ASX | News Release

Avita Medical Announces Financial Results for First Half Fiscal 2016

Northridge, CA and Cambridge, United Kingdom, February 26, 2016 – Avita Medical Ltd. (ASX: AVH), (OTCQX: AVMXY), a regenerative medicine company specializing in the treatment of wounds and skin defects, today announced its financial results and provided a corporate update for the first half of fiscal year 2016 which concluded on December 31, 2015.

Adam Kelliher, CEO of Avita, commented, "The momentum generated by Avita over the period has been tremendous in further positioning the Company as a growing leader in the regenerative medicine space. Our ReCell® technology continues to be evaluated and validated, emphasized by the contract with BARDA, approval from the FDA to increase patient access through our Compassionate Use Program, CE Mark expansion for ReGenerCell® and ReNovaCell®, FDA approval for an Expedited Access Pathway designation for ReCell® in burns, and proven access to capital. In addition, there has been strong recognition by a number of publications demonstrating the effectiveness and safety of the device. Furthermore, in the second half of the fiscal year, we have made significant strides by completing enrollment of our U.S. pivotal trial of ReCell® in burns and we look forward to sharing additional clinical and operational updates over the coming months."

<u>Half Year Corporate Highlights</u>

- Focused the Company with the sale of its Respiratory Business for $2.47m, which streamlines operations and provides additional capital for execution of the commercial strategy
- Strengthened balance sheet with a US Government BARDA contract valued at up to USD$53.9 million dollars and the completion of an AUD$10 million equity financing
- Made significant progress in the US with the grant of an FDA Expedited Access Pathway designation and the two-fold increase in patient numbers permitted for Compassionate Use
- Enhanced opportunities for global penetration to progress our commercial strategy by gaining CE Mark for ReGenerCell® and ReNovaCell®, and receiving patent protection in Australia, as well as patent validation in eleven European countries
- Advanced ReCell® commercial strategy through newly-established agreements with specialist wound-care distributors in France and UK

<u>Half Year Financial Highlights</u>

- ReCell® global sales YTD up 17% compared to last year
- ReCell® Asia Pacific sales YTD up 43% compared to last year

<u>Expected Milestones for Second-Half FY 2016</u>

- Primary effectiveness readout of ReCell® U.S. Pivotal Burns Trial
- Effectiveness readout of ReGenerCell® Venous Leg Ulcer (VLU) Pilot Study

- EU Launch of three brands: ReCell®, ReGenerCell®, ReNovaCell®
- U.S. Launch of Diabetic Foot Ulcer (DFU) feasibility study of ReCell®/ ReGenerCell®

Corporate Update

We made significant progress in executing our growth strategy, which we believe will position Avita to create long-term value for our shareholders. We have focused our attention on our ReCell® technology, which has demonstrated its ability to enhance wound care and the treatment of burns and skin defects. We did this by streamlining our business and expanding our ability to penetrate global markets. In addition, we strengthened our balance sheet by generating capital through non-dilutive sources as well as gaining support from investors that understand Avita's potential. The regenerative medicine space has continued to grow and our technology has demonstrated its ability to impact the space. Our goal is to continue these endeavors and we are well on our way.

Significant Headway with the US FDA

We have continued to gain support from the United States Food and Drug Administration and are very pleased with their reception to ReCell® and the objectives Avita is working to accomplish. The Expedited Access Pathway (EAP) designation we received at the end of 2015 was certainly a vote of confidence from the agency as this is a new designation for life-saving devices from the FDA, and we are one of the first companies to have been granted this type of approval. We are engaging with the agency to better understand how the expedited program will impact our previously indicated estimate of a third quarter 2017 FDA approval date.

The FDA's appreciation of our ReCell® technology's ability to potentially save lives was also demonstrated with the two-fold increase in patients that are able to receive ReCell® under our Compassionate Use IDE program. Compassionate Use refers to the expanded use outside of a clinical trial of an investigational (not yet approved) medical product for a serious disease or condition for which a physician determines that there is no comparable or satisfactory alternative therapy available. To date, we have treated 23 of the 24 patients that our increased quota will allow for. We are currently in discussions with the FDA to increase the number of patients allotted under this program, based on the demonstrated need for our technology.

Finally, we completed enrollment of the U.S. Pivotal trial of ReCell® in burns required by the FDA for the use of ReCell® in combination with meshed autografting for the treatment of partial-thickness and full-thickness acute burns. We cannot understate the importance of enrollment completion. Identifying and selecting patients for this trial has been extremely thorough as we want to ensure that we can secure data that is sound and as complete as possible by the end of the trial.

Further Validation from the U.S. Market

As we have mentioned on previous occasions, Avita was awarded a contract with the Biomedical Advanced Research and Development Authority (BARDA) worth up to USD$53.9 million for late-stage clinical development and procurement of ReCell® under a U.S. mass casualty preparedness program. This is of significant value for two reasons.

First, there is a large financial upside for the company based on the terms of the agreement. It has the potential to provide significant capital for our ongoing trial and ongoing initiatives. We have the ability to earn up to US $53.9m from this contract and have already been billing the government and recognizing revenue from this agreement. In addition, it will pay for the costs of a program to help educate US surgeons on the use of ReCell®. The US government understands the need for providing training if this is put into use. This is important because it is not only necessary in order for ReCell® to be effective in the case of an emergency, but will also provide exposure to the market for future use should ReCell® be approved in the US.

Second, we feel this is further validation of ReCell® and the need for this technology, not only in emergency situation on a massive scale, but also in day-to-day patient treatment in which we can provide a much improved treatment for patients in need. With the endorsement of BARDA, we believe that our FDA trial is substantially de-risked as we work toward approval.

Growing the Global Opportunity

While the US market is an attractive opportunity for Avita, our intent is to have an impact on the regenerative medicine market and provide patients with much needed wound care on a global scale. To that end, we achieved several goals over the first half of the year that provide near-term potential to increase sales with long-term protection to cover our IP.

The European Union is one area in which we have gained a strong distribution presence. Following agreements with distributors in the UK and France, we now have agreements in place with partners in Germany, Switzerland and Austria. This is exciting for the Company as in just the past few months, we have dramatically increased our EU presence in markets which there is the potential for demand for our devices.

The EU expansion, coupled with our recent entry into South Korea and Japan through key distribution partnerships, provides us with a large global footprint in markets in which patients can benefit from our technology.

Focusing on the Future

Our goal is to be a leader in the regenerative medicine space with a focus on wound care, burns and skin defects, for which there is a considerable treatment need and our technology has the potential to change lives. With that in mind, we put into place a strategy to streamline our business and recently divested our respiratory products: Breath-A-Tech® and Funhaler®. Although these were legacy products that provided consistent income, we felt that it was a distraction to our core focus and where the future of Avita resides. Also of importance, the sale provided us with $2.47m of additional non-dilutive capital to support our commercial efforts and bring in top talent to help us achieve our future goals.

Our ongoing focus on providing patients on a global scale with access to our potentially life saving technology as well as our goal of creating long-term value for our shareholders requires that right framework. This includes our operational set up which will now be centralized in California which is key to gaining a foothold in the US market and is known for its innovation in the med-tech space. Additionally, we have added talent in key positions with team members that we believe have the experience and knowledge necessary to lead the company into its next stage.

Financial Update

Total ReCell® sales YTD are up 17% compared to last year's first half result with EMEA ReCell® sales up 1% and Asia Pacific sales up 43% compared to last year. Respiratory sales were 9% below last year. As such, this is reflected in total group sales of $1,345,209 which are up 0.3% versus the same YTD period last year.

Other Revenue has increased substantially versus the prior first-half from $26,371 to $692,991 due primarily to the cash inflows attributed to the BARDA contract.

When comparing YTD spending, there was an increase of 52% compared to the same YTD period as last year reflecting a cost increase of $2,136,274. The increase spend is due to various costs across the operation including the addition of the new CEO, BARDA initiation costs including new staff to support the contract and on-going clinical trial work in the US & UK. Net loss after tax increased to $4,929,299 (2014: $3,394,123) representing a increase of 45% on the previous corresponding half year.

ABOUT RECELL® AND RES™

ReCell® is Avita Medical's unique proprietary technology that enables a clinician to rapidly create, at point of care in approximately 30 minutes, Regenerative Epithelial Suspension (RES™) using a small sample of the patient's skin. RES™ is an autologous suspension comprising the cells and wound healing factors necessary to regenerate natural, healthy skin. RES™ has a broad range of applications and can be used to restart healing in unresponsive wounds, to repair burns using less donor skin yet with improved functional and aesthetic outcomes, and to restore pigmentation and improve cosmesis of damaged skin.

ABOUT AVITA MEDICAL LIMITED

Avita Medical develops and distributes regenerative products for the treatment of a broad range of wounds, scars and skin defects. Avita's patented and proprietary collection and application technology provides innovative treatment solutions derived from a patient's own skin. The Company's lead product, ReCell®, is used in the treatment of a wide variety of burns, plastic, reconstructive and cosmetic procedures. ReCell® is patented, CE-marked for Europe, TGA-registered in Australia, and CFDA-cleared in China. In the United States, ReCell® is an investigational device limited by federal law to investigational use. A pivotal U.S. trial is underway, with patient enrollment completion anticipated by the end of 2015. To learn more, visit www.avitamedical.com.

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FOR FURTHER INFORMATION

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Appendix 4D

Half-year Report

31 December 2015

AVITA MEDICAL LIMITED

ABN 28 058 466 523

Results for announcement to the market

Financial Results				December 2015 $	December 2014 $
Sale of goods	Up	0.3%	to	1,345,209	1,340,977
Other revenue	Up	2,528%	to	692,991	26,371
Total comprehensive loss for the period	Up	45%	to	4,929,299	3,394,123
Net loss for the period attributable to owners of the parent	Up	51%	to	4,964,428	3,285,920

Dividends	Amount per Ordinary Security	Franked amount per security
2014 interim dividend	Nil	Nil
2015 interim dividend	Nil	Nil

Record date for determining entitlements to the 2015 interim dividends	N/A

Net Tangible Asset Backing	December 2015	December 2014
Net tangible asset backing per ordinary security	$0.016	$0.007

Other explanatory notes

The information required by listing rule 4.2A is contained in both this Appendix 4D and the attached half-year report. This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.

AVITA MEDICAL LIMITED

A.B.N. 28 058 466 523

HALF-YEAR FINANCIAL REPORT

31 December 2015

Corporate Information
ABN 28 058 466 523

This half-year report covers the consolidated entity comprising Avita Medical Limited (the Parent Company) and its controlled subsidiaries (the Group). The Parent Company's functional and presentation currency is AUD ($).

A description of the Group's operations and its principal activities is included in the review of operations and activities in the Directors' Report on page 4. The Directors' Report does not form part of the financial report.

Directors

Mr Lou Panaccio (Chairman)
Mr Ian Macpherson (resigned 13 January 2016)
Prof Fiona Wood (resigned 13 January 2016)
Mr Matthew McNamara (resigned 13 January 2016)
Mr Jeremy Curnock-Cook
Mr Michael Perry
Mr Louis Drapeau (appointed 13 January 2016)
Mr Damien McDonald (appointed 13 January 2016)
Ms Suzanne Crowe (appointed 13 January 2016)

Company Secretary
Mr Gabriel Chiappini

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Perth, Western Australia, 6000

Solicitors
Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth, Western Australia, 6000

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

Principal Bankers
National Australia Bank Limited
1238 Hay Street
Perth, Western Australia, 6000

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

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Your Directors submit their report for the half-year ended 31 December 2015.

DIRECTORS

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

Mr Lou Panaccio (Chairman)
Mr Ian Macpherson (resigned 13 January 2016)
Prof Fiona Wood (resigned 13 January 2016)
Mr Matthew McNamara (resigned 13 January 2016)
Mr Jeremy Curnock-Cook
Mr Michael Perry
Mr Louis Drapeau (appointed 13 January 2016)
Mr Damien McDonald (appointed 13 January 2016)
Ms Suzanne Crowe (appointed 13 January 2016)

REVIEW AND RESULTS OF OPERATIONS

As disclosed in the events subsequent to balance date below, on 5 February 2016, the Company completed the sale of its respiratory business. Accordingly, the respiratory business has been treated as an asset held for sale at 31 December 2015, and therefore treated as a discontinued operation.

In the 6 month period to 31 December 2015 the sale of goods including the discontinued operation was $1,345,209 (2014: $1,340,976) representing an increase of 0.3% over the same 6 month period ending 31 December 2014. In the 6 month period to 31 December 2015 the sale of goods excluding the discontinued operation was $572,542 (2014: $489,905) representing an increase of 17% over the same 6 month period ending 31 December 2014. Other revenue in the 6 month period was $692,991 (2014: $26,371) resulting in a 2,528% increase compared to the same period last year and was primarily attributable to the initiation of research contracts under the new US government backed BARDA contract (2014: $nil).

Operating costs including the discontinued operation grew during the period to $6,513,038 (2014: $4,379,534) representing an increase of 49% on the previous corresponding half year. Operating costs excluding the discontinued operation grew during the period to $6,241,930 (2014: $4,105,656) representing an increase of 52% on the previous corresponding half year. Net loss after tax increased to $4,964,428 (2014: $3,285,920) representing an increase of 51% on the previous corresponding half year. The increase (70%) in administrative expenses is due a number of new costs including salary, office and travel costs of the new CEO; and increases in salaries and production & regulatory costs in the US compounded by a strengthened US dollar against the Australian dollar. Clinical and R&D expenses also rose (64% increase) due to BARDA contract initialisation costs including new staff.

EVENTS SUBSEQUENT TO BALANCE DATE

On 25 January 2016 the Company announced the implementation of a Long Term Incentive plane (LTI) for the CEO in accordance with the Employee Share Plan approved by the shareholders at the Annual General Meeting held on 24 August 2015. The plan provides for the issue of 40 million shares funded by a loan, subject to escrow and vesting conditions over 1 – 5 years.

On 5 February 2016 the Company completed the sale of its respiratory business to Medical Developments International Limited (MVP) for the consideration of $2.029m cash plus 117,894 new MVP shares escrowed for 6 months valued at $0.44m at the time of closing.

No other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on the following page.

Signed in accordance with a resolution of the Directors.

Lou Panaccio
Chairman
Dated: 26 February 2016
Perth, Western Australia

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Avita Medical Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P. Warr.

P W Warr
Partner - Audit & Assurance

Perth, 26 February 2016

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated 31 Dec 2015 $	Consolidated 31 Dec 2014 $
Continuing Operations			
Sale of goods	2	572,542	489,905
Cost of sales		(208,596)	(135,947)
Gross Profit		363,946	353,958
Other revenue	2	692,991	26,371
Operating Costs			
Administrative expenses		(3,178,846)	(1,869,941)
Share based payment expense		(1,449)	(6,669)
Clinical and research & development expenses		(1,548,809)	(944,518)
Sales and marketing expenses		(1,512,808)	(1,284,515)
Finance costs		(18)	(13)
Loss from Continuing Operations Before Income Tax		(5,184,993)	(3,725,327)
Profit for the period from discontinued operations	8	255,694	332,129
Income tax expense		-	(925)
Loss for the Period		(4,929,299)	(3,394,123)
Other Comprehensive Income			
Foreign currency translation		(35,129)	108,203
Other Comprehensive (Loss) / Income for the Period, Net of Tax		(35,129)	108,203
Total comprehensive loss for the period		(4,964,428)	(3,285,920)
Loss for the period attributable to owners of the parent		(4,929,299)	(3,394,123)
Total Comprehensive Loss Attributable to Owners of the Parent		(4,964,428)	(3,285,920)

	31 Dec 2015	31 Dec 2014
Basic and diluted loss per share from continuing operations	(0.90) cents	(1.14) cents
Basic and diluted earnings per share from discontinued operations	0.04 cents	0.10 cents
Total	(0.86) cents	(1.04) cents

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	Consolidated 31 Dec 2015 $	Consolidated 30 Jun 2015 $
ASSETS			
Current Assets			
Cash and cash equivalents		7,715,644	2,966,555
Trade and other receivables		991,056	1,505,442
Prepayments		223,302	243,162
Inventories		1,016,009	594,517
		9,946,011	5,309,676
Assets included in disposal group classified as held for sale	8	468,261	-
Total Current Assets		10,414,272	5,309,676
Non-Current Assets			
Plant & equipment		106,488	133,490
Total Non-Current Assets		106,488	5,443,166
TOTAL ASSETS		10,520,760	5,443,166
LIABILITIES			
Current Liabilities			
Trade and other payables		1,576,830	1,047,578
Provisions		170,525	178,704
		1,747,355	1,226,282
Liabilities included in disposal group classified as held for sale	8	104,943	-
Total Current Liabilities		1,852,228	1,226,282
TOTAL LIABILITIES		1,852,228	4,216,884
NET ASSETS		8,668,462	4,216,884
EQUITY			
Equity attributable to equity holders of the parent:			
Contributed equity	6	126,458,889	117,044,332
Accumulated losses		(118,270,293)	(113,457,640)
Reserves		479,866	630,192
TOTAL EQUITY		8,668,462	4,216,884

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Consolidated	
	31 Dec 2015	31 Dec 2014
	$	$
Cash flows from operating activities		
Receipts from customers	706,995	687,283
Payments to suppliers and employees	(7,158,519)	(4,686,891)
Government grants received	-	5,730
R&D refund received	654,060	1,517,058
Interest received	49,316	20,552
Interest paid	(18)	(13)
Royalties and other income received	643,675	89
Net cash used in discontinued operations	442,071	533,496
Net cash flows used in operating activities	(4,662,420)	(1,922,696)
Cash flows from investing activities		
Payments for plant & equipment	(3,049)	(20,629)
Net cash flows used in investing activities	(3,049)	(20,629)
Cash flows from financing activities		
Proceeds from issue of shares	10,025,584	-
Capital raising expenses	(611,026)	-
Net cash flows from / (used in) financing activities	9,414,558	-
Net increase / (decrease) in cash and cash equivalents	4,749,089	(1,943,325)
Cash and cash equivalents at beginning of period	2,966,555	3,648,390
Cash and cash equivalents at end of period	7,715,644	1,705,065

For the purpose of the half-year Statement of Cash Flows, cash and cash equivalents are comprised of the following:

	Consolidated	
	31 Dec 2015	31 Dec 2014
	$	$
Cash at bank and in hand	899,223	475,481
Short-term deposits	6,816,421	1,229,584
	7,715,644	1,705,065

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Consolidated	Contributed Equity $	Accumulated Losses $	Employee Equity Benefit Reserve $	Foreign Currency Translation Reserve $	Total $
At 1 July 2015	117,044,332	(113,457,640)	654,816	(24,624)	4,216,884
Loss for the period	-	(4,929,299)	-	-	(4,929,299)
Other comprehensive income	-	-	-	(35,129)	(35,129)
Total comprehensive loss for the period	**-**	(4,929,299)	**-**	(35,129)	(4,964,428)
Transactions with owners in their capacity as owners					
Share based payments	-	-	1,449	-	1,449
New shares	10,025,584				10,025,584
Cost of share placement	(611,027)				(611,027)
Transfer of expired options	-	116,646	(116,646)	-	-
Balance at 31 December 2015	126,458,889	(118,270,293)	539,619	(59,753)	8,668,462

Consolidated	Contributed Equity $	Accumulated Losses $	Employee Equity Benefit Reserve $	Foreign Currency Translation Reserve $	Total $
At 1 July 2014	111,441,930	(106,602,169)	893,503	(206,642)	5,526,622
Loss for the period	-	(3,394,123)	-	-	(3,394,123)
Other comprehensive income	-	-	-	65,255	65,255
Total comprehensive loss for the period	**-**	(3,394,123)	**-**	65,255	(3,328,868)
Transactions with owners in their capacity as owners					
Share based payments	-	-	6,669	-	6,669
Transfer of expired options	-	32,801	(32,801)	-	-
Balance at 31 December 2014	111,441,930	(109,963,491)	867,371	(141,387)	2,204,423

The accompanying notes form part of the financial statements.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of Preparation

This general purpose condensed financial report for the half year ended 31 December 2015 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. The Parent Company's functional and presentation currency is AUD ($).

This half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2015 and considered together with any public announcements made by Avita Medical Limited during the half-year ended 31 December 2015 in accordance with the continuous disclosure obligations of the *ASX listing rules*.

This financial report has been prepared on the going concern basis.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Adoption of New and Revised Accounting Standards

In the half year ended 31 December 2015, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. These include:

- Amendments to Australian Accounting Standards – *Conceptual Framework, Materiality and Financial Instruments* (Part C: Financial Instruments)
- AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E: Financial Instruments)
- AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031* Materiality
- AASB 2015-4 *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*

The adoption of all these new and revised Standards and Interpretations has not resulted in any changes to the Company's accounting policies and has no effect on the amounts reported for the current or prior periods. The Directors consider that these new and revised Standards and Interpretations has not had a material impact and therefore it has not resulted in changes to the Company's presentation of, or disclosure in, its half year financial statements.

Going Concern

These interim financial statements have been prepared on the basis of going concern, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. During the half year period ended 31 December 2015, the Group has generated a loss for the period of $4,929,299 (2014: $3,394,123) and the Group has used cash in operations of $4,662,420 (2014: $1,922,696).

The Group has prepared a detailed cashflow forecast which includes the assumption that the Group will raise funds in the next twelve months. The Directors are confident that they will be able to successfully raise these funds as required.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Profit or Loss from Discontinued Operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale. Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the statement of profit or loss and other comprehensive income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale is further analysed in note 8. The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

Non-current Assets and Liabilities classified as held for sale and Discontinued Operations

When the Company intends to sell a non-current asset or a group of assets (a disposal group), and if sale within twelve (12) months is highly probable, the asset or disposal group is classified as “held for sale” and presented separately in the statement of financial position. Liabilities are classified as “held for sale” and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as “held for sale” are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some “held for sale” assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Company’s accounting policy for those assets. Once classified as “held for sale”, the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale or re-measurement of discontinued operations is presented as part of a single line item, profit or loss from discontinued operations (see Note 8).

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

2. REVENUE

	Note	CONSOLIDATED 31 Dec 2015 $	31 Dec 2014 $
Revenue			
Sale of goods		572,542	852,071
Other revenue		692,999	26,412
		1,265,541	878,483
Other Revenue			
Bank interest receivable		49,316	20,552
BARDA income		643,466	-
Contracts received		-	5,730
Other income		209	89
		692,991	26,371

As disclosed in Note 8, the Company is holding its respiratory business as held for sale. Revenues associated with this business have been disclosed as discontinued operations. Please refer to the note for further information.

3. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

No amounts have been paid, declared or recommended by Avita Medical Limited by way of dividend since the commencement of the half-year, and up to the date of this report.

4. OPERATING SEGMENTS

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

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

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

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

- Corporate revenue
- Corporate charges

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

4. OPERATING SEGMENTS (CONTINUED)

The segment information provided to the Chief Executive Officer for the reportable segments for the half year ended 31 December 2015 is as follows:

	Continuing Operations			
	Asia Pacific	*Europe*	*Americas*	*Total*
	$	*$*	*$*	*$*
Half-year ended 31 December 2015				
Revenue				
Sales to external customers	266,249	306,293	-	572,542
Other revenue from external customers	-	209	643,466	643,675
Revenues from discontinued operation	772,675	-	-	772,675
Interest received	48,847	460	9	49,316
Total revenue per statement of comprehensive income	1,087,763	306,962	643,475	2,038,208
Segment net loss before tax	(757,181)	(1,735,577)	(1,805,167)	(4,297,925)
Reconciliation of segment net result before tax to loss before income tax				
Operating profit from discontinued operations	255,694	-	-	255,694
Corporate charges				(887,068)
Loss before income tax				(4,929,299)
Segment assets				
Assets classified as held for sale	468,261	-	-	468,261
Segment operating assets	333,948	757,562	1,815,706	2,907,216
Unallocated assets				7,145,283
Total assets per the statement of financial position				10,520,760
Segment liabilities				
Liabilities classified as held for sale	104,943	-	-	104,943
Segment operating liabilities	146,141	332,729	1,013,047	1,491,917
Unallocated liabilities				255,368
Total liabilities per the statement of financial position				1,852,228

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

4. OPERATING SEGMENTS (CONTINUED)

	Continuing Operations			
	Asia Pacific $	*Europe & Middle East* $	*Americas* $	*Total* $
Half-year ended 31 December 2014				
Revenue				
Sales to external customers	186,541	303,365	-	489,906
Other revenue from external customers	-	89	5,730	5,819
Revenues from Discontinued Operations	851,071			851,071
Interest received	19,242	1,239	112	20,593
Total revenue per statement of comprehensive income	1,056,854	304,693	5,842	1,367,389
Segment net profit / (loss) before tax	(457,641)	(1,339,288)	(1,375,905)	(3,172,834)
Reconciliation of segment net result before tax to loss before income tax				
Operating profit from discontinued operations	332,129	-	-	332,129
Corporate charges				(552,493)
Loss before income tax				(3,393,198)
Segment assets				
Segment operating assets	855,967	963,879	566,666	2,386,512
Unallocated assets				1,218,948
				3,605,460
Segment liabilities				
Segment operating liabilities	140,634	906,311	242,951	1,289,896
Unallocated liabilities				111,141
Total liabilities per the statement of financial position				1,401,037

There was no material difference between the basis of segmentation and the measurement of segment result compared to the 30 June 2015 annual report.

5. COMMITMENTS AND CONTINGENCIES

There are no significant changes to the commitments and contingencies disclosed in the most recent annual financial report.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

6. CONTRIBUTED EQUITY

	CONSOLIDATED	
	31 Dec 2015 $	30 Jun 2015 $
Ordinary shares		
Issued and fully paid	126,458,889	117,044,332

Movement in ordinary shares on issue:	Number	$
At 1 July 2015	424,950,013	117,044,332
Issue of shares	107,801,982	10,025,584
Capital raising costs	-	(611,027)
At 31 December 2015	532,751,995	126,458,889

7. RELATED PARTY DISCLOSURES

The total amount of transactions entered into with Key Management Personnel for the half-year ended 31 December 2015 were $50,000 director's fees (2014: $nil) paid under normal terms and conditions to F.A.T.S Pty Ltd of which I MacPherson is a Director.

Details of all related party transactions have been disclosed in the annual report for the year ended 30 June 2015. There have been no new significant related party transactions during the interim period.

8. ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On the 24 December 2015 entered into a binding agreement with Medical Developments Limited (ASX: MVP) for the disposal of its entire interest in the respiratory business. On 5 February 2016 the sale was completed.

Profit of the disposal group of assets and liabilities classified as held for sale is summarized as follows:

Discontinued operations	31 Dec 2015 $	31 Dec 2014 $
Sale of goods	772,667	851,071
Cost of sales	(246,237)	(245,104)
Gross profit	526,430	606,007
Other revenue	8	41
Operating costs		
Sales and marketing expenses	(270,744)	(273,919)
Profit in the period from discontinued operations	255,694	332,129

8. ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (CONTINUED)

The major classes of assets and liabilities of the Group included in the disposal group classified as held for sale as at 31 December are as follows:

	31 Dec 2015 $	30 Jun 2015 $
Current assets		
Inventories	274,705	-
Trade receivables	193,556	-
Assets classified as held for sale	468,261	-
Current liabilities		
Trade payables	(104,943)	-
Liabilities classified as held for sale	(104,943)	-
Net assets classified as held for sale	363,318	-

Cash flows generated by the Group for the disposal group of asset and liabilities for the reporting periods under review were as follows:

	31 Dec 2015 $	31 Dec 2014 $
Operating activities	442,071	533,456
Cash flows from discontinued operations	442,071	533,456

9. EVENTS SUBSEQUENT TO BALANCE DATE

On 25 January 2016 the Company announced the implementation of a Long Term Incentive plane (LTI) for the CEO in accordance with the Employee Share Plan approved by the shareholders at the General Meeting held on 24 August 2015. The plan provides for the issue of 40 million shares funded by a loan, subject to escrow and vesting conditions over 1 – 5 years.

On 5 February 2016 the Company completed the sale of its respiratory business to Medical Developments International Limited (ASX: MVP) for the consideration of $2.029m cash plus 117,894 new MVP shares escrowed for 6 months valued at $0.44m at the time of closing.

No other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

DIRECTORS' DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

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

   (i) Giving a true and fair view of the financial position at 31 December 2015 and the performance for the half-year ended on that date of the consolidated entity; and

   (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

On behalf of the Board

Lou Panaccio
Chairman
Dated: 26 February 2016
Perth, Western Australia

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Independent Auditor's Review Report
To the Members of Avita Medical Limited

We have reviewed the accompanying half-year financial report of Avita Medical Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of Avita Medical Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Avita Medical Limited consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Avita Medical Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Avita Medical Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P. Warr.

P W Warr
Partner - Audit & Assurance

Perth, 26 February 2016