investments Pty Limited and its consolidated entities at date when control is passed. The effect of this is to restate the consolidated equity and reserves balances to reflect those of Admedus Investments Pty Limited at the date of acquisition;

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

- The amount recognised as issued equity instruments are determined by adding to the issued equity of the legal subsidiary immediately before the business combination, the cost of the combination; and
- The consolidated financial statements are issued under the name of the legal parent (Admedus Limited) but are a continuation of the financial statements of the deemed acquirer (Admedus Investments Pty Limited) under the reverse acquisition rules.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity re-measures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Segment reporting

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Admedus Limited's functional and presentation currency.

*Foreign currency transactions*
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Sale of goods*
Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

*Interest*
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*
Other revenue is recognised when it is received or when the right to receive payment is established.

Government Grants

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Income tax

The consolidated entity previously accounted for refundable R&D tax incentives as an income tax benefit. The consolidated entity has determined that these incentives are more akin to government grants because they are not conditional upon earning taxable income. The consolidated entity has therefore made a voluntary change in accounting policy during the reporting period. Refundable tax incentives are now accounted for as Australian Accounting Standards Technical Interpretation 3 Government Grants under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, because the directors consider this policy to provide more relevant information to meet the economic decision-making needs of users, and to make the financial statements more reliable.

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or 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 nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Admedus Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime from 1 July 2013. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognizes the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary 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 tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification. An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities 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 statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

### Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average cost formula. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

*Finished goods*

Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

| | |
|---|---|
| Leasehold improvements | 3-15 years |
| Plant and equipment | 3-7 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is de-recognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

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.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset.

The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

*Research and development*

Research costs are expensed in the period in which they are incurred. Development costs are capitalised, up to the stage of commercialization, when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of up to 17 years.

*Patents and trademarks*

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of up to 17 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Other long-term employee benefits*
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

*Retirement benefit obligations*
All employees of the consolidated entity are entitled to benefits from the consolidated entity's superannuation plan on retirement, disability or death. The consolidated entity only has a defined contribution section within its plan. The defined contribution section receives fixed contributions from entities in the consolidated entity and the consolidated entity's legal or constructive obligation is limited to these contributions.

*Share-based payments*
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

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.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Earnings per share

*Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to the owners of Admedus Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

New Accounting Standards and Interpretations not yet mandatory or early 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 consolidated entity for the annual reporting period ended 30 June 2015. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below:

*AASB 2015 – 1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
This standard is applicable to annual reporting periods beginning on or after 1 January 2016. Clarifies for AASB 119 Employee Benefits that high quality corporate bonds or national government bonds used to determine the discount rate for long service leave and defined benefit liabilities must be denominated in the same currency as the benefits that will be paid to the employee. The consolidated entity will adopt this standard from 1 July 2016, but the impact of its adoption has yet to be assessed by the consolidated entity.

*AASB 2015 – 2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*
This standard is applicable to annual reporting periods beginning on or after 1 January 2016. This standard introduces amendments that only affect presentation and disclosures only. Therefore on first time adoption of these amendments, comparatives will need to be restated in line with presentation and note ordering. The consolidated entity will adopt this standard from 1 July 2016, but the impact of its adoption has yet to be assessed by the consolidated entity.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

*AASB 15 Revenue from Contracts with Customers*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 9 Financial Instruments*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

2. CRITICAL ACCOUNTING JUDGEMENT, 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 judgments, estimates and assumptions on historical experience and on other various factors, including expectations of future events that management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Share-based payment transactions*
The consolidated entity 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 either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. 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 profit or loss and equity.

*Provision for impairment of receivables*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

2. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS (continued)

*Provision for impairment of inventories*
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

*Fair value measurement hierarchy*
The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

*Estimation of useful lives of assets*
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*Goodwill and other indefinite life intangible assets*
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

*Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Income tax*
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*Recovery of deferred tax assets*
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

*Employee benefits provision*
As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Lease make good provision*
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

2. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS (continued)

*Warranty provision*
In determining the level of provision required for warranties the consolidated entity has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

*Business combinations*
As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks (including interest rate risk, credit risk and liquidity risk). The Group's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use derivative financial instruments, however, the Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, aging analysis for credit risk and at present are not exposed to price risk.

Risk management is carried out by the Board of Directors with assistance from suitably qualified external advisors. The Board provides written principles for overall risk management and further policies will evolve commensurate with the evolution and growth of the Company.

The Group and the Company hold the following financial instruments:

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $ | $ |
| Financial assets | | |
| Cash and cash equivalents | 24,025,859 | 19,582,972 |
| Trade and other receivables | 2,459,352 | 1,639,917 |
| | 26,485,211 | 21,222,889 |
| Financial liabilities | | |
| Trade and other payables | 1,316,645 | 1,448,622 |
| | 1,316,645 | 1,448,622 |
| Net financial assets | 25,168,566 | 19,774,267 |

The Group's principal financial instruments comprise cash and short-term deposits. The Group does not have any borrowings in the current year.

The main purpose of the financial instruments is to fund the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group are cash flow (interest rate risk, liquidity risk and credit risk). The Board reviews and agrees policies for managing each of these risks and they are summarised below:

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Market Risk

*Cash flow and interest rate risk*

The Group's only interest rate risk arises from cash and cash equivalents held. Term deposits and current accounts held with variable interest rates expose the group to cash flow interest rate risk. The Company does not consider this to be material to the Group and has therefore not undertaken any further analysis of risk exposure.

The following sets out the Group's exposure to interest rate risk, including the effective weighted average interest rate by maturity periods:

| | Note | Weighted average interest rate | Total $ |
|---|---|---|---|
| 30 June 2015 Consolidated | | | |
| Financial assets | | | |
| Cash and cash equivalents | 23 | 0.3% | 24,025,859 |
| 30 June 2014 Consolidated | | | |
| Financial assets | | | |
| Cash and cash equivalents | 23 | 0.3% | 19,582,972 |

*Sensitivity*
At 30 June 2015, if interest rates had increased by 0.15% or decreased by 0.2% from the year end rates with all other variables held constant, post-tax loss for the year would have been $36,039 lower/$48,052 higher (2014 changes of 0.15%/0.2%: $29,374 lower/ $39,166 higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

3. FINANCIAL RISK MANAGEMENT (continued)

For some receivables in Note 8 the group obtained deposits to cover the cost of defaults by customers. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $ | $ |
| Cash at bank and short-term bank deposits | | |
| AA | 24,025,859 | 19,582,972 |

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

The Group's exposure to the risk of changes in market interest rates relates primarily to cash assets and floating interest rates. The Group does not have significant interest-bearing assets and is not materially exposed to changes in market interest rates.

The Directors monitor the cash-burn rate of the Group on an ongoing basis against budget. As at reporting date the Group had sufficient cash reserves to meet its requirements. The Group has no access to credit standby facilities or arrangements for further funding or borrowings in place.

The financial liabilities the Group had at reporting date were trade payables incurred in the normal course of the business. These were non-interest bearing and were due within the normal 30-60 days terms of creditor payments.

*Maturities of financial liabilities*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years | Total contractual cash flows | Carrying amount (assets)/ liabilities |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Group – At 30 June 2015 | | | | | | | |
| Non-derivatives | | | | | | | |
| Trade and other payables | 1,316,645 | - | - | - | - | 1,316,645 | 1,316,645 |
| Non-interest bearing | - | - | - | - | - | - | - |
| Total non-derivatives | 1,316,645 | - | - | - | - | 1,316,645 | 1,316,645 |
| Group – At 30 June 2014 | | | | | | | |
| Non-derivatives | | | | | | | |
| Trade and other payables | 1,448,622 | - | - | - | - | 1,448,622 | 1,448,622 |
| Non-interest bearing | - | - | - | - | - | - | - |
| Total non-derivatives | 1,448,622 | - | - | - | - | 1,448,622 | 1,448,622 |

(d) Fair Value Estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of receivables and trade payables are assumed to approximate their fair values due to their short-term nature.

The consolidated entity's principal financial instruments consist of cash and deposits with banks, accounts receivable, trade payables and loans payable. The main purpose of these non-derivative financial instruments is to finance the entity's operations.

4. BUSINESS COMBINATIONS

Verigen Australia Pty Ltd acquisition

On 31 December 2013 Admedus Ltd, acquired 100% of shares on issue in Admedus Biomanufacturing Pty Ltd (formerly Verigen Australia Pty Ltd). This is a bio-implant manufacturing business and operates in the manufacturing division of the consolidated entity.

The acquisition is part of the Group's overall strategy to commercialise new medical technologies in-house.

The values identified in relation to the acquisition of Admedus Biomanufacturing Pty Ltd are final as at 30 June 2014.

| | Acquiree's Carrying Amount | Fair Value |
|---|---|---|
| | $ | $ |
| Purchase consideration: | | |
| — equity issued (23,827 shares at $0.000042 per share) | | 1 |
| — cash at bank | | (97,094) |
| | | (97,093) |
| Less: | | |
| Trade and other receivables | 26,203 | 26,203 |
| Inventory | 30,150 | 30,150 |
| Property, plant and equipment (i) | - | 3,139,250 |
| Trade and other payable | (80,396) | (80,396) |
| Provisions (ii) | (73,000) | (528,000) |
| Identifiable assets acquired and liabilities assumed | (97,043) | 2,587,207 |
| Gain on acquisition | | 2,684,300 |

i. Prior management had impaired the value of property, plant and equipment in line with their initial strategy of closing the facility. As the facility will now be used to manufacture CardioCel®, Admedus directors believe that the property, plant and equipment has a greater value, therefore an independent valuation has been completed by Griffin Valuation Advisory.

ii. Under the lease agreement there is a requirement for Admedus Biomanufacturing to restore the facility to original condition at the end of lease. A provision of $455,000 has been created for the cost of removing lease hold improvements including laboratories and clean rooms based on valuation by Griffin Valuation Advisory.

Loss and revenue resulting from the acquisition of Admedus Biomanufacturing Pty Ltd amounting to $Nil and $984,287 respectively are included in the consolidated statement of profit or loss from the acquisition date of 31 December 2013 through to 30 June 2014.

## 5. REVENUES

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Revenue from continuing operations | 10,133,460 | 7,900,095 |
| Interest revenue | 90,967 | 40,527 |
| Total revenue from continuing operations | 10,224,427 | 7,940,622 |
| Breakdown of Other income | | |
| Grant income | 147,990 | 1,920,052 |
| Research and development tax incentive | 1,024,795 | 702,529 |
| Sundry income | - | 1,473 |
| Total other revenue | 1,172,785 | 2,624,054 |

## 6. EXPENSES

| | Note | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|---|
| Loss before income tax includes the following specific expenses: | | | |
| Consultancy costs | | 2,869,674 | 1,541,674 |
| Depreciation | 10 | 773,563 | 227,583 |
| Amortisation | 11 | 1,243,445 | 1,235,444 |
| Total depreciation and amortisation expense (a) | | 2,017,008 | 1,463,027 |
| Less depreciation and amortisation expense recognised in cost of sales | | (223,025) | - |
| Depreciation and amortisation expense recognised below gross profit | | 1,793,983 | 1,463,027 |
| Research and development costs | | 2,545,522 | 1,885,205 |
| Write-down of inventory | 9 (a) | 186,990 | 141,410 |
| Bad debt expense | | 16,971 | 4,072 |
| Total Asset write-down | | 203,961 | 145,482 |
| Employee benefits expense (a) | | | |
| Wages and salaries | | 12,607,906 | 6,898,564 |
| Leave provisions | | 360,496 | 441,485 |
| Total employee benefits expense | | 12,968,402 | 7,340,049 |
| Less employee benefits expense recognised in cost of sales | | (843,699) | - |
| Employee benefits expense recognised below gross profit | | 12,124,703 | 7,340,049 |

## 7. INCOME TAX EXPENSE/(BENEFIT)

| | CONSOLIDATED 2015 $ | CONSOLIDATED 2014 $ |
|---|---|---|
| (a) Income tax expense/(benefit) | | |
| Current tax | (59,949) | - |
| Deferred tax – origination and reversal of temporary differences | 496,245 | (1,194,706) |
| Deferred tax – reversal of prior period temporary differences (c) | 2,492,337 | 6,945 |
| | 2,928,633 | (1,187,761) |
| Deferred tax included in income tax expense comprises: | | |
| Decrease/(Increase) in deferred tax assets (Note 12) | 2,928,633 | (1,187,761) |
| Deferred tax – origination and reversal of temporary differences | 2,928,633 | (1,187,761) |
| (b) Numerical reconciliation of income tax benefit to prima facie tax payable | | |
| Loss from continuing operations before income tax expense | (23,871,337) | (9,395,476) |
| Tax at the Australian tax rate of 30% (2014: 30%) | (7,161,401) | (2,818,643) |
| Tax effect of amounts that are not deductible/(taxable) in calculating taxable income: | | |
| Gain on acquisition | - | (805,290) |
| Share based payments | 316,395 | 134,002 |
| Legal expenses | 423,691 | 21,374 |
| R&D Tax Incentive eligible expenditure | 735,801 | 925,770 |
| R&D Tax Incentive income | (307,439) | (210,759) |
| Amortisation | 373,034 | 370,633 |
| Current and past year share issue expenses | (216,163) | (128,362) |
| Sundry items – net non- deductible/(non-assessable) | (156,739) | 212,707 |
| | (5,992,821) | (2,298,567) |
| Deferred tax – current year benefits not recognised | 6,429,117 | 1,103,861 |
| Deferred tax – reversal of prior period temporary differences (c) | 2,492,337 | 6,945 |
| Income tax expense/(benefit) | 2,928,633 | (1,187,761) |

(c) Tax consolidation legislation

As disclosed in Note 1, during the year ended 30 June 2015 Admedus and its wholly owned Australian controlled entities have implemented the tax consolidation legislation effective from 1 July 2013. Deferred tax balances as at 30 June 2015 have therefore been adjusted and as a result, the previously recognised deferred tax asset has been expensed in the current financial year. This is due to the wholly owned Australian controlled entity losses now available, as a result of the consolidation, to offset future wholly owned Australian controlled entity profits.

(d) Amounts charged/(credited) directly to equity

| | 2015 $ | 2014 $ |
|---|---|---|
| Deferred tax assets (Note 12) | 587,409 | 288,192 |

FOR THE YEAR ENDED 30 JUNE 2015

## 8. TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Current | | |
| Trade receivables | 1,819,883 | 1,139,572 |
| | 1,819,883 | 1,139,572 |
| Other receivables and prepayments | 639,469 | 500,345 |
| | 2,459,352 | 1,639,917 |

Other receivables arise from deferment of cost of sales in relation to capital equipment sold to Mater Misericordiae Hospital in Townsville. Cost of sales will be spread across five years in line with agreed consumable purchases under tender. Balance also includes prepayments and security deposits for rental of corporate offices similar costs were included in June 2014.

Refer to Note 3 for information on the risk management policy of the Group.

### (a) Past due but not impaired

As at 30 June 2015, trade receivables of $135,719 (2014: $46,226) were past due but not impaired. These relate to customers for whom there is no recent history of default. A significant portion of these trade receivables past due but not impaired have been subsequently paid post 30 June 2015. The ageing analysis of these trade receivables is as follows:

| | 2015 $ | 2014 $ |
|---|---|---|
| Over 90 days | 135,719 | 46,226 |

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the history of these other classes, it is expected that these amounts will be received.

## 9. INVENTORIES

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Raw materials – at cost | 175,066 | 181,494 |
| Work in progress – at net realisable value | 174,699 | 80,159 |
| Finished goods – at net realisable value | 390,897 | - |
| Finished goods – at cost | 2,281,743 | 2,690,592 |
| | 3,022,405 | 2,952,245 |

### (a) Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2015 amounted to $186,990 (2014: $141,410).

## 10. PROPERTY, PLANT & EQUIPMENT

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Plant & equipment | | |
| Cost | 4,129,267 | 3,759,555 |
| Accumulated depreciation | (1,171,345) | (461,701) |
| Net book amount | 2,957,922 | 3,297,854 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. PROPERTY, PLANT & EQUIPMENT (continued)

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| Reconciliation | | |
| Opening net book amount | 3,297,854 | 121,651 |
| Additions | 433,631 | 3,403,786 |
| Disposals – Cost | (63,919) | - |
| Disposals – Accumulated depreciation | 63,919 | - |
| Asset write-down | - | - |
| Depreciation charge | (773,563) | (227,583) |
| Closing net book amount | 2,957,922 | 3,297,854 |

No non-current assets are pledged as security by the Group.

11. INTANGIBLE ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| Patents | 367,283 | 276,070 |
| Intellectual property | 2,526,483 | 2,775,863 |
| Technology Licence | 4,311,870 | 5,305,935 |
| Goodwill | 1,589,293 | 1,589,293 |
| | 8,794,929 | 9,947,161 |
| Reconciliation - Patents | | |
| Opening net book value | 276,070 | 172,421 |
| Additions - acquisitions | 91,213 | 103,649 |
| Closing net book value | 367,283 | 276,070 |
| Reconciliation – Intellectual property | | |
| Opening net book value | 2,775,863 | 3,017,242 |
| Amortisation | (249,380) | (241,379) |
| Closing net book value | 2,526,483 | 2,775,863 |
| Reconciliation – Technology Licence | | |
| Opening net book value | 5,305,935 | 6,300,000 |
| Amortisation | (994,065) | (994,065) |
| Closing net book value | 4,311,870 | 5,305,935 |
| Reconciliation – Goodwill | | |
| Opening net book value | 1,589,293 | 1,589,293 |
| Closing net book value | 1,589,293 | 1,589,293 |

The fair value of technology licence and goodwill from Admedus Vaccines transaction were calculated on 30 June 2013. An impairment test was completed at 30 June 2015 and 30 June 2014 with no impairment calculated. The impairment test was performed on the basis of utilising the fair value less costs to sell valuation methodology.

12. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

The composition and movement of deferred assets is as follows:

| | Balance 1 July 13 $ | Recognised in profit or loss $ | Recognised in equity $ | Balance 30 June 14 $ | Recognised in profit or loss $ | Recognised in equity $ | Balance 30 June 15 $ |
|---|---|---|---|---|---|---|---|
| Provisions | 99,066 | 245,240 | - | 344,306 | 98,308 | - | 442,614 |
| Accruals | 24,250 | (13,750) | - | 10,500 | 120,846 | - | 131,346 |
| Share issue costs through equity | 187,545 | - | 288,192 | 475,737 | - | 587,409 | 1,063,146 |
| Property, plant and equipment | - | (977,159) | - | (977,159) | 342,199 | - | (634,960) |
| Intangible assets | (2,855,727) | 431,188 | - | (2,424,539) | 431,188 | - | (1,993,351) |
| Tax losses carried forward | 5,617,630 | 3,186,524 | - | 8,804,154 | 1,676,383 | - | 10,480,537 |
| Sub-total | 3,072,764 | 2,872,043 | 288,192 | 6,232,999 | 2,668,924 | 587,409 | 9,489,332 |
| Unrecognised net deferred tax assets | (2,207,493) | (1,684,282) | - | (3,891,775) | (5,597,557) | - | (9,489,332) |
| Tax assets | 865,271 | 1,187,761 | 288,192 | 2,341,224 | (2,928,633) | 587,409 | - |

Deferred tax assets are attributable to the following:

| Consolidated | Assets 2015 $ | Assets 2014 $ | Liabilities 2015 $ | Liabilities 2014 $ | Net 2015 $ | Net 2014 $ |
|---|---|---|---|---|---|---|
| Provisions | 442,614 | 344,306 | - | - | 442,614 | 344,306 |
| Accruals | 131,346 | 10,500 | - | - | 131,346 | 10,500 |
| Share issue costs through equity | 1,063,146 | 475,737 | - | - | 1,063,146 | 475,737 |
| Property, plant and equipment | - | - | (634,960) | (977,159) | (634,960) | (977,159) |
| Intangible assets | - | - | (1,993,351) | (2,424,539) | (1,993,351) | (2,424,539) |
| Tax losses carried forward | 10,480,537 | 8,804,154 | - | - | 10,480,537 | 8,804,154 |
| Sub-total | 12,117,643 | 9,634,697 | (2,628,311) | (3,401,698) | 9,489,332 | 6,232,999 |
| Set off of tax | (2,628,311) | (3,401,698) | 2,628,311 | 3,401,698 | - | - |
| Unrecognised net deferred tax assets | (9,489,332) | (3,891,775) | - | - | (9,489,332) | (3,891,775) |
| Tax assets | - | 2,341,224 | - | - | - | 2,341,224 |

(a) Tax losses

| Unused tax losses for which no deferred tax assets have been recognised | | |
|---|---|---|
| Australian losses | 24,544,946 | 22,565,635 |
| Foreign losses | 8,338,671 | 1,869,365 |
| Sub-total | 32,883,617 | 24,435,000 |
| Potential tax benefit at 30% | 9,865,085 | 7,330,500 |

All unused tax losses were incurred by Australian and foreign entities. Unused tax losses for which no deferred tax asset has been recognised have not been recognised as the future recovery of those losses is subject to the Company satisfying the requirements imposed by the regulatory taxation authorities in the relevant tax jurisdictions.

## 13. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Trade payables | 720,165 | 866,482 |
| Other payables and accruals | 596,480 | 582,140 |
| | 1,316,645 | 1,448,622 |

Refer to Note 3 for information on the risk management policy of the Group.

At 30 June 2014, Admedus (Australia) Pty Ltd, a subsidiary of Admedus Ltd held a standby letter of credit of CHF 403,734 payable to Arcomed AG. During the current year the standby letter of credit was paid out.

## 14. CURRENT LIABILITIES – PROVISIONS

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Employee benefits (a) | 924,424 | 683,538 |

(a) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

## 15. CURRENT LIABILITIES – INCOME TAX

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Provision for income tax | - | 7,338 |

16. NON CURRENT LIABILITIES – PROVISIONS

| | CONSOLIDATED | |
|---|---|---|
| | 2015 $ | 2014 $ |
| Lease make good (a) | 460,915 | 455,000 |

(a) Lease make good provision

The lease make good provision relates to the removing of lease hold improvements including laboratories and clean rooms in accordance with lease agreement. Provision based on valuation by Griffin Valuation Advisory.

17. CONSOLIDATED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described at Note 1.

| Name of entity | Class of share | Country of Incorporation | Equity Holding 2015 % | Equity Holding 2014 % | Cost to Company 2015 $ | Cost to Company 2014 $ |
|---|---|---|---|---|---|---|
| Accounting Parent Entity | | | | | | |
| Admedus Investments Pty Limited | | Australia | 100 | 100 | 29,551,042 | 29,551,042 |
| Legal Parent Entity | | | | | | |
| Admedus Limited | Ordinary | Australia | - | - | - | - |
| Controlled Entities | | | | | | |
| Admedus (NZ) Limited | Ordinary | New Zealand | 100 | 100 | 1 | 1 |
| Admedus (Australia) Pty Limited | Ordinary | Australia | 100 | 100 | 847,423 | 847,423 |
| Admedus Regen Pty Limited | Ordinary | Australia | 88.9 | 79.1 | 11,406,556 | 3,029,556 |
| Admedus Corporation | Ordinary | USA | 100 | 100 | 104 | 104 |
| Admedus Vaccines Pty Limited | Ordinary | Australia | 66.3 | 57.2 | 9,500,049 | 6,500,049 |
| Admedus GmbH | Ordinary | Switzerland | 100 | 100 | 23,151 | 23,151 |
| Admedus Biomanufacturing Pty Ltd | Ordinary | Australia | 100 | 100 | 1 | 1 |
| Admedus (Singapore) Pty Ltd | Ordinary | Singapore | 100 | 100 | 1 | 1 |
| | | | | | 51,328,328 | 39,951,328 |

The proportion of ownership interest is equal to the proportion of voting power held. For acquisitions refer to Note 4.

18. CONTRIBUTED EQUITY

| | SHARES | | $ | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| (a) Share Capital | | | | |
| Ordinary shares | | | | |
| Fully paid | 1,845,399,036 | 1,441,087,921 | 80,738,568 | 53,492,224 |

| | Date | Notes | No. shares | Issue Price | $ |
|---|---|---|---|---|---|
| (b) Movements in Ordinary Share Capital | | | | | |
| Details | | | | | |
| Balance | 30/6/13 | | 1,035,171,181 | | 25,035,391 |
| Executive bonuses portion paid in shares | | (d) | 367,347 | 0.049 | 18,000 |
| Directors fees portion paid in shares | | (e) | 628,710 | 0.155 | 97,450 |
| Rights issue | | (f) | 208,804,017 | 0.05 | 10,440,201 |
| Share placement | | (g) | 83,000,000 | 0.10 | 8,300,000 |
| Conversion of options | | (h) | 12,116,666 | 0.06 | 727,000 |
| Share purchase plan | | (i) | 101,000,000 | 0.10 | 10,100,000 |
| Recognise tax effect on capital raising costs | | | - | | 288,192 |
| Transaction costs | | | - | | (1,514,010) |
| Balance | 30/6/14 | | 1,441,087,921 | | 53,492,224 |
| Shares issued in lieu of consulting fees | | (j) | 200,937 | 0.1493 | 30,000 |
| Rights issue | | (k) | 230,631,912 | 0.07 | 16,144,234 |
| Share placement | | (l) | 171,500,000 | 0.07 | 12,005,000 |
| Conversion of options | | (m) | 1,978,266 | 0.065 | 128,444 |
| Recognise tax effect on capital raising costs | | | - | | 587,409 |
| Transaction costs | | | | | (1,648,743) |
| Balance | 30/6/15 | | 1,845,399,036 | | 80,738,568 |

18. CONTRIBUTED EQUITY (continued)

(c) Ordinary Shares

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

On a show of hands every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote.

(d) Executive bonuses portion paid in shares

In July 2013, executives received bonuses for achieving KPIs. Executives elected to receive a portion of bonus as shares at an issue price of 4.9 cents (based on the 5 day VWAP)

(e) Directors fees portion paid in shares

At the 2013 AGM it was agreed by shareholders that directors could elect to receive shares as payment for Director's fees. In December 2013, directors were issued 628,710 shares at an issue price of $0.155 (based on the 5 day VWAP).

(f) Share Rights Issue

A non-renounceable rights issue of shares was undertaken at an issue price of $0.05 per share.

(g) Share placement

In May 2014, current shareholders and sophisticated investors were approached to make further investment in the Group at a $0.10 per share.

(h) Shares under option

Between 1 July and 30 June 2014, 12,116,666 unlisted options were exercised at $0.06 each. Information in relation to the current options issued, exercised or lapsed during the financial year is set out Note 19 (a).

(i) Share purchase plan

In June 2014, current shareholders were approached to make further investment in the Group at a $0.10 per share.

(j) Shares issued in lieu of consulting fees

In October 2014, a consultant elected to receive their fee as shares at an issue price of $0.1493 (based on the 10 day VWAP).

(k) Share Rights Issue

A non-renounceable rights issue of shares was undertaken at an issue price of $0.07 per share.

(l) Share placement

In March 2015, current shareholders and sophisticated investors were approached to make further investment in the Group at a $0.07 per share.

(m) Shares under option

Between 1 July and 30 June 2015, 1,703,333 unlisted options were exercised at $0.06 each, 249,933 unlisted options were exercised at $0.095 each and 25,000 unlisted options were exercised at $0.10 each. Information in relation to the current options issued, exercised or lapsed during the financial year is set out Note 19 (a).

(n) Capital Risk Management

The Company's objective when managing capital is to safeguard the ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders and to maintain capital structure to reduce the cost of capital.

The Board of Directors monitors capital on an ad-hoc basis. No formal targets are in place for return on capital or gearing ratios as the Group has not derived any income from the developing technology and currently has no debt facilities in place.
The Group defines capital as equity and net debt.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

19. EQUITY – RESERVES

| | CONSOLIDATED 2015 $ | CONSOLIDATED 2014 $ |
|---|---|---|
| (a) Reserves | | |
| Share based payments | 2,316,764 | 1,292,116 |
| Other reserve | (2,245,995) | (758,701) |
| Foreign currency translation reserve | (79,415) | - |
| | (8,646) | 533,415 |

| Reconciliation - Share based payment | Date | No. options | Valuation | $ |
|---|---|---|---|---|
| Balance | 30/6/13 | 93,100,000 | | 845,442 |
| Unlisted options exercised | | (12,116,666) | 0.06 | |
| Unlisted options issued | | 9,000,000 | 0.27 | 125,985 |
| Unlisted options issued | | 2,000,000 | 0.245 | 16,386 |
| Unlisted options issued | | 18,000,000 | 0.17 | 103,534 |
| Share based payment | | | | 200,769 |
| Balance | 30/6/14 | 109,983,334 | | 1,292,116 |
| Unlisted options exercised | | (1,978,266) | 0.065 | |
| Unlisted options cancelled | | (4,975,000) | 0.10 | |
| Unlisted options issued | | 4,100,000 | 0.21 | 14,695 |
| Unlisted options issued | | 18,850,000 | 0.117 | 748 |
| Share based payment | | | | 1,009,205 |
| Balance | 30/6/15 | 125,980,068 | | 2,316,764 |

| Reconciliation – Other reserve | CONSOLIDATED 2015 $ | CONSOLIDATED 2014 $ |
|---|---|---|
| Opening balances | (758,701) | (537,094) |
| Gain in Non-Controlling Interests | (1,487,294) | (221,607) |
| Closing balance | (2,245,995) | (758,701) |

| Reconciliation – Foreign currency translation reserve | CONSOLIDATED 2015 $ | CONSOLIDATED 2014 $ |
|---|---|---|
| Opening balances | - | - |
| Foreign exchange on subsidiaries | (79,415) | - |
| Closing balance | (79,415) | - |

FOR THE YEAR ENDED 30 JUNE 2015

19. EQUITY – RESERVES (continued)

(b) Nature and purpose

The share-based payments reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

The other reserve reflects the additional consideration paid by the Company, over and above the historical fair value of the subsidiary assessed at the time of gaining control, to acquire a portion of the remaining non-controlling interests.

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

20. NON-CONTROLLING INTEREST

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| Interest in: | | |
| Share Capital | 19,652,479 | 21,635,590 |
| Reserves | 2,245,995 | 758,701 |
| Accumulated losses | (19,566,440) | (20,003,424) |
| | 2,332,034 | 2,390,867 |

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are before inter-company eliminations.

| | Admedus Vaccines Pty Ltd | | Admedus Regen Pty Ltd | |
|---|---|---|---|---|
| | 2015<br>$ | 2014<br>$ | 2015<br>$ | 2014<br>$ |
| Current assets | 310,615 | 313,846 | 4,448,034 | 1,122,062 |
| Current liabilities | 170,690 | 333,362 | 105,105 | 424,406 |
| Current net assets | 139,925 | (19,516) | 4,342,928 | 697,656 |
| Non-current assets | 5,909,004 | 2,670,898 | 2,999,117 | 379,775 |
| Non-current liabilities | - | - | - | (2,560,719) |
| Non-current net assets | 5,909,004 | 2,670,898 | 2,999,117 | (2,180,944) |
| Net assets | 6,048,929 | 2,651,383 | 7,342,045 | (1,483,288) |
| Accumulated non-controlling interests | 1,505,374 | 2,265,284 | 826,660 | 125,583 |
| | | | | |
| Revenue | - | - | 1,405,981 | 353,070 |
| Loss for the year/Total comprehensive loss | (3,826,114) | (2,916,479) | (2,162,530) | (1,883,094) |
| Loss allocated to non-controlling interests | (1,235,931) | (1,248,591) | (310,197) | (342,626) |
| | | | | |
| Cash flows from operating activities | (3,088,104) | (1,618,681) | (1,832,233) | (1,708,791) |
| Cash flows from investing activities | (9,313) | - | (2,342,484) | 1,836,593 |
| Cash flows from financing activities | 3,000,000 | 1,600,000 | 8,212,000 | - |
| Net increase/(decrease) in cash and cash equivalents | (97,417) | (18,681) | 4,037,283 | 127,803 |

20. NON-CONTROLLING INTEREST (continued)

(a) Transactions with non-controlling interests

On 18 May 2015, the consolidated entity acquired an additional 2.42% of the issued capital of Admedus Regen Pty Ltd for $4,170,000. Immediately prior to the purchase, the carrying amount of the existing 13.55% non-controlling interest was $501,150. The consolidated entity recognised a decrease in non-controlling interests of $89,425 and a decrease in equity attributable to the owners of Admedus Limited of $374,696.

On 12 November 2014, the consolidated entity acquired an additional 7.32% of the issued capital of Admedus Regen Pty Ltd for $4,042,000. Immediately prior to the purchase, the carrying amount of the existing 20.87% non-controlling interest was ($94,456). The consolidated entity recognised a decrease in non-controlling interests of ($33,129) and a decrease in equity attributable to the owners of Admedus Limited of $580,714.

On 11 July 2014, the consolidated entity acquired an additional 9.09% of the issued capital of Admedus Vaccines Pty Ltd for $3,000,000. Immediately prior to the purchase, the carrying amount of the existing 42.85% non-controlling interest was $2,265,284. The consolidated entity recognised a decrease in non-controlling interests of $480,782 and a decrease in equity attributable to the owners of Admedus Limited of $531,884.

During the 2014 year the consolidated entity acquired an additional 7.01% of the issued capital of Admedus Vaccines Pty Ltd for $1,600,000. Immediately prior to the purchase, the carrying amount of the existing 49.86% non-controlling interest was $1,321,980. The consolidated entity recognised a decrease in non-controlling interests of $1,378,393 and a decrease in equity attributable to the owners of Admedus Limited of $221,607.

The overall effect of these transactions on the equity attributable to the owners of Admedus Limited during 2015 and 2014 is summarised as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| Carrying amount of non-controlling interest acquired | 9,724,706 | 1,378,393 |
| Consideration paid to non-controlling interest | (11,212,000) | (1,600,000) |
| Excess of consideration paid recognised in other reserves within equity | (1,487,294) | (221,607) |

## 21. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| (a) Audit Services | | |
| BDO Audit (WA) Pty Ltd | | |
| Audit and review of financial reports and other audit work under the Corporations Act 2001 | 89,415 | 72,672 |
| (b) Non-audit Services | | |
| Corporate Finance services | | |
| Related entities to BDO Audit (WA) Pty Ltd | 8,058 | 12,728 |

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important.

## 22. EARNINGS PER SHARE

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>Number | 2014<br>Number |
| (a) Weighted Average Number of Shares Used as the Denominator | | |
| Weighted average number of ordinary shares used in the denominator in calculating basic earnings per share | 1,532,810,695 | 1,198,162,803 |
| Adjustment for calculation of diluted earnings per share:<br>Options | - | - |
| Weighted average number of ordinary shares used in the denominator in calculating diluted earnings per share | n/a | n/a |
| | Cents | Cents |
| (b) Loss Used in Calculating Earnings/(Loss) Per Share | (25,253,842) | (6,616,498) |
| Basic earnings/(loss) per share | (1.648) | (0.552) |
| Diluted earnings/(loss) per share | n/a | n/a |

(c) Information concerning classification of securities

Options:
No listed or unlisted options of Admedus Limited have been included in the determination of basic earnings/(loss) per share because all options on issue have an exercise price above the market share price of the Company as at year end.

Details relating to options granted under the Admedus Employee Share Option Plan (ESOP) are outlined in Note 27 (a).

## 23. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| (a) Reconciliation to Cash at the End of the Year | | |
| Cash at bank and in hand | 24,025,859 | 19,582,972 |
| Total cash at the end of the year | 24,025,859 | 19,582,972 |

(b) Cash at Bank and On Hand

These are interest bearing accounts held at bank with average interest rates of 0.15% (2014: 0.15%).

(c) Deposits At Call

The deposits bear floating interest rates at 0% pa. (2014: 0%)

No deposits were held by the Group during the current financial year.

(d) Interest rate Risk Exposure

The Group's exposure to interest rate risk is discussed in Note 3.

(e) Reconciliation of Loss After Income Tax to Net Cash Outflow from Operating Activities

| | 2015 | 2014 |
|---|---|---|
| Loss for the year | (26,799,970) | (8,207,715) |
| Depreciation/Amortisation expense | 2,017,008 | 1,463,028 |
| Inventory write-down | 186,990 | 141,410 |
| Bad debts | 16,971 | 4,072 |
| Non-cash share expense – share based payments | 1,054,648 | 562,124 |
| Foreign exchange differences | (79,414) | - |
| Gain on acquisition | - | (2,684,300) |
| Additional shares acquired in subsidiary (Finance activities) | 165,000 | - |
| Change in operating assets and liabilities, net of effects from purchase of controlled entity: | | |
| Increase in receivables | (836,406) | (86,789) |
| Increase in inventories | (70,160) | (1,004,588) |
| (Increase)/decrease in net tax asset | (7,338) | (22,800) |
| Increase in deferred tax | 2,928,632 | (1,187,562) |
| (Decrease)/increase in creditors | (432,661) | (52,393) |
| Increase in other provisions | 360,496 | 431,162 |
| Net cash outflow from operating activities | (21,496,204) | (10,644,351) |

(f) Non-cash investing and financing activities

The Group has no non-cash investing and financing activities to disclose.

## 24. COMMITMENTS

Total expenditure commitments at reporting date not provided for in the financial statements

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| (a) Operating Lease Commitments | | |
| Future operating lease commitments not provided for in the financial statements and payable: | | |
| Within one year | 501,436 | 598,488 |
| Later than one year but no later than five years | 785,623 | 1,407,180 |
| Later than five years | - | - |
| | 1,287,059 | 2,005,668 |

The Company leases office space in Brisbane under an operating lease that expires in October 2016.
Admedus Regen Pty Ltd leases office space in Melbourne under an operating lease that expiring in May 2018 and leases office space in Sydney under an operating lease that expires in April 2016.
Admedus Biomanufacturing Pty Ltd leases office and laboratory space under operating leases that expiring in February 2019 and photocopiers expiring December 2016.
Admedus Vaccines Pty Ltd leases office and lab space under an operating lease that expires 6 January 2016.

## 25. SEGMENT REPORTING

### a. Description of segments

Segment information is presented using a management approach, i.e. segment information is provided on the same basis as information as used for internal reporting purposes by the chief operating decision makers (board of directors that make key strategic decisions).

Management has determined that there are four identifiable reportable segments as follows:

- Disposable medical product and medical devices distribution;
- Bio implant operations – inclusive of sales, distribution and manufacturing;
- Regenerative medicine R&D - ADAPT technology; and
- Immunotherapies R&D.

*Intersegment transactions*
Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

*Intersegment receivables, payables and loans*
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

25. SEGMENT REPORTING (continued)

Segment information

| | Medical products and devices $ | Bio Implant operations $ | Regenerative medicine R&D $ | Immunotherapies R&D $ | Total $ |
|---|---|---|---|---|---|
| 2015 | | | | | |
| Total segment revenue | 7,495,614 | 2,637,846 | - | - | 10,133,460 |
| Segment profit/(loss) | (186,443) | (9,799,771) | (2,274,128) | (3,826,114) | (16,086,456) |
| Segment assets | 5,132,976 | 6,051,349 | 7,575,214 | 6,226,329 | 24,985,868 |
| Segment liabilities | 874,466 | 903,685 | 105,105 | 170,690 | 2,053,946 |
| Other information | | | | | |
| Acquisition of non-current assets | 21,984 | 327,292 | 130,329 | 9,313 | 488,918 |
| Depreciation & amortisation | 12,540 | 703,031 | 286,850 | 995,662 | 1,998,084 |
| Asset write downs | 11,057 | 53,175 | 68,950 | - | 133,181 |
| Loss from equity accounting | - | - | - | - | - |
| Share-based payments | - | - | - | - | - |
| Impairment of intangibles | - | - | - | - | - |
| 2014 | | | | | |
| Total segment revenue | 7,502,708 | 397,387 | - | - | 7,900,095 |
| Segment profit/(loss) | (279,059) | (1,514,015) | (1,429,236) | (2,916,479) | (6,138,790) |
| Segment assets | 4,591,898 | 4,279,511 | 3,946,464 | 7,200,353 | 20,018,226 |
| Segment liabilities | 883,085 | 339,150 | 768,670 | 317,806 | 2,308,711 |
| Other information | | | | | |
| Acquisition of non-current assets | 14,072 | 90,280 | 198,239 | - | 302,591 |
| Depreciation | 17,184 | 184,356 | 257,026 | 995,374 | 1,453,940 |
| Asset write-down | 141,941 | - | - | - | 141,941 |
| Loss from equity accounting | - | - | - | - | - |
| Share-based payments | - | - | - | - | - |
| Impairment of intangibles | - | - | - | - | - |

(c) Other segment information

*(i) Segment revenue*

Sales between segments are carried out at arm's length and are eliminated on consolidation.

Segment revenue reconciles to total revenue from continuing operations as follows:

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Segment revenue | 10,133,460 | 7,900,095 |
| Interest revenue | 90,967 | 40,527 |
| Total revenue from continuing operations | 10,224,427 | 7,940,622 |

25. SEGMENT REPORTING (continued)

*(ii) Segment result*

Performance is measured based on segment result before tax.

The reconciliation of segment information to loss before income tax from continuing operations is as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| Segment loss | (16,086,456) | (6,138,790) |
| Unallocated: | | |
| Depreciation and amortisation | (18,924) | (9,088) |
| Asset write downs | (70,780) | - |
| Loss from equity accounting | - | - |
| Gain on equity accounted investment | - | - |
| Gain on acquisition | - | 2,684,300 |
| Share-based payments | (1,054,649) | (446,674) |
| Other corporate and administration (expenses)/benefits | (6,640,528) | (5,485,224) |
| Loss before income tax from continuing operations | (23,871,337) | (9,395,476) |

*(iii) Segment assets and liabilities*

Segment assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

Segment assets include all assets used by the segment and consist primarily of cash and cash equivalents, trade and other receivables, property, plant and equipment and intangible assets.

Segment liabilities consist primarily of trade and other creditors and provisions.

Reportable segment assets reconciled to total assets as follows:

## 25. SEGMENT REPORTING (continued)

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Segment assets | 24,985,868 | 20,018,226 |
| Intersegment eliminations | - | - |
| Unallocated: | | |
| Cash and cash equivalents | 15,918,432 | 17,396,916 |
| Trade and other receivables | 284,621 | 112,002 |
| Property, Plant & Equipment | 60,580 | 49,381 |
| Deferred tax asset | - | 2,173,883 |
| Intangibles | 10,965 | 10,965 |
| Total assets per the statement of financial position | 41,260,466 | 39,761,373 |

Reportable segment liabilities reconciled to total liabilities as follows:

| | 2015 $ | 2014 $ |
|---|---|---|
| Segment liabilities | 2,053,946 | 2,308,711 |
| Intersegment eliminations | - | - |
| Unallocated: | | |
| Trade and other payables | 506,856 | 167,352 |
| Income tax provision | - | 70,358 |
| Provisions | 141,182 | 48,077 |
| Total liabilities per the statement of financial position | 2,701,984 | 2,594,498 |

## 26. RELATED PARTY TRANSACTIONS

### (a) Parent Entity

The parent entity within the Group is Admedus Limited.

### (b) Subsidiary

Interest in subsidiary is set out in Note 17.

### (c) Key Management Personnel

Disclosures relating to Directors and specified executives are set out in the Remuneration Report.

### (d) Transactions and Balances with Related Parties

No related party transactions were noted during the period.

## 27. SHARE BASED PAYMENTS

### (a) Employee Share Option Plan

The Admedus Employee Share Option Plan (ESOP) was approved by shareholders at the 2012 Annual General Meeting. Eligible Employees (as defined in the Plan and which includes Directors, employees and consultants) are able to participate in the Plan.

The terms of the ESOP include:
- Options are issued to selected Eligible Employees for free;
- The allotment of options is at the discretion of the Board of Directors;
- Shares allotted on the exercise of the options are to be issued at an exercise price determined by the Board in its absolute discretion, which price shall not be less than the minimum exercise price permitted by the Listing Rules;
- Options expire 5 years after the grant date;
- Options are unlisted and not transferable unless the Directors in their absolute discretion agree to a transfer; and
- Options carry no dividend rights or voting rights.

The Company has 22,950,000 staff options over ordinary shares in the Company as at 30 June 2015 (2014: 15,000,000).

On 5 November 2014 employees received 4,100,000 options as a sign-on bonus under the ESOP (Tranche A).

On 30 June 2015 the Company issued 2,000,000 options to key management personnel and 16,850,000 to employees under the ESOP (Tranche B).

Set out below are summaries of options granted by Admedus Limited:

| Grant date | Expiry date | Exercise price $ | Balance at start of the year Number | Granted during the year Number | Cancelled Number | Exercised during the year Number | Balance at end of the year Number | Value at grant date |
|---|---|---|---|---|---|---|---|---|
| | | 2015 | | | | | | |
| 22/10/2009 | 22/10/2014 | 0.10 | 5,000,000 | - | (4,975,000) | (25,000) | - | 200,000 [(a)] |
| 12/8/2011 | 10/7/2016 | 0.06 | 3,916,667 | - | - | (250,000) | 3,666,667 | 300,440 [(a)] |
| 22/8/2011 | 10/7/2016 | 0.06 | 52,300,000 | - | - | (1,120,000) | 51,180,000 | 460,960 [(a)] |
| 18/5/2012 | 18/5/2017 | 0.06 | 2,466,667 | - | - | (333,333) | 2,133,334 | 85,453 [(a)] |
| 24/4/2013 | 1/3/2018 | 0.06 | 2,000,000 | - | - | - | 2,000,000 | 13,153 |
| 18/6/2013 | 18/6/2018 | 0.095 | 15,300,000 | - | - | (249,933) | 15,050,067 | 175,323 |
| 16/12/2013 | 16/12/2018 | 0.27 | 9,000,000 | - | - | - | 9,000,000 | 161,981 |
| 28/3/2014 | 1/2/2019 | 0.245 | 2,000,000 | - | - | - | 2,000,000 | 16,386 |
| 21/5/2014 | 1/7/2018 | 0.17 | 3,000,000 | - | - | - | 3,000,000 | 63,968 |
| 21/5/2014 | 21/5/2019 | 0.17 | 15,000,000 | - | - | - | 15,000,000 | 39,565 |
| 5/11/2014 | 5/11/2019 | 0.21 | - | 4,100,000 | - | - | 4,100,000 | 14,695 |
| 30/6/2015 | 30/6/2020 | 0.117 | - | 18,850,000 | - | - | 18,850,000 | 748 |
| Total | | | 109,983,334 | 22,950,000 | (4,975,000) | (1,978,266) | 125,980,068 | 1,532,672 |
| Weighted average exercise price | | | $0.105 | $0.134 | $0.100 | $0.065 | $0.111 | |

(a) Valuation of options was expensed in the 2010 to 2015 financial years

| Grant date | Expiry date | Exercise price $ | Balance at start of the year Number | Granted during the year Number | Cancelled Number | Exercised during the year Number | Balance at end of the year Number | Value at grant date |
|---|---|---|---|---|---|---|---|---|
| | | 2014 | | | | | | |
| 22/10/2009 | 22/10/2014 | 0.10 | 5,000,000 | - | - | - | 5,000,000 | 200,000 [(b)] |
| 12/8/2011 | 10/7/2016 | 0.06 | 7,400,000 | - | - | (3,483,333) | 3,916,667 | 300,440 [(b)] |
| 22/8/2011 | 10/7/2016 | 0.06 | 53,600,000 | - | - | (1,300,000) | 52,300,000 | 460,960 [(b)] |
| 20/10/2011 | 20/10/2014 | 0.06 | 6,000,000 | - | - | (6,000,000) | - | 102,000 [(b)] |
| 18/5/2012 | 18/5/2017 | 0.06 | 3,800,000 | - | - | (1,333,333) | 2,466,667 | 85,453 [(b)] |
| 24/4/2013 | 1/3/2018 | 0.06 | 2,000,000 | - | - | - | 2,000,000 | 13,153 |
| 18/6/2013 | 18/6/2018 | 0.095 | 15,300,000 | - | - | - | 15,300,000 | 175,323 |
| 16/12/2013 | 16/12/2018 | 0.27 | - | 9,000,000 | - | - | 9,000,000 | 161,981 |
| 28/3/2014 | 1/2/2019 | 0.245 | - | 2,000,000 | - | - | 2,000,000 | 16,386 |
| 21/5/2014 | 1/7/2018 | 0.17 | - | 3,000,000 | - | - | 3,000,000 | 63,968 |
| 21/5/2014 | 21/5/2019 | 0.17 | - | 15,000,000 | - | - | 15,000,000 | 39,565 |
| Total | | | 93,100,000 | 29,000,000 | - | 12,116,666 | 109,983,334 | 1,619,289 |
| Weighted average exercise price | | | $0.068 | $0.206 | - | 0.060 | $0.105 | |

(b) Valuation of options was expensed in the 2010 to 2015 financial years

FOR THE YEAR ENDED 30 JUNE 2015

27. SHARE BASED PAYMENTS (Continued)

(b) Expenses Arising from Share Based Payment Transactions

Total expenses arising from share based payment transactions recognised during the period were as follows:

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| Employee bonus shares | - | - |
| Options issued under employee option plan | 1,054,649 | 446,674 |
| Total expenses from share-bases transactions | 1,054,649 | 446,674 |

(c) Fair Value of Options Granted

The assessed fair value at grant date of options granted during the year ended 30 June 2015 was 7.01 cents per option for Tranche A and 4.35 cents per option for Tranche B. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2015 included:

| | Tranche A | Tranche B |
|---|---|---|
| *Details:* | All Tranches of options are granted for no consideration and vest based on holder still being employed by Admedus Limited over a three year period. Vested options are exercisable for a period up to expiry date. | |
| *Exercise price:* | $0.21 | $0.117 |
| *Grant date:* | 5 November 2014 | 30 June 2015 |
| *Expiry date:* | 5 November 2019 | 30 June 2020 |
| *Share price at grant date:* | $0.115 | $0.07 |
| *Expected price volatility of the company's shares:* | 90% | 90% |
| *Risk-free interest rate:* | 2.78% | 2.32% |
| *Fair value at grant date:* | $0.0701 | $0.0435 |

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

28. FAIR VALUE MEASUREMENT

*Fair value hierarchy*
The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Consolidated - 2015 | $ | $ | $ | $ |
| *Assets* | | | | |
| Intellectual Property | - | 4,311,870 | - | 4,311,870 |
| Property, plant and equipment | - | 2,376,406 | - | 2,376,406 |
| Total assets | - | 6,688,276 | - | 6,688,276 |
| *Liabilities* | | | | |
| Lease make good provision | - | 460,915 | - | 460,915 |
| Total liabilities | - | 460,915 | - | 460,915 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Consolidated - 2014 | $ | $ | $ | $ |
| *Assets* | | | | |
| Intellectual Property | - | 5,305,935 | - | 5,305,935 |
| Property, plant and equipment | - | 3,139,250 | - | 3,139,250 |
| Total assets | - | 8,445,185 | - | 8,445,185 |
| *Liabilities* | | | | |
| Lease make good provision | - | 455,000 | - | 455,000 |
| Total liabilities | - | 455,000 | - | 455,000 |

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair values of Intellectual property, Property, plant and equipment and Lease make good provision have been calculated by independent valuation specialists.

29. CONTINGENT LIABILITIES

On 12 November 2014 proceedings were issued against Admedus Limited, its wholly owned subsidiary Admedus (Australia) Pty Ltd and its subsidiary Admedus Regen Pty Ltd.

The proceeding have been issued by Dr Geoffrey Lane, Dr Keith Woollard and their respective associated entities Palkingston Pty Ltd and KV Woollard Pty Ltd under sections 232 and 233 of the Corporations Act 2001 (Cth). The allegations relate to Admedus Regen Pty Ltd.

The proceedings allege that the affairs of Admedus Regen Pty Ltd are being conducted in a manner that is contrary to the interests of the members of Admedus Regen Pty Ltd as a whole and oppressive of the interests of Dr Geoffrey Lane, Dr Keith Woollard, Palkingston Pty Ltd and KV Woollard Pty Ltd.

The matter is still ongoing and the outcome at this stage is unknown and therefore an estimate of the potential contingency cannot reliably be determined.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

## 30. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 1 July 2015, the Group acquired additional shares in Admedus Vaccines to increase the shareholding to 72.1%.

On 22 July 2015, the Group announced the issue of 13,500,000 unlisted $0.144 options expiring 21 July 2020 to employees under the ESOP.

On 3 August 2015, the Group announced the issue of 1,016,667 ordinary shares on exercise of 1,016,667 options exercisable at $0.06.

On 17 August 2015, the Group announced the issue of 143,196 shares each at an issue price of $0.077 to executives of Admedus Ltd for achieving the key performance indicators stipulated in their contracts in lieu of bonuses.

Also on 17 August, the Group announced the allotment of 604,166 ordinary shares to executives for achieving the key performance indicators stipulated in their contracts in lieu of bonuses totalling $36,250 on exercise of 604,166 options exercisable at $0.06.

## 31. DIVIDENDS

No dividends have been declared or paid during the period.

## 32. PARENT ENTITY INFORMATION

The following details information related to the legal parent entity, Admedus Limited, at 30 June 2015. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

| | THE COMPANY | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| Current assets | 16,304,620 | 17,508,915 |
| Non-current assets | 19,647,533 | 13,391,729 |
| Total assets | 35,952,153 | 30,900,644 |
| Current liabilities | 1,816,430 | 179,456 |
| Non-current liabilities | - | 35,972 |
| Total liabilities | 1,816,430 | 215,428 |
| Contributed equity | 105,150,741 | 78,494,056 |
| Accumulated losses | (73,807,752) | (49,576,924) |
| Reserves | 2,792,734 | 1,768,085 |
| Total equity | 34,135,723 | 30,685,217 |
| Profit/(loss) for the year | (24,230,828) | (5,717,232) |
| Other comprehensive income/(loss) for the year | - | - |
| Total comprehensive income/(loss) for the year | (24,230,828) | (5,717,232) |

### Contingent liabilities of the parent entity

The contingent liabilities for the parent entity as at 30 June 2015 are detailed in note 29.

### Commitments of the parent entity

The commitments for the parent entity as at 30 June 2015 are detailed in note 24.

# DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the consolidated income statement, consolidated statement of consolidated statement of profit or loss, consolidated statement of financial position, consolidated statement of cash flow, consolidated statements of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Accounting Standards, the *Corporations Regulations 2001, other mandatory professional reporting requirements*; and

   (b) give a true and fair view of the financial position as at 30 June 2015 and of the performance for the year ended on that date of the consolidated entity;

   (c) comply with International Financial Reporting Standards as disclosed in Note 1.

2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. The remuneration disclosures included in the Director's Report (as part of the Remuneration Report) for the year ended 30 June 2015, comply with section 300A of the *Corporations Act 2001*.

4. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

CHRISTOPHER CATLOW
Chairman

Perth, Western Australia

Dated 27 August 2015

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

# INDEPENDENT AUDITOR'S REPORT

To the members of Admedus Limited

## Report on the Financial Report

We have audited the accompanying financial report of Admedus Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Admedus Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Admedus Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Admedus Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 27 August 2015