

AVITA MEDICAL LIMITED

A.B.N. 28 058 466 523

FULL FINANCIAL REPORT

For the year ended 30 June 2013

Corporate Information
ABN 28 058 466 523

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

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on page 6.

Directors

Mr Dalton Gooding (Chairman)
Mr Ian Macpherson (Deputy Chairman)
Dr William Dolphin (Managing Director)
Prof Fiona Wood (Non-Executive Director)
Dr Paul Watt (Non-Executive Director) – resigned 19 October 2012
Mr Jeremy Curnock Cook – appointed 19 October 2012
Mr Matthew McNamara – appointed 19 October 2012
Dr Michael Perry – appointed 6 February 2013

Company Secretary

Mr Gabriel Chiappini

Registered Office

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

Principal place of business

Unit B1, Beech House
Melbourn Science Park
Cambridge Road
Royston, HERTS, SG8 6HB
United Kingdom

Share Register

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

Solicitors

Clifford Chance
Level 12, London House
216 St Georges Terrace
Perth, Western Australia, 6000

Auditor

Grant Thornton Audit Pty Ltd
Level 1, 10 Kings Park Road
Perth, Western Australia, 6000

Principal Bankers

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

Stock Exchange

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

Internet Address

www.avitamedical.com

AVITA MEDICAL LIMITED DIRECTORS' REPORT

Your Directors present their report with respect to the results of Avita Medical Limited (the "Company") for the year ended 30 June 2013 and the state of affairs of the Company at that date. Avita Medical Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared this consolidated financial report incorporating the entities that it controlled during the financial period.

DIRECTORS

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

Dalton Gooding (Chairman)

Mr Gooding was appointed to the Board on 14 November 2002. Mr Gooding, formerly a long-standing partner at Ernst & Young, is a Fellow of the Institute of Chartered Accountants in Australia. With over 35 years' experience, he is currently the Managing Partner of Gooding Partners and advises to a wide range of businesses with particular emphasis relating to taxation and accounting issues, due diligence, feasibilities and general business advice. Mr Gooding also has a number of other directorships of companies in many different segments of business. During the past three years Mr Gooding has also served as a director of the following other listed companies:

- Brierty Limited* (Appointed 26 October 2007)
- Katana Capital Limited* (Appointed 11 November 2005)
- SIPA Resources Limited* (Appointed 1 May 2003)

* denotes current directorship

Ian Macpherson (Deputy Chairman)

Mr Macpherson was appointed to the Board on 5 March 2008 following completion of the merger with Visiomed Group Limited. Mr Macpherson is a graduate from the University of Western Australia with a Bachelor of Commerce (B.Comm). He commenced his career in commerce in 1978 prior to entering the Chartered Accounting profession. In July 1990 he resigned from the partnership of Arthur Anderson and Co to establish the firm of Ord Partners, Chartered Accountants (subsequently Ord Nexia). In October 2010 Ord Nexia merged with MGI Perth and Mr MacPherson continued in a consulting role with the merged group until November 2011.

Mr Macpherson advises on capital structuring, equity and debt raising, ASIC and Securities Exchange compliance procedures. He is a member of the Institute of Chartered Accountants in Australia. During the past three years Mr Macpherson has also served as a director of the following other listed companies:

- Rubicon Resources Limited* (Appointed 18 October 2010)
- Navigator Resources Limited (Appointed 1 July 2003; Resigned 14 January 2013)
- Nimrodel Resources Limited (Appointed 17 July 2007; Resigned 2 August 2011) Kimberley Rare Earths Limited (Appointed 2 December 2010; Resigned 29 November 2012)

* denotes current directorship

Dr William Dolphin Ph.D (Chief Executive Officer and Managing Director)

Dr Dolphin was appointed to the Board on 5 March 2008 following completion of the merger with Visiomed Group Limited. Dr Dolphin was previously CEO of Visiomed Group Limited. Dr Dolphin holds a PhD in biophysics obtained from Boston University in 1989. He held appointments as Professor in the Departments of Biomedical Engineering and Biology at Boston University and served as President and Chief Technology Officer of a US-based contract research and development company. Dr Dolphin was subsequently the President, CEO and Chairman of a US medical device company.

In 2003 Dr Dolphin relocated to New Zealand and was CEO of a technology joint venture. Dr Dolphin has served as a director of numerous companies in the US, NZ and Australia, is the author of more than 60 peer-reviewed scientific articles, holds five US and international patents and was twice recipient of the National Research Service Award from the US National Institutes of Health.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

Dr Paul Watt
(Non-executive Director)

Dr Watt was appointed to the Board on 5 March 2008 following completion of the merger with Visiomed Group Limited. Dr Watt is currently an Honorary Research Fellow at the Telethon Institute for Child Health Research and an adjunct Professor at the University of Western Australia. He received his doctorate from Oxford University and was a Post Doctoral Research Fellow at Harvard University and Oxford University. Dr Watt resigned as director on 19 October 2012.

Dr Watt was a recipient of a number of important research honours and awards, and has numerous scientific publications to his name for biomedical methods and inventions. He has registered 15 patent applications covering biotechnology products and drug delivery systems and is the inventor of the Funhaler incentive asthma spacer. During the past three years Dr Watt has also served as a director of the following other listed companies:

- Phylogica Limited* (Appointed 9 August 2002)

Fiona Wood
(Non-executive Director)

Winthrop Professor Wood was re-appointed to the Board on 11 April 2006 following her earlier resignation from the Board on 31 December 2005. Professor Wood is currently Director of the Western Australian Burns Service and a Consultant Plastic Surgeon at both the Royal Perth and Princess Margaret hospitals. She is the Chairman of the Fiona Wood Foundation formerly the McComb Research Foundation established in 1999 with co-founder Marie Stoner.

Professor Wood has been involved in a number of education and disaster response programs associated with her interest in burns and has published a variety of papers over the years. In addition, she has been the recipient of the 2003 Australian Medical Association "Contribution to Medicine" award and a Member of the Order of Australia for her work with Bali bombing victims. Professor Wood was named West Australian of the Year in 2004 and 2005 and was named as Australian of the Year in 2005. Professor Wood is not a director of any other listed company.

Jeremy Curnock Cook
(Non-executive Director)

Mr Curnock Cook was appointed to the Board on 19 October 2012 and is currently on a number of boards of International Healthcare and Biotechnology companies. He is the former head of the life science private equity team at Rothschild Asset Management, was responsible for the launch of the first dedicated biotechnology fund for the Australian market and the launch of a joint venture with Johnson & Johnson Development Corporation for the creation of Healthcare Ventures, an investment vehicle dedicated to seed stage investments in Europe, as well as the conception and launch of the International Biotechnology Trust. He is currently the Managing Director of Bioscience Managers Pty Ltd, responsible for the BM Asia Pacific Healthcare Fund. During the past three years Mr Curnock Cook has also served as a director of the following other listed companies:

- Bioxyne Ltd* (Appointed 7 May 2012)
- Phylogica Ltd* (Appointed March 2012)
- AmpliPhi Bioscience Corporation Inc* (Appointed July 1995)
- Sea Dragon Marine Oils Ltd* (Appointed 15 October 2012)
- Eacom Timber Corporation (Appointed 1997 – resigned June 2013)
- Union MedTech PLC* (Appointed 27 February 2012)

Matthew McNamara
(Non-executive Director)

Mr McNamara was appointed to the Board on 19 October 2012 and is currently the Chief Investment Officer and director of BioScience Managers Pty Ltd. Mr McNamara has over 25 years experience in the Healthcare & Medical Sciences sector. After initially being a Molecular Biology Research Assistant, he spent 11 years in Sales & Marketing and General Management with Merck & Co. and Johnson and Johnson Medical Pty. Ltd respectively. He has served as SVP Business Development of eBioinformatics Inc. and was CEO of a Life Sciences Venture Capital Fund, SciCapital Pty. Ltd. During the past three years Mr McNamara has also served as a director of the following other listed companies:

- Sea Dragon Limited* (Appointed 5 October 2012)
- Bioxyne Limited* (Appointed an Alternative Director 22 August 2013)

* denotes current directorship

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

Dr Michael Perry
(Non-executive Director)

Dr Perry was appointed to the Board on 6 February 2013 and currently serves as Vice President and Senior Global Program Head, Stem Cell Therapy at Novartis Pharmaceuticals Corp, a US affiliate of Switzerland-based Novartis AG. Dr Perry, based in the United States, has previously served as the Global Head of R&D at Baxter Healthcare, President, Cell & Gene Therapy at Novartis affiliates Systemix and GeneticTherapy, Inc., VP Regulatory Affairs at Sandoz Pharmaceuticals Corp., Director of Regulatory Affairs at Schering-Plough Corporation, and Chairman, CEO or CMO at several early stage biotech companies. During the past three years Dr Perry has also served as a director of the following other listed companies:

- Arrowhead Research Corporation*
- AmpliPhi Biosciences*

* denotes current directorship

COMPANY SECRETARY

Gabriel Chiappini BBus, CA, GAICD

Mr Chiappini has been Company Secretary since 27 June 2003. Mr Chiappini has worked in Chief Financial Officer and Company Secretarial roles in local and international environments and has also held the position of Company Secretary with ASX listed and unlisted companies.

Interests in the Shares and Options of the Company

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

	Number of Ordinary Shares	Number of Options over Ordinary Shares
D Gooding	3,354,528	-
I Macpherson	10,799,997	-
W Dolphin	2,003,569	9,698,750
P Watt	110,199	-
F Wood	723,365	-
J Curnock Cook	-	-
M McNamara	-	-
M Perry	-	-

EARNINGS PER SHARE

Earnings per share for the current year was a loss of 2.69 cents per share compared to a loss of 3.22 cents per share for the previous period. Weighted average number of ordinary shares on issue used in the calculation of basic loss and diluted loss per share is 300,384,964.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

DIVIDENDS

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

Employees

The number of full-time employees of the economic entity at 30 June 2013 was 21 (30 June 2012:17).

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were:

- the commercialisation of the Company's regenerative product;
- supply of spacers to the adult and adolescent respiratory market.

OPERATING AND FINANCIAL REVIEW

Group Overview

Avita Medical Limited is a global medical device company, formed through the merger in February 2008 of Clinical Cell Culture Ltd with Visiomed Group Ltd. Following the merger the Company is now active in the regenerative medicine and respiratory markets.

Regenerative Medicine

The Company develops and distributes tissue-engineered products for the treatment of wound and other skin defects. The lead product, ReCell® Autologous Spray-On-Skin, enables the collection of healthy skin cells for immediate treatment of existing scars created by burns, skin grafts, acne, acute wounds or surgery, and skin discolouration including leucoderma and vitiligo. The Company is focused on obtaining regulatory approval in key markets and establishing a commercial platform to successfully penetrate these markets. ReCell is cleared for sales in Australia (TGA) and Europe (CE marked). Clinical trials are underway in the United States in support of clearance through the US FDA.

Respiratory

The Company manufactures and sells a range of spacers for the paediatric, adolescent and adult market and is the leading provider of spacers in Australia. Products include the Funhaler® incentive asthma spacer, designed for the paediatric market, and Breath-A-Tech addressing the adolescent and adult markets.

Operating Results for the Year

Revenue from the sale of goods, other revenue and other income was \$4,052,478, a decrease of 22% over last year (2012: 5,180,448). Revenue from sale of goods was \$2,814,990, down 16% over the previous year (2012: \$3,352,268). Cost of sales were \$676,502 (2012: \$952,847) down 29% due to manufacturing cost gains while gross profits at \$2,138,488 (2012: \$2,399,421) decreased by only 11%. Normal operating costs were \$11,596,766 (2012: \$9,985,151 after excluding last year's impairment of intellectual property of \$2,001,888) an increase of 16% compared to last year. This reflects the planned increased expenditure in Sales and Marketing efforts (up 16%) and Research & Development (up 168%) compared to last year. The net loss before tax was \$8,220,993 up 43% on last year (2012: \$5,757,550 after adjusting for last year's impairment of intellectual property of \$2,001,888).

Investments for Future Performance

The Company continues to focus on achieving sales penetration in the regenerative medicine and respiratory markets. The Company is directing its resources to a limited number of key markets, working with a small number of select distributors and, where warranted, the addition of dedicated sales consultants or product specialists will be considered. The Company has commenced a clinical trial program as part of the regulatory approval process for ReCell® in the United States. The Company's strategy for its respiratory line of products is to continue to grow and solidify its dominant position in the Australia market and build the Company's presence in international markets.

Review of Financial Condition

Capital Structure

During the 2013 financial year \$10,452,080 was raised in a Share Purchase Plan through the issue of 87,125,848 shares less capital raising costs of \$673,649.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

Cash from Operations

Net cash outflows used in operations increased by 70% compared to the previous period, from \$4,266,157 in 2012 to \$7,249,403 in the current year.

Risk Management

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the 2013 financial year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company continues to focus on achieving sales penetration in key approved markets and is also anticipating further regulatory approvals in a number of important global markets. Sales revenue is expected to increase during the 2013/2014 financial year as market penetration increases and approvals are received in new markets.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Unissued Shares

As at the reporting date, there were 18,872,140 unissued ordinary shares under options represented by:

4,882,500 exercisable at \$0.14 expiring 30 November 2014, issued to the chief executive officer at the Annual General Meeting held on 11 November 2008.

1,000,000 exercisable at \$0.14 expiring 30 November 2015, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010.

1,660,000 exercisable at \$0.14 expiring 30 November 2016, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010.

1,406,250 exercisable at \$0.14 expiring 30 November 2017, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010.

750,000 exercisable at \$0.14 expiring 30 November 2018, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010.

2,750,000 exercisable at \$0.14 expiring 20 December 2013, issued to employees on 1 July 2010.

400,000 exercisable at \$0.14 expiring 30 June 2014, issued to an employee on 1 July 2011.

3,373,390 exercisable at \$0.20 expiring 31 January 2014, issued to investors.

150,000 exercisable at \$0.15 expiring 30 June 2014, issued to an employee on 9 July 2012.

700,000 exercisable at \$0.15 expiring 15 August 2018, issued to an employee on 15 May 2013.

1,800,000 exercisable at \$0.15 expiring 15 October 2018, issued to an employee on 15 May 2013.

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

Shares Issued as a Result of the Exercise of Options

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

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

AVITA MEDICAL LIMITED REMUNERATION REPORT (audited)

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

For the purposes of this report, the term 'executive' encompasses the Chief Executive and senior executives of the parent and the Group.

Details of key management personnel

(i) Directors

Dalton Gooding		Chairman (non-executive)
Ian Macpherson	Deputy	Chairman (non-executive)
William Dolphin		Chief Executive Officer (executive)
Paul Watt		Director (non-executive) – resigned 19 October 2012
Fiona Wood	Direct	or (non-executive)
Jeremy Curnock Cook		Director (non-executive) – appointed 19 October 2012
Matthew McNamara		Director (non-executive) – appointed 19 October 2012
Michael Perry		Director (non-executive) – appointed 6 February 2013

(ii) Executives

Lorraine Glover		General Manager - Asia Pacific
William Marshall	VP	Operations
Andrew Quick		VP Research & Technology
Debra Leeves		General Manager – EMEA – joined 6 August 2012
Timothy Rooney		Chief Operations Officer / Chief Finance Officer – joined 8 October 2012
Gabriel Chiappini	Compa	ny Secretary

There were no other changes of the CEO or key management personnel after reporting date and before the date the financial report was authorised for issue.

Remuneration Committee

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

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

Remuneration Philosophy

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

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

- Provide competitive rewards to attract high calibre executives;
- Acceptability to shareholders;
- Performance linkage and alignment of executive compensation; and
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

Performance hurdles considered by the Board in determining short term and long term incentives for executives include earnings and earnings per share.

AVITA MEDICAL LIMITED
 REMUNERATION REPORT (continued)

Financial Year	Net Loss after Tax (\$)	Loss per Share (cents)	Share Price (cents)
2013	8,041,939	2.69	13.0
2012	7,671,682	3.22	18.5
2011	1,796,920	1.56	11.3
2010	5,889,363	5.46	11.5
2009	5,128,292	5.49	10.0

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and senior management remuneration is separate and distinct.

Non-executive Director Remuneration

Objective

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

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 29 November 2005 when shareholders approved an aggregate remuneration of \$450,000 per year in respect of fees payable to non-executive directors. Please refer to Table 1, page 13 for the allocation of directors' fees.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company and includes attendance at Board and committee meetings. Any additional services provided are charged at a daily rate agreed in advance by the Chairman. The non-executive directors do not participate in any incentive programs. These additional services provided are disclosed as other short term benefits in Table 1 of the remuneration report.

The remuneration of non-executive directors for the year ended 30 June 2013 is detailed in Table 1 of this report.

Executive Remuneration (including executive directors)

Objective

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

- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Structure

The Remuneration Committee determines the level and make-up of executive remuneration. To assist in achieving the Company's objectives the Remuneration Committee links the nature and amount of officers' emoluments to the Company's financial and operational performance. All executives and senior management are entitled to annual bonuses payable upon the achievement of individual and company performance targets and participate in the Company's employee share option plan.

AVITA MEDICAL LIMITED REMUNERATION REPORT (continued)

Remuneration consists of the following key elements:

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

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive by the Remuneration Committee. Table 1 details the fixed and variable components of the executives of the Group and the Company.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. During the 2013 financial year there were no benefits paid in kind (2012: nil).

Structure

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

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of variable remuneration is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets.

Structure

The total potential variable remuneration is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances. Actual variable remuneration payments granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance. The Company has predetermined benchmarks which must be met in order to trigger variable remuneration payments. The KPIs against which executives are assessed include corporate and board communication and relations, financial performance (including revenue and profit targets), operational and strategic objectives (including development and management of products) and financial management (including investor relations).

On an annual basis, after consideration of performance against KPI's, the level of variable remuneration is approved by the Remuneration Committee. Payments made are usually delivered as a cash bonus and options.

STI bonus for 2013 financial year

For the 2013 financial year, one STI cash bonus of \$103,285 (US\$107,993) was paid to W Dolphin based on the performance of the group which included assessment of corporate and board relations, operational and strategic tasks, financial performance and investor relations. Other key Management Personnel received in aggregate a total of \$139,456 as a STI cash bonus based on executive performance relating to achieving individual key performance indicators ("KPI") as well as corporate and divisional hurdles. KPIs include among others maintaining board relations with regular board contact, provision of an annual budget with parameters for revenue targets and cost containment, development of a sales & marketing plan, progress of key potential partners, conduct of US FDA clinical trials, establishment of an office in the US, hire of key personnel, security of intellectual property and investor relations.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns remuneration with the creation of shareholder wealth.

Structure

As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have an impact on the Group's performance. LTI grants to executives are delivered in the form of share options under the Employee Share Option Plan. 2,650,000 share options were issued during the year to 3 Key Management Personnel of which 550,000 were fully vested as at 30 June 2013. The options were not linked to performance as they are considered a long term incentive to retain key employees of the Company.

Employment Contracts

Chief Executive Officer

The CEO and Managing Director, Dr William Dolphin, is employed under a two year contract which expires on 30 June 2014. Under the terms of the contract:

- Dr Dolphin receives fixed remuneration of US\$340,000 per annum. The company will contribute up to 6% of salary to Dr Dolphin's US-based superannuation scheme.
- Dr Dolphin receives cash bonus of up to US\$112,200 (33% of salary) per annum payable on the achievement of agreed Key Performance Indicators. These KPI's are:
 - maintaining effective working relationships with the Board, ensuring regular contact and update
 - maintaining and building good staff relationships with appropriate compensation and performance targets
 - provision of an annual budget and measurement of achievement of targeted revenues and costs
 - development of a global sales and marketing plan including clinical studies
 - successful partnering with US Department of Defense and conduct of the FDA clinical trials
 - safeguarding of secure Intellectual Property for the group's products
 - completion of capital raising and maintenance of strong investor relations
- The Company provides Dr Dolphin with other benefits including health & life insurance, schooling costs for one child, motor vehicle & home internet costs considered normal remuneration entitlements for an Executive of Dr Dolphins experience.
- Dr Dolphin may resign from his position and thus terminate this contract by giving 3 months written notice. On resignation any unvested options will be forfeited.
- The Company may terminate this employment agreement by providing 6 months written notice or provide payment in lieu of the notice period (based on the fixed component of Dr Dolphin's remuneration). On termination on notice by the Company, any LTI options that have vested, or will vest during the notice period, will be released. LTI options that have not yet vested will be forfeited.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the CEO is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Other Executives (standard contracts)

All executives have rolling contracts. The Company may terminate the executive's employment agreement by providing, dependent on the employee, between 0 and 3 months written notice or provide payment in lieu of the notice period (based on the fixed component of the executive's remuneration). On termination on notice by the Company, any LTI options that have vested or that will vest during the notice period will be exercisable. LTI options that have not yet vested will be forfeited. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Remuneration of key management personnel

Table 1: Remuneration for the year ended 30 June 2013

	Short-term		Non-monetary benefits	Cash bonus **	Post-Employment	Equity	Total	% remuneration consisting of options	% of remuneration performance related
	Salary & Fees	Other			Superannuation	Options			
Non-executive directors									
D Gooding – Chairman	78,750	-	--	-	7,088	-	85,838	-	-
I Macpherson – Deputy Chairman	52,500	-	--	-	4,725	-	57,225	-	-
P Watt	12,250	-	--	-	1,103	-	13,353	-	-
F Wood	39,032	-	--	-	-	-	39,032	-	-
J Curnock Cook	27,957	-	--	-	-	-	27,957	-	-
M McNamara	27,957	-	--	-	-	-	27,957	-	-
M Perry	17,939	-	--	-	-	-	17,939	-	-
Sub-total non-executive directors	256,385	-	-	-	12,916	-	269,301	-	-
Executive Directors									
W Dolphin – Chief Executive Officer	343,868	(6,450)*	65,674	103,285	14,405	31,581	552,363	5.7	18.7
Other key management personnel & executives									
L Glover – General Manager Asia Pacific	157,500	-	-	22,050	14,175	28	193,753	0.01	-
W Marshall – VP Operations	126,768	-	56,903	9,243	-	20	192,934	0.01	-
A Quick – VP Research & Technology	162,526	-	35,942	36,164	6,495	40	241,167	0.01	-
D Leeves	211,506	-	5,240	32,877	14,155	9,487	273,265	6.5	-
T Rooney	154,659	-	6,341	53,577	5,894	19,513	239,984	8.1	-
G Chiappini – Company Secretary	36,000	-	--	-	-	-	36,000	-	-
Sub-total executive KMP	848,959	-	104,426	153,911	40,719	29,088	1,177,103		
Totals	1,449,212	(6,450)	170,100	257,196	68,040	60,669	1,998,767		

* Comprises a recovery of tax from IRS on behalf of W Dolphin for UK taxation in relation to the UK secondment in prior years. W Dolphin repaid this sum during the period.

** The cash bonus for W Dolphin was approved by the Remuneration Committee on 12 October 2012 and paid in December 2012. All other cash bonuses to other key management personnel are expected to be approved post the signing of this annual report and paid out in the year ending 30 June 2014. As they relate to services for the year ended 30 June 2013 they have been accrued in this remuneration report.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Table 2: Remuneration for the year ended 30 June 2012

	Short-term			Cash bonus	Post-Employment	Equity	Total	% remuneration consisting of options	% of remuneration performance related
	Salary & Fees	Other	Non-monetary benefits		Superannuation	Options			
Non-executive directors									
D Gooding – Chairman	78,750	-	--	-	7,088	-	85,838	-	-
I Macpherson – Deputy Chairman	52,500	-	--	-	4,725	-	57,225	-	-
P Watt	36,750	-	--	-	3,308	-	40,058	-	-
F Wood	36,750	-	--	-	-	-	36,750	-	-
Sub-total non-executive directors	204,750	-	-	-	15,121	-	219,871	-	-
Executive Directors									
W Dolphin – Chief Executive Officer	345,875	200,000*	67,820	95,168	13,283	118,857	841,003	14.1	11.3
Other key management personnel & executives									
L Glover – General Manager Asia Pacific	157,500	-	-	26,775	16,188	10,417	210,880	4.9	-
W Marshall – VP Operations	124,115	-	40,671	11,127	-	7,441	183,354	4.1	-
A Quick – VP Research & Technology	161,076	-	22,672	39,201	9,118	14,881	246,948	6.0	-
T Caldera – General Manager EMEA **	224,927	-	4,803	35,165	14,665	19,560	299,120	6.5	-
G Chiappini – Company Secretary	36,000	-	--	-	-	-	36,000	-	-
Sub-total executive KMP	1,049,493	200,000	135,966	207,436	53,254	171,156	1,817,305		
Totals	1,254,243	200,000	135,966	207,436	68,375	171,156	2,037,176		

* Comprises a provision on behalf of W Dolphin for UK taxation in relation to the UK secondment in prior years

** T Caldera left 14 May 2012

AVITA MEDICAL LIMITED
 REMUNERATION REPORT (continued)

Table 3: Compensation options: Granted and vested during the year

	Number of options granted during the year		Number of options vested during the year	
	2013	2012	2013	2012
Executives				
T Caldera	-	750,000	-	400,000*
D Leeves	700,000	-	100,000	-
T Rooney	1,800,000	-	300,000	-

*350,000 options valued at \$17,115 were forfeited during the year due to cessation of employment.

The total fair value of options granted during the year was \$88,340 (2012: \$36,675) which is allocated over the vesting period.

Details of options issued during the period:

700,000 exercisable at \$0.15 expiring 15 August 2018, issued to an employee on 15 May 2013

1,800,000 exercisable at \$0.15 expiring 15 October 2018, issued to an employee on 15 May 2013

There have been no alterations to the terms or conditions of the options granted as remuneration since the grant date.

End of Remuneration Report

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

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director is as follows:

	Directors' Meetings	Meetings of Committees	
		Remuneration	Audit
Number of meetings held:	6	1	2
Number of meetings attended:			
Dalton Gooding	6	1	2
Ian Macpherson	5	1	2
William Dolphin	6	-	1
Paul Watt	2	N/A	N/A
Fiona Wood	3	N/A	N/A
Jeremy Curnock Cook	3	N/A	N/A
Matthew McNamara	5	N/A	1
Michael Perry	3	N/A	N/A

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

Committee Membership

As at the date of this report, the Company had an Audit Committee and a Remuneration Committee.

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

Audit	Remuneration
Ian Macpherson (c)	Dalton Gooding (c)
Dalton Gooding	Ian Macpherson
Matthew McNamara	Jeremy Curnock Cook

Notes

(c) Designates the Chairman of each Committee

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have obtained an independence declaration from our auditors, Grant Thornton, as presented on page 18 of this report.

NON-AUDIT SERVICES

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

- All non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board

Employment tax advice relating to the CEO period of residency in the UK from 2009 to 2010 was provided by the Company's auditor, Grant Thornton, during the year. Total fees paid to Grant Thornton for these non-audit services were \$33,716.

Signed in accordance with a resolution of the directors.



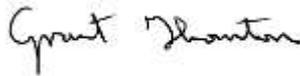
Dalton Gooding
Chairman
Dated: 25 September 2013
Perth, Western Australia

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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 audit of Avita Medical Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



P W Warr
Partner - Audit & Assurance

Perth, 25 September 2013

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

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Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

**AVITA MEDICAL LIMITED
DIRECTORS' DECLARATION**

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2013.

On behalf of the Board



Dalton Gooding
Chairman
Dated: 25 September 2013
Perth, Western Australia

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

10 Kings Park Road
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Report on the financial report

We have audited the accompanying financial report of Avita Medical Limited (“the Company”), which comprises of the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 (“the Group”) 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. The Directors’ responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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.

Grant Thornton Audit Pty Ltd ACN 130 913 594
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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 Group'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.

Electronic presentation of audited financial report

This auditor's report relates to the financial report of Avita Medical Limited and its controlled entities for the year ended 30 June 2013 included on the Company's web site. The Directors are responsible for the integrity of the Company's website. We have not been engaged to report on the integrity of Company's website. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Independence

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

Auditor's opinion

In our opinion:

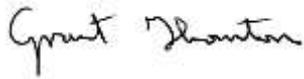
- a the financial report of Avita Medical Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date;
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in pages 9 to 15 of the Directors' Report for the year ended 30 June 2013. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Avita Medical Limited for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



P W Warr
Partner - Audit & Assurance

Perth, 25 September 2013

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

		Consolidated	
	Notes	2013 \$	2012 \$
Continuing operations			
Sale of goods	4	2,814,990	3,352,268
Cost of sales	4	(676,502)	(952,847)
Gross Profit		<u>2,138,488</u>	<u>2,399,421</u>
Other Revenue	4 (b)	1,237,285	1,828,180
Operating Costs			
Administrative expenses		(5,449,632)	(5,337,993)
Share based payments		(82,338)	(179,340)
Research and development expenses		(2,601,046)	(969,113)
Sales and marketing expenses		(3,390,659)	(2,925,638)
Finance costs	4 (c)	(91)	(67)
Fair value movements in financial liabilities at fair value through profit or loss		-	(63,000)
Impairment of intellectual property	4 (d)	-	(2,001,888)
Amortisation of intellectual property	4 (d)	(73,000)	(510,000)
Loss from continuing operations before income tax		<u>(8,220,993)</u>	<u>(7,759,438)</u>
Income tax benefit	6	128,064	87,756
Loss for the period	5	<u>(8,092,939)</u>	<u>(7,671,682)</u>
Other comprehensive income / (loss)			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Foreign currency translation		133,503	9,196
Other comprehensive (loss) / income for the period, net of tax		133,503	9,196
Total comprehensive loss for the period		<u>(7,959,436)</u>	<u>(7,662,486)</u>
Loss for the period is attributable to:			
Non-controlling interest		-	(81,553)
Owners of Avita Medical Limited		(8,092,939)	(7,590,129)
		<u>(8,092,939)</u>	<u>(7,671,682)</u>
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		-	(81,553)
Owners of Avita Medical Limited		(7,959,436)	(7,580,933)
		<u>(7,959,436)</u>	<u>(7,662,486)</u>
Basic loss per share	5	(2.69) cents	(3.22) cents
Diluted loss per share	5	(2.69) cents	(3.22) cents

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

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

		Consolidated	
	Notes	2013	2012
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	7	10,616,849	8,230,593
Trade and other receivables	8	1,215,382	1,461,974
Prepayments		187,586	137,840
Inventories	9	761,785	715,612
Total Current Assets		12,781,602	10,546,019
Non-Current Assets			
Plant & equipment	10	127,029	87,051
Intangible assets	11	-	73,000
Total Non-Current Assets		127,029	160,051
TOTAL ASSETS		12,908,631	10,706,070
LIABILITIES			
Current Liabilities			
Trade and other payables	12	2,243,783	1,686,577
Provisions	13	209,538	465,516
Total Current Liabilities		2,453,321	2,152,093
TOTAL LIABILITIES		2,453,321	2,152,093
NET ASSETS		10,455,310	8,553,977
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	14	111,441,930	101,663,499
Accumulated losses	15	(101,706,766)	(96,676,634)
Reserves		720,146	3,567,112
TOTAL EQUITY		10,455,310	8,553,977

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

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Consolidated	
		2013	2012
		\$	\$
Cash flows from operating activities			
Receipts from customers		2,990,444	3,273,274
Payments to suppliers and employees		(11,567,164)	(9,453,067)
Government grants received		787,578	759,979
Tax refund received – R&D claim		90,123	85,523
Interest received		412,354	498,056
Interest paid		(91)	(67)
Royalties and other income received		37,353	570,145
Net cash flows used in operating activities	17 (a)	(7,249,403)	(4,266,157)
Cash flows from investing activities			
Purchase of plant & equipment		(83,596)	(75,631)
Net cash flows used in investing activities		(83,596)	(75,631)
Cash flows from financing activities			
Proceeds from issue of shares and options		10,401,080	-
Capital raising expenses		(673,649)	(94,925)
Net cash flows (used in) / provided by financing activities		9,727,431	(94,925)
Net increase/(decrease) in cash and cash equivalents		2,394,432	(4,436,713)
Cash and cash equivalents at beginning of period		8,230,593	12,669,020
Impact of foreign exchange		(8,176)	(1,714)
Cash and cash equivalents at end of period	7	10,616,849	8,230,593

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

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

Consolidated	Contributed equity	Accumulated losses	Option premium reserve	Employee equity benefit reserve	Foreign currency translation reserve	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2012	101,663,499	(96,676,634)	2,277,759	1,664,987	(375,634)	-	8,553,977
Loss for the period	-	(8,092,939)	-	-	-	-	(8,092,939)
Other comprehensive income – foreign currency translation	-	-	-	-	133,503	-	133,503
Total comprehensive loss for the year	-	(8,092,939)	-	-	133,503	-	(7,959,436)
Transactions with owners in their capacity as owners							
Expired options	-	3,062,807	(2,277,759)	(785,048)	-	-	-
New shares	10,452,080	-	-	-	-	-	10,452,080
Share based payments	-	-	-	82,338	-	-	83,338
Recognition of non-controlling interest in consolidated entities	-	-	-	-	-	-	-
Cost of share placement	(673,649)	-	-	-	-	-	(673,649)
Balance at 30 June 2013	111,441,930	(101,706,766)	-	962,277	(242,131)	-	10,455,310

Consolidated	Contributed equity	Accumulated losses	Option premium reserve	Employee equity benefit reserve	Foreign currency translation reserve	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2011	101,758,424	(89,086,505)	2,277,759	1,485,647	(384,830)	-	16,050,495
Loss for the period	-	(7,590,129)	-	-	-	(81,553)	(7,671,682)
Other comprehensive income – foreign currency translation	-	-	-	-	9,196	-	9,196
Total comprehensive loss for the year	-	(7,590,129)	-	-	9,196	(81,553)	(7,662,486)
Transactions with owners in their capacity as owners							
Share based payments	-	-	-	179,340	-	-	179,340
Recognition of non-controlling interest in consolidated entities	-	-	-	-	-	81,553	81,553
Cost of share placement	(94,925)	-	-	-	-	-	(94,925)
Balance at 30 June 2012	101,663,499	(96,767,634)	2,277,759	1,664,987	(375,634)	-	8,553,977

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

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. CORPORATE INFORMATION

The financial report of Avita Medical Limited (the Company) for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 25 September 2013.

Avita Medical Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the directors' report on page 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and statement of compliance

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

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

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

b) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2013. These are outlined in the following tables.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary of New Accounting Standard	Impact on Financial Report	Application date of standard*	Application date for Group*
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets and liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:</p> <p>(a) Financial assets that are debt instruments are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> - The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and - The remaining change is presented in profit or loss. <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p>	<p>Management has not yet assessed the impact that this amendment is likely to have on the financial statements of the Group.</p>	31 December 2015	30 June 2016

Reference	Title	Summary of New Accounting Standard	Impact on Financial Report	Application date of standard*	Application date for Group*
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a control model that applies to all entities. It replaces the consolidation requirements in AASB 127 <i>Consolidated and Separate Financial Statements</i> and AASB Interpretation 112 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give 'de facto' control. This is likely to lead to more entities being consolidated into the group.</p>	As the Group prepares consolidated accounts it is likely to impact the Group. Under the change it is not expected the current group will change.	31 December 2013	30 June 2014
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and AASB Interpretation 113 <i>Jointly- controlled Entities – Non-monetary Contributions by Ventures</i> . AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	Management has not yet assessed the impact that this amendment is likely to have on the financial statements of the Group.	31 December 2013	1 June 2014
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	Management has not yet assessed the impact that this amendment is likely to have on the financial statements of the Group.	31 December 2013	30 June 2014

Reference	Title	Summary of New Accounting Standard	Impact on Financial Report	Application date of standard*	Application date for Group*
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted by other Standards. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p>	The impact on the Group is not considered to be significant.	31 December 2013	30 June 2014
AASB 127	Separate Financial Statements	As a result of the issuance of AASB 10, AASB 127 has been restructured and reissued to only deal with separate financial statements.	Management has not yet assessed the impact that this amendment is likely to have on the financial statements of the Group.	31 December 2013	30 June 2014
AASB 128	Investments in Associates and Joint Ventures	Once an entity (using AASB 11) has determined that it has an interest in a joint venture, it accounts for it using the equity method in accordance with AASB 128 (Revised). The mechanics of equity accounting set out in the revised version of AASB 128 remain the same as in the previous version.	Management has not yet assessed the impact that this amendment is likely to have on the financial statements of the Group.	31 December 2013	30 June 2014
AASB 119	Employee Benefits	<p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.</p> <p>Consequential amendments were also made to other standards via AASB 2011-10.</p>	Management has not yet assessed the impact that this amendment is likely to have on the financial statements of the Group.	31 December 2013	30 June 2014

*Application date relates to the annual reporting periods on or after the stated date.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Avita Medical Limited and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

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

(d) Segment reporting

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

Operating segments have been identified based on the information provided to the chief operating decision makers – being the chief executive officer.

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

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

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

(e) Revenue recognition

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

Sale of goods

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

Royalty income

Revenue is recognised upon control of the right to receive the royalty income becoming unconditional.

Interest income

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

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Government and other grants

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

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

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

(g) Leases

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

Group as a lessee

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

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

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

(h) Cash and cash equivalents

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

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

(i) Trade and other receivables

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

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

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories

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

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

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

(k) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Translation of Group Companies functional currency to presentation currency

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

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

(l) Income tax and other taxes

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

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

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

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

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax and other taxes (continued)

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

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

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax and other taxes (continued)

Other Taxes

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

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

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

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

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

(m) Plant and equipment

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

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

Plant and equipment – over 2 to 5 years

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

Derecognition

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

(n) Goodwill and Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

Avita Medical Limited performs its impairment testing as at 30 June each year using a value in use, discounted cash flow methodology for the cash generating units to which goodwill and indefinite lived intangibles have been allocated. Further details on the methodology and assumptions used are outlined in note 11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Goodwill and Intangibles (continued)

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

A summary of the policies applied to the Group's intangible assets is as follows:

Intellectual Property <i>Useful lives</i> - Finite <i>Amortisation method used</i> - Amortised over the period of the expected useful life on a straight-line basis <i>Internally generated or acquired</i> - Acquired <i>Impairment testing</i> - Annually or more frequently when an indication of impairment exists
Goodwill <i>Useful lives</i> - Indefinite <i>Amortisation method used</i> - Not applicable <i>Internally generated or acquired</i> - Acquired <i>Impairment testing</i> - Annually or more frequently when an indication of impairment exists

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Research costs

Research costs are expensed as incurred.

(o) Trade and other payables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Interest-bearing loans and borrowings

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

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

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

Borrowing costs

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

(q) Financial assets and financial liabilities at fair value through profit or loss

The financial assets and financial liabilities are instruments that contain a number of embedded derivatives, which significantly modify cash flows that would otherwise be required by the contract.

(r) Provisions and employee leave benefits

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

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

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

Employee leave benefits

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

(s) Non-current secured liabilities

The secured liability in prior years has been measured at the present value of future cash flows using a discounted cash flow methodology. The increase in provision resulting from the passage of time is recognised in finance costs. The current portion was classified and disclosed under trade and other payables.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Share-based payment transactions

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

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

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

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Avita Medical Limited (market conditions) if applicable.

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

(v) Loss per share

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

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

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

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

(w) Comparative figures

During the current period the Company modified the consolidated statement of comprehensive income to further disaggregate and clarify the nature of revenue and other income. Comparative amounts were reclassified for consistency, which resulted in no impact on the prior period total comprehensive loss for the period.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

(i) Significant accounting judgements

Impairment of non-financial assets other than goodwill

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

Taxation

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

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

(ii) Significant accounting estimates and assumptions

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, using the assumptions detailed in note 20. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimation of useful lives of assets

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

4. REVENUES AND EXPENSES

	2013 \$	2012 \$
(a) Revenue		
Sale of goods	2,814,990	3,352,268
Other revenue	1,237,285	1,828,180
Total revenue	<u>4,052,478</u>	<u>5,180,448</u>

	2013 \$	2012 \$
(b) Other revenue		
Bank interest receivable	412,354	498,056
Royalty income	-	493,378
Grant income	787,578	759,979
Other income	37,353	76,767
	<u>1,237,285</u>	<u>1,828,180</u>

	2013 \$	2012 \$
(c) Finance costs		
Other loans	91	67
	<u>91</u>	<u>67</u>

	2013 \$	2012 \$
(d) Depreciation, impairment and amortisation included in profit or loss		
Depreciation	48,924	59,232
Loss on disposal of plant & equipment	2,870	1,501
Impairment of intellectual property*	-	2,001,888
Amortisation of intangible assets	73,000	510,000
	<u>73,000</u>	<u>510,000</u>

* As a result of management's annual analysis, impairment was recorded for patents and trademarks related to inhaled medication delivery and respiratory applications. Refer note 11(a).

	2013 \$	2012 \$
(e) Cost of Sales	<u>676,502</u>	<u>952,847</u>

Inventories recognised as an expense as a result of expiration for the year ended 30 June 2013 totalled \$68,233 (2012: \$150,126). This expense has been included in the cost of sales line item as a cost of inventories.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

4. REVENUES AND EXPENSES (continued)

	2013 \$	2012 \$
(f) Lease payments and other expenses included in profit or loss		
Minimum lease payments – operating lease	179,595	233,485

	2013 \$	2012 \$
(g) Employee benefits expense		
Wages and salaries	3,239,424	2,702,853
Defined contribution superannuation expense	163,838	136,943
Share-based payments expense	82,338	179,340
Other benefits	-	200,000
	<u>3,485,600</u>	<u>3,219,136</u>

5. LOSS PER SHARE

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

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

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

	2013 \$	2012 \$
Net loss for the period	<u>(8,092,939)</u>	<u>(7,671,682)</u>
Weighted average number of ordinary shares for basic and diluted loss per share	<u>300,507,224</u>	<u>238,182,556</u>

Transactions involving ordinary shares or potential ordinary shares that would change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of the completion of these financial statements are disclosed in note 27 to the financial statements.

A total of 18,872,140 options (2012: 19,569,618) were not included in the dilutive loss per share calculation as they are anti-dilutive.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

6. INCOME TAX

(a) Income tax expense	2013	2012
The major components of income tax (benefit)/expense are:	\$	\$
<i>Current income tax benefit:</i>		
Current income tax benefit – R&D Claim	(128,064)	(87,756)
	<hr/>	<hr/>
Income tax benefit reported in profit or loss – R&D Claim	(128,064)	(87,756)

(b) Numerical reconciliation of income tax expense to prima facie tax payable	2013	2012
	\$	\$
Profit / (Loss) from continuing operations before income tax expense	(8,220,993)	(7,759,438)
	<hr/>	<hr/>
	(8,220,993)	(7,759,438)
Tax at the Australian rate of 30% (2012 – 30%)	(2,466,298)	(2,327,831)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other	10,820	165,666
Tax losses not brought to account	2,455,478	2,162,165
Research and development tax offset	(128,064)	(87,756)
	<hr/>	<hr/>
	(128,064)	(87,756)
Movement in Deferred Tax Asset	(79,214)	(810,090)
Deferred tax assets not brought to account as realization is not considered probable	79,214	810,090
Income tax expense / (benefit)	<hr/>	<hr/>
	(128,064)	(87,756)

(c) Non-current assets – Deferred tax assets	2013	2012
	\$	\$
The balance comprises temporary differences attributable to:		
Provisions	90,996	175,836
Property, plant and equipment	20,176	23,403
Intangible assets	989,202	984,959
Total deferred tax assets	<hr/>	<hr/>
	1,100,374	1,184,198
Set off deferred tax liabilities pursuant to set-off provisions	-	-
	<hr/>	<hr/>
	1,100,374	1,184,198
Deferred tax assets not brought to account as realization is not considered probable	(1,100,374)	(1,184,198)
Deferred tax assets recognized	<hr/>	<hr/>
	-	-

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

6. INCOME TAX (continued)

Movements – Consolidated	Provisions	Plant and equipment	Intangible assets	Other	Total
	\$	\$	\$	\$	\$
At 30 June 2011	44,684	29,804	298,823	797	374,108
(Charged) / credited to the consolidated statement of comprehensive income	131,152	(6,401)	686,136	(797)	810,090
(Charged) / credited directly to equity	-	-	-	-	-
At 30 June 2012	175,836	23,403	984,959	-	1,184,198
(Charged) / credited to the consolidated statement of comprehensive income	(84,840)	(3,227)	4,243	-	(83,824)
(Charged) / credited directly to equity	-	-	-	-	-
At 30 June 2013	90,996	20,176	989,202	-	1,100,374

Tax losses

The Group has income tax losses for which no deferred tax asset is recognised on the consolidated statement of financial position of \$72,447,888 (2012: \$65,271,597) which are available indefinitely for offset against future taxable profits subject to continuing to meet relevant statutory tests. The total losses of the group are broken down in the following table:

<u>Jurisdiction</u>	Total Losses (\$)	Relevant Tax Rate	Relevant Tax (\$)
	\$	%	\$
Australia	30,755,219	30%	9,226,566
United States	14,134,673	15%	1,461,273
United Kingdom	26,855,107	25.5%	6,848,052
Italy	395,740	27.5%	108,829
Kuwait	242,571	15%	36,386
Totals	72,447,888		17,681,106

Unrecognised temporary differences

At 30 June 2013, there is no recognised or unrecognised deferred income tax liability (2012: \$nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. The Group has no liability for additional taxation should unremitted earnings be remitted (2012: \$nil).

Tax consolidation

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

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

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

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2013 \$	2012 \$
Cash at bank and in hand	1,316,283	1,170,085
Short-term deposits	9,300,566	7,060,508
	<u>10,616,849</u>	<u>8,230,593</u>

8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2013 \$	2012 \$
Trade receivables	947,406	983,933
Allowance for doubtful debts	(174,287)	(24,567)
	<u>773,119</u>	<u>959,366</u>
Other receivables	442,263	502,608
	<u>1,215,382</u>	<u>1,461,974</u>

(a) Allowance for impairment loss

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

An impairment loss of \$149,720 (2012: \$16,716) has been recognised by the Group in the current year on recovery of these impaired receivables.

Movements in the allowance for impairment loss were as follows:

	2013 \$	2012 \$
At 1 July	24,567	7,851
Charge for the year	149,720	16,716
At 30 June	<u>174,287</u>	<u>24,567</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

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

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

		Total	0-30 days	31-60 days	61-90 days	+91 days PDNI*	+91 days CI**
2013	Consolidated	947,406	375,778	212,968	70,262	114,111	174,287
2012	Consolidated	983,933	490,830	235,283	15,077	218,176	24,567

* Past due not impaired ("PDNI")

** Considered impaired ("CI")

Receivables past due but not considered impaired are: \$114,111 (2012: \$218,176). Payment terms on these amounts have not been re-negotiated however each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

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

(b) Fair value and credit risk

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

(c) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 22.

9. CURRENT ASSETS – INVENTORIES

	2013 \$	2012 \$
Raw materials and components at cost	312,037	451,532
Finished goods at cost	449,748	264,080
Total inventories at cost	761,785	715,612

A provision of \$56,845 (2012: \$85,819) has been allocated against raw materials to reduce the carrying amount of certain inventory items to nil net realisable value. The change in provision of inventory has been included in the cost of sale line as cost of sales in the consolidated statement of comprehensive income.

Inventory expense

Inventories recognised as an expense as a result of expiration for the year ended 30 June 2013 totalled \$68,233 (2012: \$150,126). This expense has been included in the cost of sales line item as a cost of inventories.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

10. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

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

	<i>Plant and Equipment</i>
	<u>\$</u>
Year ended 30 June 2013	
At 1 July 2012, net of accumulated depreciation	87,051
Exchange movements	8,176
Additions	83,596
Disposals	(2,870)
Depreciation charge for the year	<u>(48,924)</u>
At 30 June 2013, net of accumulated depreciation	<u>127,029</u>
At 30 June 2013	
Cost	741,326
Accumulated depreciation	<u>(614,297)</u>
Net carrying amount	<u>127,029</u>

	<i>Plant and Equipment</i>
	<u>\$</u>
Year ended 30 June 2012	
At 1 July 2011, net of accumulated depreciation	70,439
Exchange movements	1,714
Additions	75,631
Disposals	(1,501)
Depreciation charge for the year	<u>(59,232)</u>
At 30 June 2012, net of accumulated depreciation	<u>87,051</u>
At 30 June 2012	
Cost	644,721
Accumulated depreciation	<u>(557,670)</u>
Net carrying amount	<u>87,051</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

11. NON-CURRENT ASSETS – INTANGIBLE ASSETS AND GOODWILL

(a) Reconciliation of carrying amount at the beginning and end of the period

	Patents and Trademarks \$	Brands \$	Goodwill \$	Total \$
Year ended 30 June 2013				
At 1 July 2012 net of accumulated amortisation and impairment	-	73,000	-	73,000
Amortisation	-	(73,000)	-	(73,000)
At 30 June 2012 net of accumulated amortisation and impairment	-	-	-	-
At 30 June 2013				
Cost (gross carrying amount)	14,426,268	270,000	7,925,297	22,621,565
Accumulated amortisation and impairment	(14,426,268)	(270,000)	(7,925,297)	(22,621,565)
Net carrying amount	-	-	-	-
	Patents and Trademarks \$	Brands \$	Goodwill \$	Total \$
Year ended 30 June 2012				
At 1 July 2011 net of accumulated amortisation and impairment	2,466,888	118,000	-	2,584,888
Impairment (i)	(2,001,888)	-	-	(2,001,888)
Amortisation	(465,000)	(45,000)	-	(510,000)
At 30 June 2011 net of accumulated amortisation and impairment	-	73,000	-	73,000
At 30 June 2012				
Cost (gross carrying amount)	14,426,268	270,000	7,925,297	22,621,565
Accumulated amortisation and impairment	(14,426,268)	(197,000)	(7,925,297)	(22,548,565)
Net carrying amount	-	73,000	-	73,000

- (i) Management undertook its annual impairment review of its intangible assets in the prior year and, as the Group has repositioned itself and its focus into the regenerative medicine industry, a decision was made to impair in full its patents and trademarks related to inhaled medication delivery and respiratory applications.

(b) Description of the Group's intangible assets and goodwill

Patents and trademarks

Intellectual property costs are carried at cost less accumulated amortisation and impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of between 4 and 11 years. Annually, or more frequently if an indication of impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

12. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2013 \$	2012 \$
Trade payables	971,719	1,006,362
Accruals and other payables	1,272,063	680,215
Carrying amount of trade and other	<u>2,243,783</u>	<u>1,686,577</u>

(a) Fair value

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

(b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 22.

13. CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED	
	2013 \$	2012 \$
Provision for annual leave (i)	150,231	92,171
Other employee benefits (ii)	30,242	346,530
Provision for long service leave (iii)	29,065	26,815
	<u>209,538</u>	<u>465,516</u>

Employee benefits

- (i) A provision is recognised for annual leave due to employees at the end of the year.
- (ii) Other employee benefits relates to provision for UK income tax penalty for the CEO, W Dolphin.
- (iii) A provision is recognised for long service leave due to employees at the end of the year.

14. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2012 \$	2012 \$
<i>Ordinary shares</i>		
Authorised, issued and fully paid	<u>111,441,930</u>	<u>101,663,499</u>

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

	Number	\$
<i>Movement in ordinary shares on issue</i>		
At 1 July 2012	238,182,556	101,663,499
New shares	87,125,848	10,452,080
Capital issue costs	-	(673,649)
At 30 June 2013	<u>325,308,404</u>	<u>111,441,930</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

14. CONTRIBUTED EQUITY (Continued)

Capital management

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

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

During 2013, no dividends were paid and management has no plans to commence the payment of dividends. Management has no current plans to issue further shares on the market but will continue to assess market conditions and the company's cash flow requirements to ensure the company is appropriately funded.

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

15. ACCUMULATED LOSSES AND RESERVES

(a) Movements in accumulated losses were as follows:

	CONSOLIDATED	
	2013	2012
	\$	\$
Balance 1 July	(96,676,634)	(89,086,505)
Net loss attributable to owners of Avita Medical Limited	(8,092,939)	(7,590,129)
Transfer from expired / lapsed options	3,062,807	-
Balance 30 June	<u>(101,706,766)</u>	<u>(96,676,634)</u>

(b) Nature and purpose of reserves

Option premium reserve

The option premium reserve is used to record the value of acquisition options prior to the change in the Company's principal activity in 2002 and the options issued on the acquisition of Visiomed Group Ltd. As these options are no longer exercisable, the value of this reserve has been transferred to accumulated losses.

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 20 for further details of these plans.

Foreign currency translation reserve

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

16. EQUITY – NON-CONTROLLING INTEREST

	CONSOLIDATED	
	2013	2012
	\$	\$
Issued Capital	-	81,553
Net loss attributable to non-controlling interest	-	(81,553)
Balance 30 June	-	-

On 1 July 2011, the Company entered into a partnership with Kuwait-based MENA United Ltd to expand sales of ReCell throughout the Middle East and North Africa. The Company holds 15% of the share capital of the partnership, registered in Kuwait as Avita Medical MENA Ltd, but it is 70% controlled by Avita Medical Limited through voting rights, and therefore Avita Medical Limited controls this entity and has consolidated its results for the year accordingly.

On 1 December 2011, the Company entered into a partnership with DS Medigroup Srl based in Milan, Italy to expand sales and marketing of ReCell in Italy. The entity is registered in Italy as Avita Medical Italia Srl of which the company holds 51% of the share capital.

Due to losses during the period in excess of the original share capital, the non-controlling interest presented in the consolidated statement of financial position is nil.

17. CONSOLIDATED STATEMENT OF CASH FLOWS RECONCILIATION

	Consolidated	
	2013	2012
	\$	\$
(a) Reconciliation of net loss after tax to net cash flows from operations		
Loss from ordinary activities after tax	(8,092,939)	(7,671,682)
<i>Adjustments for non-cash items:</i>		
Depreciation	48,924	59,232
Amortisation	73,000	510,000
Impairment of intellectual property	-	2,001,888
R&D tax refunds	-	(85,523)
Share options expensed	82,338	179,340
Shares issued	51,000	-
Increase in provision for impairment of trade and other receivables	68,925	16,716
Write-off on inventory	64,578	-
Profit / Loss on disposal of PPE	2,870	1,501
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in inventories	(46,173)	(78,641)
(Increase) / decrease in investment in subsidiaries	-	81,554
(Increase) / decrease in trade and other receivables	246,592	(95,710)
(Increase) / decrease in financial liabilities at fair value through profit or loss	-	63,000
(Increase) / decrease in prepayments	(49,746)	27,222
(Decrease) / increase in trade and other payables	557,206	507,276
(Decrease) / increase in provisions	(255,978)	217,670
Net cash used in operating activities	(7,249,403)	(4,266,157)

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

18. RELATED PARTY DISCLOSURE

(a) Subsidiaries

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

<i>Name</i>	<i>Country of Incorporation</i>	<i>% Equity interest at 30 June 2013</i>	<i>% Equity interest at 30 June 2012</i>	<i>Investment (\$) at 30 June 2013</i>	<i>Investment (\$) At 30 June 2012</i>
C3 Operations Pty Ltd	Australia	100%	100%	-	-
Avita Medical Europe Ltd	England	100%	100%	-	-
Avita Medical Americas LLC	United States	100%	100%	-	-
Infamed Limited	Australia	100%	100%	-	-
Avita Medical MENA Limited*	Kuwait	15%	15%	-	-
Avita Medical Italia Srl*	Italy	51%	51%	-	-
Visiomed Group Ltd	Australia	100%	100%	4,643,888	4,643,888
				<u>4,643,888</u>	<u>4,643,888</u>

* Entities incorporated during the prior year, however current year losses were in excess of the initial investment; refer note 17

(b) Ultimate parent

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

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 19.

(d) Transactions with related parties

Subsidiaries of the Group:

As at reporting date of 30 June 2013, Avita Medical Europe Ltd had a receivable balance of \$15,649 from Avita Medical Italia Srl.

During the period inter-company sales were made of \$36,944 by Avita Medical Europe Ltd and Avita Medical Italia Srl and a further \$4,115 by Avita Medical Europe Ltd and Avita Medical MENA Ltd.

Employees

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

Terms and conditions of transactions with related parties

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

19. KEY MANAGEMENT PERSONNEL

(a) Compensation of Key Management Personnel

	2013 \$	2012 \$
Short-term employee benefits	1,938,887	1,866,020
Share-based payment	60,669	171,156
Total compensation	1,999,556	2,037,176

(b) Option holdings of Key Management Personnel (Consolidated)

30 June 2013	Balance at 1 July 2012	Granted as remuneration	Options exercised	Net Change Other	Balance at 30 June 2013	Vested at 30 June 2013	Vested and exercisable at 30 June 2013	Vested and not exercisable at 30 June 2013
Directors								
W Dolphin	9,792,500		-	(97,925)ii	9,698,750	8,948,750	8,948,750	-
Other KMP								
L Glover	700,000	-	--		700,000	700,000	700,000	-
W Marshall	500,000	-	--		500,000	500,000	500,000	-
A Quick	1,000,000	-	--		1,000,000	1,000,000	1,000,000	-
T Rooney		1,800,000	--		1,800,000	300,000	300,000	-
D Leeves	-	700,000		-	700,000	100,000	100,000	-
	12,200,000	2,500,000	-	(97,925)	14,398,750	11,548,750	11,548,750	-
30 June 2012	Balance at 1 July 2011	Granted as remuneration	Options exercised	Net Change Other	Balance at 30 June 2012	Vested at 30 June 2012	Vested and exercisable at 30 June 2012	Vested and not exercisable at 30 June 2012
Directors								
W Dolphin	10,000,000		-	(207,500)ii	9,792,500	7,542,500	7,542,500	-
Other KMP								
L Glover	700,000	-	--		700,000	420,000	420,000	-
W Marshall	500,000	-	--		500,000	300,000	300,000	-
A Quick	1,000,000	-	--		1,000,000	600,000	600,000	-
T Caldera	-	750,000		(350,000)i	400,000	400,000	400,000	-
	12,200,000	750,000	-	(557,500)	12,392,500	9,262,500	9,262,500	-

i Relates to options lapsed as a result of leaving employment 14 May 2012

ii Relates to options which were cancelled

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

19. KEY MANAGEMENT PERSONNEL (continued)

(c) Shareholdings of Key Management Personnel (Consolidated)

30 June 2013	Balance at 1 July 2012	Granted as remuneration	On exercise of options	Net Change Other	Balance at 30 June 2013
Directors					
D Gooding	3,062,861	-	-	291,667	3,354,528
I Macpherson	10,149,997	-	-	650,000	10,799,997
W Dolphin	1,878,569	-	-	125,000	2,003,569
P Watt	728,657	-	-	(618,458)	110,199
F Wood	723,365	-	-	-	723,365
Other KMP					
All	-	-	-	-	-
	16,543,449	-	-	448,209	16,991,658

30 June 2012	Balance at 1 July 2011	Granted as remuneration	On exercise of options	Net Change Other	Balance at 30 June 2012
Directors					
D Gooding	3,062,861	-	-	-	3,062,861
I Macpherson	10,149,997	-	-	-	10,149,997
W Dolphin	1,878,569	-	-	-	1,878,569
P Watt	728,657	-	-	-	728,657
F Wood	723,365	-	-	-	723,365
Other KMP					
All	-	-	-	-	-
	16,543,449	-	-	-	16,543,449

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Other transactions with Key Management Personnel and their related parties

- (i) During the period research & development fees of \$160,000 (2012: \$281,000) were paid to the McComb Foundation, of which F Wood is a director.
- (ii) During the period fees of \$90,030 (2012: \$70,678) were paid under normal terms and conditions to Gooding Partners Chartered Accountants, of which D Gooding is a partner.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

20. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

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

	2013 \$	2012 \$
Expenses arising from equity-settled share-based payment transactions	82,338	179,340
Total expense arising from share-based payment transactions	82,338	179,340

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2013 and 2012.

(b) Types of share-based payment plans

Employee Share Option Plan (ESOP)

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

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

On 11 November 2008, 2,500,000 continuous employment options and 2,500,000 key performance indicator ("KPI") options were granted to the chief executive officer to take up ordinary shares at an exercise price of \$0.14 each. The options are exercisable on or before 30 November 2014.

On 30 November 2010, 2,500,000 continuous employment options and 2,500,000 key performance indicator ("KPI") options were granted to the chief executive officer to take up ordinary shares at an exercise price of \$0.14 each. The options are exercisable on or before 30 November 2018.

Continuous Employment options

Number	Vesting Date	Expiry Date
1,000,000	01/12/2008	30/11/2014
750,000	01/06/2009	30/11/2014
750,000	01/06/2010	30/11/2014
1,000,000	30/11/2010	30/11/2015
750,000	01/07/2011	30/11/2016
750,000	01/07/2012	30/11/2017
5,000,000		

KPI options

Number	Vesting Date	Expiry Date
1,000,000	30/09/2009	30/11/2014
700,000	30/09/2010	30/11/2014
682,500	30/09/2011	30/11/2014
910,000	30/09/2011	30/11/2016
656,250	30/09/2012	30/11/2017
Up to 750,000	30/09/2013	30/11/2018
4,698,750		

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

20. SHARE-BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

Please refer to the remuneration report for details of the Key Performance Indicators attached to the above options.

The expense recognised in profit or loss in relation to share-based payments is disclosed in note 4 (g).

(c) Summaries of options granted under ESOP arrangements

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

	<i>2013</i> <i>No</i>	<i>2013</i> <i>WAEP</i>	<i>2012</i> <i>No</i>	<i>2012</i> <i>WAEP</i>
Outstanding at the beginning of the year	12,942,500	0.14	12,750,000	0.14
Expired during the year	-	-	-	-
Cancelled	(93,500)	0.14	(207,500)	0.14
Granted during the year	2,650,000	0.15	750,000	0.14
Lapsed during the year	-	-	(350,000)	0.14
Outstanding at the end of the year	<u>15,498,750</u>	<u>0.14</u>	<u>12,942,500</u>	<u>0.14</u>

As at the date of signing this report, there were 15,498,750 unissued ordinary shares under options represented by:

- 4,882,500 exercisable at \$0.14 expiring 30 November 2014, issued to the managing director at the Annual General Meeting held on 11 November 2008
- 1,000,000 exercisable at \$0.14 expiring 30 November 2015, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010
- 1,660,000 exercisable at \$0.14 expiring 30 November 2016, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010
- 1,406,250 exercisable at \$0.14 expiring 30 November 2017, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010
- 750,000 exercisable at \$0.14 expiring 30 November 2018, issued to the chief executive officer at the Annual General Meeting held on 30 November 2010
- 2,750,000 exercisable at \$0.14 expiring 20 December 2013, issued to employees on 1 July 2010
- 400,000 exercisable at \$0.14 expiring 30 June 2014, issued to an employee on 1 July 2011
- 150,000 exercisable at \$0.15 expiring 30 June 2014, issued to an employee on 9 July 2012
- 700,000 exercisable at \$0.15 expiring 15 August 2018, issued to an employee on 15 May 2013
- 1,800,000 exercisable at \$0.15 expiring 15 October 2018, issued to an employee on 15 May 2013

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

Shares Issued as a Result of the Exercise of Options

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

20. SHARE-BASED PAYMENT PLANS (continued)

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2013 is 2.513 years (2012: 3.0 years)

(e) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.14 - \$0.20 (2012: \$0.14 - \$0.20).

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

(f) Weighted average fair value

The weighted average fair value of options granted during the year was \$109,986 (2012: \$36,675). The total fair value of the options granted during the year is \$109,986 (2012: \$36,675).

(g) Option pricing model: ESOP

Equity-settled transactions

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

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

	2013	2012
Dividend yield (%)	0%	0%
Expected volatility (%)	65%	60%
Risk-free interest rate (%)	3.16%	6.25%
Expected life of option	To maturity	To maturity
Option exercise price (\$)	15c	14c
Weighted average share price at grant date (\$)	10c	12c

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

At year end, of the 9,698,750 options issued to Dr Dolphin, there are 750,000 options unvested.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

21. SEGMENT INFORMATION

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

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

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

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

Unallocated

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

- Corporate revenue
- Corporate charges
- Amortisation of intellectual property

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 30 June 2013 is as follows:

	<i>Asia Pacific</i> \$	<i>EMEA</i> \$	<i>Americas</i> \$	<i>Total</i> \$
Year ended 30 June 2013				
Revenue				
Sale of goods	2,256,248	550,647	8,095	2,814,990
Other revenues from external customers	100,604	13	724,314	824,931
Interest received	410,249	1,163	942	412,354
Total revenue and other income per consolidated statement of comprehensive income	2,767,101	551,823	733,351	4,052,275
Segment net operating profit / (loss) before tax	527,063	(2,744,469)	(4,392,849)	(6,610,483)
Reconciliation of segment net result before tax to loss before income tax:				
Corporate charges				(1,537,510)
Amortisation of intellectual property				(73,000)
Loss before income tax				(8,220,993)

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

	2013 %	2012 %
Australia	79.6	72.2
Other	20.4	27.8
Total revenue	100	100

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

21. SEGMENT INFORMATION (continued)

	<i>Asia Pacific</i> \$	<i>EMEA</i> \$	<i>Americas</i> \$	<i>Total</i> \$
Year ended 30 June 2013				
Segment assets				
Segment operating assets	1,145,385	1,800,391	1,313,781	4,259,557
Unallocated assets				8,649,074
Total Assets per the consolidated statement of financial position				<u>12,908,631</u>
Segment liabilities				
Segment operating liabilities	196,670	1,154,217	817,369	2,168,256
Unallocated liabilities				285,065
Total liabilities per the consolidated statement of financial position				<u>2,453,321</u>
	<i>Asia Pacific</i> \$	<i>EMEA</i> \$	<i>Americas</i> \$	<i>Total</i> \$
Year ended 30 June 2012				
Revenue				
Sale of goods	2,567,334	670,129	114,805	3,352,268
Other revenues from external customers	639,945	-	690,178	1,330,123
Interest received	496,644	448	965	498,057
Total revenue and other income per consolidated statement of comprehensive income	<u>3,633,413</u>	<u>670,577</u>	<u>799,698</u>	<u>5,180,448</u>
Segment net operating profit / (loss) before tax	1,142,792	(2,249,342)	(2,325,848)	(3,432,398)
Reconciliation of segment net result before tax to loss before income tax				
Corporate charges				(1,752,152)
Impairment of intellectual property				(2,001,888)
Amortisation of intellectual property				(510,000)
Fair value movement in financial derivative				(63,000)
Loss before income tax				<u>(7,759,438)</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

21. SEGMENT INFORMATION (continued)

	<i>Asia Pacific</i> \$	<i>EMEA</i> \$	<i>Americas</i> \$	<i>Total</i> \$
Year ended 30 June 2012				
Segment assets				
Segment operating assets	1,359,758	966,615	1,153,742	3,480,115
Unallocated assets				<u>7,225,955</u>
Total Assets per the consolidated statement of financial position				<u><u>10,706,070</u></u>
Segment liabilities				
Segment operating liabilities	167,982	764,191	604,082	1,536,255
Unallocated liabilities				<u>615,838</u>
Total liabilities per the consolidated statement of financial position				<u><u>2,152,093</u></u>

The following tables present revenue, expenditure and certain asset information regarding the type of products for the years ended 30 June 2013 and 30 June 2012.

	<i>Regenerative Medicine</i> \$	<i>Respiratory</i> \$	<i>Total</i> \$
Year ended 30 June 2013			
Revenue			
Sale of goods	748,085	2,066,905	2,814,990
Other revenue	724,314	-	724,314
Total segment revenue	<u>1,472,399</u>	<u>2,066,905</u>	<u>3,539,304</u>
Unallocated revenue			<u>512,971</u>
Total revenue and other income per consolidated statement of comprehensive income			<u><u>4,052,275</u></u>
Other segment information			
Segment operating assets	2,925,775	1,145,386	4,071,161
Unallocated assets			<u>8,837,470</u>
Total assets per the consolidated statement of financial position			<u><u>12,908,631</u></u>
Capital expenditure			<u><u>83,596</u></u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

21. SEGMENT INFORMATION (continued)

	<i>Regenerative Medicine</i>	<i>Respiratory</i>	<i>Total</i>
	\$	\$	\$
Year ended 30 June 2012			
Revenue			
Sale of goods	1,094,891	2,257,377	3,352,268
Other revenue	759,979	493,378	1,253,357
Total segment revenue	<u>1,854,870</u>	<u>2,750,755</u>	<u>4,605,625</u>
Unallocated revenue			<u>574,823</u>
Total revenue and other income per consolidated statement of comprehensive income			<u><u>5,180,448</u></u>
Other segment information			
Segment operating assets	2,120,356	1,359,759	3,480,115
Unallocated assets			<u>7,225,955</u>
Total assets per the consolidated statement of financial position			<u><u>10,706,070</u></u>
Capital expenditure			<u><u>75,631</u></u>

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

	2013	2012
	\$	\$
Financial Assets		
Cash and cash equivalents	10,616,849	8,230,593
Trade and other receivables	1,215,382	1,461,974
Financial Liabilities		
Trade and other payables	(2,243,783)	(1,686,577)
Provisions	(209,538)	(465,516)
Net	<u><u>9,378,910</u></u>	<u><u>7,540,474</u></u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses

Interest rate risk

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

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

	2013 \$	2012 \$
Financial Assets		
Cash and cash equivalents	10,616,849	8,230,593
Net exposure	10,616,849	8,230,593

The Group's policy is to manage its finance costs and revenue using a mix of fixed and variable interest rates depending on the forecast funding requirements of the Group. At 30 June 2013, none of the Group's cash balances are at a fixed rate of interest (2012: nil).

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

At 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements:

	Post Tax Loss (Higher)/Lower		Equity Higher/(Lower)	
	2013 \$	2012 \$	2013 \$	2012 \$
Consolidated				
+1% (100 basis points)	106,168	82,306	106,168	82,306
-1% (100 basis points)	(106,168)	(82,306)	(106,168)	(82,306)

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

Foreign currency risk

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

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

Approximately 32% (2012: 27%) of the Group's sales are denominated in currencies other than the functional currency, whilst approximately 69% (2012: 39%) of costs are denominated in the functional currency.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 30 June 2013, the Group had the following exposure to foreign currencies:

	CONSOLIDATED	
	2013	2012
	\$	\$
Financial Assets		
Cash and cash equivalents	1,569,171	1,011,787
Trade and other receivables	734,326	620,894
	<u>2,303,497</u>	<u>1,632,681</u>
Financial Liabilities		
Trade and other payables	(1,742,014)	(1,331,737)
	<u>561,483</u>	<u>300,944</u>

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

At 30 June 2013, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgments of reasonably possible movements:

	Post Tax Loss (Higher)/Lower		Equity Higher/(Lower)	
	2013	2012	2013	2012
	\$	\$	\$	\$
Consolidated				
AUD/GBP + 10%	(48,256)	(25,789)	(48,256)	(25,789)
AUD/GBP – 5%	24,128	12,894	24,128	12,894
AUD/USD +10%	11,007	(22,431)	11,007	(22,431)
AUD/USD – 5%	(5,504)	11,216	(5,504)	11,216
AUD/EUR +10%	(41,967)	3,994	(41,967)	3,994
AUD/EUR – 5%	24,983	(1,197)	24,983	(1,997)
AUD/KWD +10%	23,067	14,131	23,067	14,131
AUD/KWD -5%	(11,533)	(7,065)	(11,533)	(7,065)

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

Credit risk

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

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

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

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

There is no concentration of debt amongst the creditors.

Liquidity risk

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

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities. For all obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2013.

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

	2013 \$	2012 \$
6 months or less	2,243,783	1,686,577
6-12 months	-	-
1-3 years	-	-
	<u>2,243,783</u>	<u>1,686,577</u>

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

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

Year ended 30 June 2013	< 6 months \$	6-12 months \$	1-5 years \$	Total \$
Consolidated				
Financial Assets				
Cash & cash equivalents	10,616,849	-	-	10,616,849
Trade & other receivables	1,215,382	-	-	1,215,382
	<u>11,832,231</u>	-	-	<u>11,832,231</u>
Consolidated				
Financial Liabilities				
Trade & other payables	(2,243,783)	-	-	(2,243,783)
	<u>(2,243,783)</u>	-	-	<u>(2,243,783)</u>
Net maturity	<u>9,588,448</u>	-	-	<u>9,588,448</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Year ended 30 June 2012	< 6 months \$	6-12 months \$	1-5 years \$	Total \$
Consolidated				
Financial Assets				
Cash & cash equivalents	8,230,593	-	-	8,230,593
Trade & other receivables	1,461,974	-	-	1,461,974
	<u>9,692,567</u>	-	-	<u>9,692,567</u>
Consolidated				
Financial Liabilities				
Trade & other payables	(1,686,577)	-	-	(1,686,577)
Net maturity	<u>8,005,990</u>	-	-	<u>8,005,990</u>

Fair Value

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

Fair Value (Volatility of Share Price Risk)

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

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

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

23. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain properties. These leases have an average life of between 2 and 5 years and include a renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2013	2012
	\$	\$
Within one year	140,889	109,073
After one year but not more than five years	495,135	188,034
Total minimum lease payments	<u>636,024</u>	<u>297,107</u>

There are no other commitments and contingencies which require disclosure in this report.

24. AUDITORS' REMUNERATION

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

	2013	2012
	\$	\$
<i>Amounts received or due and receivable by Grant Thornton (Australia) for:</i>		
An audit or review of the financial report of the entity and any other entity in the consolidated group	65,190	79,407
	65,190	79,407
<i>Amounts received or due and receivable by other Grant Thornton offices for:</i>		
An audit or review of the financial report of the subsidiaries of the Parent	42,595	34,574
Other services in relation to the entity and any other entity in the consolidated group		
- Taxation advice	33,716	3,688
	<u>141,501</u>	<u>117,669</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

25. PARENT ENTITY INFORMATION

Information relating to Avita Medical Limited:	2013	2012
	\$	\$
Current assets	8,837,470	7,152,955
Total assets	8,837,470	7,225,955
Current liabilities	285,065	615,838
Total liabilities	285,065	615,838
Net assets	8,552,405	6,610,117
Issued capital	111,441,930	101,663,499
Accumulated losses	(105,855,855)	(98,279,739)
Share option reserves	2,966,330	3,226,357
Total shareholders' equity	8,552,405	6,610,117
Loss of parent entity	7,576,116	9,336,918
Total comprehensive loss of the parent entity	7,576,116	9,336,918
Details of any contingent liabilities of the parent entity	None	None
Details of any contractual commitments by the parent entity for the acquisition of property, plant and equipment	None	None

During the period, the parent entity impaired \$7,971,000 (2012: \$5,100,000) of intercompany loans to subsidiaries. The impairment charges are eliminated on consolidation.

26. DEED OF CROSS GUARANTEE

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

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

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

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

26. DEED OF CROSS GUARANTEE (continued)

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

Continuing operations	2013 \$	2012 \$
Sale of goods	2,256,248	2,567,334
Other revenue	473,512	1,066,081
Revenue	<u>2,729,760</u>	<u>3,633,415</u>
Cost of sales	(592,279)	(672,595)
Gross Profit	<u>2,137,481</u>	<u>2,960,820</u>
Other income	37,340	70,508
Operating Costs		
Administrative expenses	(2,151,745)	(2,560,096)
Research and development expenses	(160,569)	(287,367)
Sales and marketing expenses	(873,314)	(793,226)
Finance costs	-	-
Fair value movements in financial liabilities at fair value through profit or loss	-	(63,000)
Impairment of intercompany loans	(7,971,000)	(5,100,000)
Impairment of intellectual property	-	(2,001,888)
Amortisation of intellectual property	(73,000)	(510,000)
Profit (Loss) from continuing operations before income tax	<u>(9,054,808)</u>	<u>(8,284,249)</u>
Income tax benefit	129,315	90,123
Total comprehensive loss for the period	<u><u>(8,925,493)</u></u>	<u><u>(8,194,126)</u></u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

26. DEED OF CROSS GUARANTEE (continued)

	2013	2012
	\$	\$
Current Assets		
Cash and cash equivalents	9,047,079	7,322,839
Trade and other receivables	669,453	841,080
Prepayments	66,550	74,600
Inventories	191,860	262,583
Total Current Assets	<u>9,974,941</u>	<u>8,501,102</u>
Non-Current Assets		
Plant & equipment	7,914	11,612
Intangible assets	-	73,000
Intercompany loans	96,616	7,625,154
Total Non-Current Assets	<u>104,530</u>	<u>7,709,766</u>
TOTAL ASSETS	<u>10,079,471</u>	<u>16,210,868</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	334,516	354,840
Provisions	147,220	428,980
Total Current Liabilities	<u>481,736</u>	<u>783,820</u>
TOTAL LIABILITIES	<u>481,736</u>	<u>783,820</u>
NET ASSETS	<u>9,597,735</u>	<u>15,427,048</u>
EQUITY		
Contributed equity	111,441,930	101,663,499
Accumulated losses	(104,860,092)	(89,646,398)
Reserves	3,015,897	3,409,947
TOTAL EQUITY	<u>9,597,735</u>	<u>15,427,048</u>

27. EVENTS AFTER THE REPORTING DATE

No subsequent events have occurred since the Reporting Date which would require disclosure in this report.