

AVITA MEDICAL LIMITED

A.B.N. 28 058 466 523

FULL FINANCIAL REPORT

For the year ended 30 June 2014

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 Lou Panaccio (Chairman) – appointed 01 July 2014
Mr Ian Macpherson (Deputy-Chairman)
Prof Fiona Wood (Non-Executive Director)
Mr Jeremy Curnock Cook (Non-Executive Director)
Mr Matthew McNamara (Non-Executive Director)
Dr Michael Perry (Non-Executive Director)

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, 6005

Principal Bankers

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

Stock Exchange

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

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 2014 and the state of affairs of the Company at that date. Avita Medical Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared this consolidated financial report incorporating the entities that it controlled during the financial period.

DIRECTORS

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

Lou Panaccio (Chairman)

Mr Panaccio, a successful healthcare businessman with extensive experience progressing companies from concept to commercialisation, was appointed to the role of Chairman of the Board, effective from 1 July 2014. Mr Panaccio replaces Mr Ian Macpherson who has served in the interim role since December 2013. Mr Panaccio possesses more than 30 years' executive leadership experience in healthcare services and life sciences, including approximately 15 years' board-level experience. Mr Panaccio is currently a Non-Executive Director of ASX50 company and one of the world's largest medical diagnostics companies, Sonic Healthcare Limited, where he has served since 2005. In addition to his Sonic Healthcare Limited role, Mr Panaccio is the Executive Chairman of Health Networks Australia Group, Non-Executive Director Yarra Community Housing, Non-Executive Director Inner East Community Health Service and Executive Chairman of Genera Biosystems Limited. He was also the Chief Executive Officer and an Executive Director of Melbourne Pathology for 10 years to 2001. Mr Panaccio has also served in executive and board roles with CPW Group, Monash IVF Group, Primelife Corporation Limited and other private entities. During the past three years Mr Panaccio has also served as a director of the following other listed companies:

- Sonic Healthcare Limited * (appointed June 2005)
- Genera Biosystems * (appointed 25 November 2010)

* denotes current directorship

Ian Macpherson (Vice-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 was appointed Chairman for an interim period from 11 December 2013 to 30 June 2014.

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 and Australian Institute of Company Directors. 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)
- Kimberley Rare Earths Limited (Appointed 2 December 2010; Resigned 29 November 2012)
- Red 5 Limited* (Appointed 5 April 2014)

* denotes current directorship

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

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:

- Bioxyme 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)
- Rex Bionics plc* (Appointed 27 February 2012)

* denotes current directorship

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)
- Bioxyme Limited* (Appointed an Alternative Director 22 August 2013)

* denotes current directorship

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* (Appointed December 2011)
- AmpliPhi Biosciences* (Appointed November 2005)

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

* denotes current directorship

Dalton Gooding
(Non-Executive Director)

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. Mr Gooding resigned as Chairman on 11 December 2013 and as Non-Executive Director on 30 June 2014. 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)

Dr William Dolphin Ph.D
(Chief Executive Officer and Managing Director – resigned 11 December 2013)

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.

COMPANY SECRETARY

Gabriel Chiappini BBus, CA, GAICD

Gabriel is a Chartered Accountant and member of the Australian Institute of Company Directors with over 20 years experience in the Commercial Sector. Over the last 15 years Gabriel has held positions of Director, Company Secretary and Chief Financial Officer in both public and private companies with operations in Australia, the United Kingdom and the United States. He has assisted a number of companies list on the ASX and been involved with equity raisings exceeding AUD\$250m. Gabriel has a sound understanding of the Australian Securities Exchange (ASX) Listing Rules and an in depth knowledge of the Corporations Act.

Gabriel currently manages his own consulting firm specialising in providing Director, company secretarial, corporate governance and investor relation services. He currently acts as a Director and Company Secretary for several companies listed on the ASX. Gabriel is currently Chairman of ASX listed company Dromana Estate Limited and a Non Executive Director of Green Rock Energy Limited.

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
I Macpherson	10,799,997	-
F Wood	723,365	-
J Curnock Cook	-	-
M McNamara	-	-
M Perry	-	-
D Gooding (resigned 30 June 2014)	3,354,528	-
W Dolphin (resigned 11 December 2013)	2,003,569	9,323,750

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

EARNINGS PER SHARE

Earnings per share for the current year was a loss of 1.58 cents per share compared to a loss of 2.69 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 325,308,404.

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 2014 was 21 (30 June 2013:21).

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 worldwide to provide clinical evidence in support of marketing claims and to secure regulatory approvals.

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 \$3,277,714, a decrease of 19% over last year (2013: 4,052,275). Revenue from sale of goods was \$2,683,133, down 5% over the previous year (2013: \$2,814,990). Cost of sales were \$670,893 (2013: \$676,502) down 1% due to manufacturing cost gains while gross profits at \$2,012,240 (2013: \$2,138,488) decreased by only 6%. Normal operating costs were \$9,265,933 (2013: \$11,596,766) a decrease of 20% compared to last year. This reflects management's initiative to reduce operating costs primarily in Research & Development expenditure (down 70%) compared to last year. The net loss before tax was \$6,659,112 down 19% on last year (2013: \$8,220,993).

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 several clinical trial programmes to further develop clinical evidence in key indications. 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.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

Review of Financial Condition

Capital Structure

There was no new investment or capital raising during the 2014 financial year. 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.

Cash from Operations

Net cash outflows used in operations increased by 4% compared to the previous period, from \$7,249,403 in 2013 to \$6,924,939 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 2014 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 2014/2015 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.

AVITA MEDICAL LIMITED
DIRECTORS' REPORT (continued)

SHARE OPTIONS

Unissued Shares

As at the reporting date, there were 15,423,750 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.

375,000 exercisable at \$0.14 expiring 30 November 2018, issued to the Chief Executive Officer at the Annual General Meeting held on 30 November 2010.

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

150,000 exercisable at \$0.15 expiring 9 July 2015, issued to an employee on 9 July 2012.

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

2,300,000 exercisable at \$0.16 expiring 28 February 2017, issued to several employees on 28 February 2014.

700,000 exercisable at \$0.175 expiring 28 February 2017, issued to an employee on 28 February 2014.

250,000 exercisable at \$0.10 expiring 30 June 2017, issued to the Chief Executive Officer on 15 December 2013.

250,000 exercisable at \$0.12 expiring 30 June 2017, issued to the Chief Executive Officer on 15 December 2013.

250,000 exercisable at \$0.14 expiring 30 June 2017, issued to the Chief Executive Officer on 15 December 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 corporate body.

Shares Issued as a Result of the Exercise of Options

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

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

AVITA MEDICAL LIMITED
REMUNERATION REPORT (audited)

Letter from the Chair of the Remuneration Committee

Dear Shareholders

During FY14 your company has undergone a number of significant changes including a change in the Chairman and Chief Executive Officer of Avita Medical. The Chairman's report has noted Avita Medical's focus on building shareholder value and sales growth in key ReCell markets.

As Chairman of the Remuneration Committee my focus is on ensuring the company has an appropriate remuneration structure in place that ensures that key management have a strong link between company performance and reward, are motivated to achieve key company objectives and build long term company success. Avita Medical is committed to ensuring its remuneration structure is aligned with shareholder interests and in that sense needs to ensure that key executive staff are motivated, rewarded and retained.

Following on from the no vote against the Remuneration Report at the Company's Annual General Meeting in 2013 and leading into FY15, the Company has invested considerable time in engaging with key stakeholders and advisors to improve the remuneration governance framework, policies and incentive structures.

In light of the noted considerations, the board has taken the following steps:

Proposed changes for 2015	Rationale
Fixed remuneration	No increase above current CPI and contractual terms
Short term incentive plan "STIP"	STI plan is being reviewed by the Board and external consultants for appropriateness to current circumstances of the Company.
Long Term Incentive Plan "LTIP"	Changes to be made during 2015 FY, it is anticipated that best practice type LTI will replace a material portion of the STI plan.
NED fees to remain frozen	NED fees to remain frozen and in line with fees from 2013 and 2014

I would also like to acknowledge the support and contributions from the other members of the Remuneration Committee and the understanding of senior Executives. I trust that shareholders will welcome the board's undertakings and will support our initiatives to demonstrate an improved remuneration framework and outcomes as part of the FY15 Annual Report.

If any shareholders or their representatives would like to engage with me further on remuneration matters please write to me with your feedback and comments and I will be happy to reply.

Regards

Ian Macpherson
Chair of the Remuneration Committee

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.

AVITA MEDICAL LIMITED REMUNERATION REPORT (continued)

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

Lou Panaccio	Chairman (appointed 1 July 2014)
Ian Macpherson	Deputy-Chairman (Non-Executive)
Fiona Wood	Director (Non-Executive)
Jeremy Curnock Cook	Director (Non-Executive)
Matthew McNamara	Director (Non-Executive)
Michael Perry	Director (Non-Executive)
Dalton Gooding	Director (Non-Executive) – resigned 30 June 2014
William Dolphin	Chief Executive Officer – resigned 11 December 2013

(ii) Executives

Timothy Rooney	Interim CEO
Andrew Quick	VP Research & Technology
William Marshall	VP Operations
Lorraine Glover	General Manager - Asia Pacific
Lesley Whitlock	Sales & Marketing Director – EMEA – joined 11 November 2013
Gabriel Chiappini	Company Secretary

Lou Panaccio was appointed Director and Chairman on 1 July 2014. There were no other changes of the CEO or Key Management Personnel after the reporting date and before the date the financial report was authorised for issue.

Response to vote against Adoption of 2013 Remuneration Report ('Strike')

At the 2013 Annual General Meeting (AGM) the Company recorded a "strike". Under the Corporations Act a strike occurs when more than 25% of eligible votes cast are against the resolution to adopt the Remuneration Report. Since the strike was recorded Avita Medical has been diligent in examining the issues raised, and has sought input regarding the appropriate changes required from:

- Shareholders;
- Independent external consultants approved by the board; and
- Proxy advisors and stakeholder representative groups.

The Board became aware of the dissatisfaction by some shareholders at the lack of progress in growing sales during calendar year 2013 coupled with continued delays in the recruitment of patients required for progressing the Company's FDA Burns trial. Management focus and strategy had to that point been on clinical outcome and data compilation to support the application of our lead product – ReCell. As a result our sales and marketing push had been somewhat limited and focussed on a 'proof of concept' as distinct from an expansionary sales efforts, meaning that the Company was and remains in a development phase of a Corporate life cycle. In the lead into the FY13 AGM Avita Medical was increasingly aware that the Remuneration Report would not receive the approval of its shareholders due to the perceived disappointing progress as above, compounded by sub-optimal remuneration structures that were in place at the time, particularly the short term incentive.

As a result of the feedback from shareholders leading into the AGM and following the AGM the Company took decisive action to address the issues which included a process for the installation of a new Chairman and Chief Executive Officer.

We identified a number of key areas for improvement which has resulted in a review of remuneration practices, policies and plans associated with KMP remuneration. So as to develop an appropriate foundation for future practices the Remuneration Committee has a formal Remuneration Governance Framework which, at the core, consists of:

- A revised Remuneration & Nomination Committee Charter which now mandates the development and maintenance of other Remuneration Governance Framework elements,
- A Senior Executive Remuneration Policy,
- A Short Term Incentive (STI) Policy & Procedure document, and
- A Long Term Incentive (LTI) Policy & Procedure document.

The Board has addressed many of the concerns received from shareholders and an independent review process continues in this regard with a focus on restructuring of both the STI and LTI policies. It is anticipated that this review will recommend that limited or no cash based STI should be offered (outside of contractual commitments) until such time as it has assessed the recommendation of its remuneration advisors.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

It is the hope of the Board that the above improvements to remuneration governance and practices, together with the significant changes at Chief Executive and Board level will be seen by shareholders as an appropriate response to the strike. Given the considerable efforts of the board to demonstrate responsiveness to shareholder concerns, Avita now seeks shareholder support for the resolution to adopt the Remuneration Report at the upcoming AGM of the company. We would be grateful if shareholders acknowledge that this process commenced in FY14 and will continue through FY15 to finalise the implementation of the changes. As a result the remuneration policies and practices for FY14 that we are reporting do not yet fully reflect the changes the board have made in response to feedback from shareholders. Because reporting is retrospective, some of the changes will only become evident in practice as part of the FY15 Annual Report, although the key changes to anticipated are discussed herein.

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.

Company Performance and Links Between Performance and Reward

The following table outlines those measures of performance which are required to be displayed to shareholders under the Corporations Act, however at this stage in the Company's evolution the Board does not believe this perspective is particularly useful to shareholders. Therefore a discussion of Company performance during FY14 follows:

Financial Year	Net Loss after Tax (\$)	Loss per Share (cents)	Share Price (cents)
2014	5,147,391	1.58	10.0
2013	8,092,939	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

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

Remuneration Framework, Philosophy and Policies

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

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

- Provide competitive rewards to attract high calibre Executives;
- Acceptability to shareholders through transparency and engagement, and ensuring that remuneration frameworks and practices are appropriate to the circumstances of the Company as it evolves;
- Performance linkage and alignment of Executive compensation; and
- Establish appropriate, demanding performance hurdles in relation to variable Executive remuneration.

At this stage in the Company's development, the main focus of executives and of performance assessment is clinical trials, proof of concept, informing the market and establishing operations subsequent to the success of a proof of concept or clinical trials. Incentives are intended to be linked to shareholder value via milestone completion, clinical trial outcomes and total shareholder return (TSR).

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Non-Executive Director Remuneration

Objective

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

Policy

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is to be commercially acceptable, competitive and subject to an annual review. The Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Senior Management remuneration is separate and distinct. The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 29 November 2005 when shareholders approved an aggregate remuneration of \$450,000 per year in respect of fees payable to Non-Executive Directors. Please refer to Table 2, page 16 for the allocation of Directors' fees.

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 2014 is detailed in Table 2 of this report.

Executive Remuneration (including Executive Directors)

Objective

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

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

Policy

As disclosed in our Remuneration Committee Charter available on our website, the company's broad framework is noted below:

The committee is to ensure that:

- executive remuneration packages involve a balance between fixed and incentive pay, reflecting short and long term performance objectives appropriate to the Company's circumstances and objectives;
- a proportion of executives' remuneration is structured in a manner designed to link reward to corporate and individual performances; and
- recommendations are made to the Board with respect to the quantum of bonuses to be paid to executives.

To the extent that the Company adopts a different remuneration structure for its non-executive directors, the committee shall document its reasons for the purpose of disclosure to stakeholders.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Structure

The Remuneration Committee determines the level and make-up of the Chief Executive remuneration. The Committee takes advice from the Chief Executive with input from Independent market remuneration advisers to set and approve all other executive remuneration. To assist in achieving the Company's objectives, the Remuneration Committee links the nature and amount of officers' emoluments to the Company's performance.

Remuneration may consist of the following key elements:

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

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each Executive by the Remuneration Committee annually. Table 2 details the fixed and variable components 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 2014 financial year there were no benefits paid in kind (2013: nil).

Structure

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

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of variable remuneration is to link the achievement of the Group's operational targets with the remuneration received by the Executives charged with meeting those targets. The Company's STI objectives:

- Motivate Senior Executives to achieve the short-term annual objectives linked to Company success and shareholder value creation;
- Create a strong link between performance and reward;
- Share company success with the Senior Executives that contribute to it; and
- Create a component of the employment cost that is responsive to short to medium term changes in the circumstances of the Company.

The Company will be working towards formalizing the above objectives into a STI Plan and policy.

Structure

During FY 2014 the Company did not have a formal STI plan however as noted above, we will be working with external Remuneration Consultants to formalize a STI Plan which may or may not be utilised as part of FY15 remuneration for executives. During FY14 the Company currently had an informal plan in place that focussed on the total potential variable remuneration being 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 STI payments granted to each Executive depend on the extent to which specific targets set at the beginning of the financial year were met. The targets consisted of a number of Key Performance Indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance. The Company had predetermined benchmarks which must have been met in order to trigger STI 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.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

STI bonus for 2014 financial year

For the 2014 financial year, one STI cash bonus of \$63,213 (US\$56,100) 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 \$131,632 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 and effective maintenance of an office in the US, hire of key personnel, security of intellectual property and investor relations.

It is recognised that the payment of material cash bonuses may be not ideal under the circumstances that the company has limited cash reserves. However offers were made to executives at the beginning of FY14, prior to the strike having been received, which had to be honoured and which resulted in the above mentioned payments. The Board has deferred offers of STI for FY15 on the basis of feedback from external remuneration consultants and stakeholders, until the review of incentive structures has been completed. It is anticipated that any future STI would have limited impact on the cash reserves of the Company, until such time as sustainable and profitable cash generation is achieved.

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 and to create an element of remuneration that supports the executive team working together to achieve this outcome over the long term. The LTI plan is also a key component of the Company's retention strategy.

Structure

In the past LTI grants were 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. 3,750,000 share options were issued during the year to 6 employees of which all were fully vested as at 30 June 2014. The options were not linked to performance as they are considered a long term incentive to retain key employees of the Company.

LTI for 2014 financial year

Options were granted and fully vested during the year, however due to a lack of an increase in the share price, no benefit was realised by any executives in relation to this or any previously granted LTI.

Previously issued LTI vesting was not dependent on performance because grants were in the nature of options. While options do not have any performance based vesting conditions, the terms of the options granted were such that significant share price growth was required to be achieved for any value to be realised from the grant of options. At the time this was considered suitable by the Board and the stakeholders who were consulted as part of the process.

The Company recognises that the market does not see this as an optimal form of long term incentive under the circumstances, and therefore the LTI plan is currently under review. No further grants will be made under the LTI plan until this review is completed and appropriate adjustments made. This may lead to the Company seeking shareholder approval for a new LTI plan.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Remuneration of Key Management Personnel

Table 1: Employment Contracts

The following table outlines the specified terms of the relevant employment contracts for the Key Management Personnel of the Company:

Role	Incumbent	Contract duration	Period of notice	Termination payments provided for by contract
Interim CEO (from 15 December 2013) *	Mr Timothy Rooney	6 months with monthly continuation option	3 month notice period	3 months if notice given by either party
Former CEO (resigned 11 December 2013)	Dr William Dolphin	Not applicable - resigned	6 month notice period	3 months if notice given by executive or 6 months by company
All other executives	Mr Andrew Quick	Open ended contract	3 month notice period	Payment in lieu of notice only, no other benefits specified
	Mr William Marshall	Open ended contract	Nil month notice period	Payment in lieu of notice only, no other benefits specified
	Ms Lorraine Glover	Open ended contract	1 month notice period	Payment in lieu of notice only, no other benefits specified
	Ms Lesley Whitlock	Open ended contract	60 days notice period	Payment in lieu of notice only, no other benefits specified
Board Chairman (from 1 July 2014)	Mr Lou Panaccio	Open ended contract	Nil notice period- subject to Avita constitution	Payment in lieu of notice only, no other benefits specified
All other non-executive directors	Mr Ian Macpherson	Open ended contract	Nil notice period- subject to Avita constitution	Payment in lieu of notice only, no other benefits specified
	Ms Fiona Wood	Open ended contract	Nil notice period- subject to Avita constitution	Payment in lieu of notice only, no other benefits specified
	Mr Jeremy Curnock Cook	Open ended contract	Nil notice period- subject to Avita constitution	Payment in lieu of notice only, no other benefits specified
	Mr Matthew McNamara	Open ended contract	Nil notice period- subject to Avita constitution	Payment in lieu of notice only, no other benefits specified
	Mr Michael Perry	Open ended contract	Nil notice period- subject to Avita constitution	Payment in lieu of notice only, no other benefits specified

*Mr Timothy Rooney reverts to previous position as Chief Financial Officer and Chief Operating Officer in the event of ceasing current position.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Remuneration of Key Management Personnel

Table 2: Remuneration for the year ended 30 June 2014

	Short-term		Non-monetary benefits	Cash bonus **	Post-employment	Equity	Total	% remuneration consisting of options	% of remuneration performance related
	Salary & fees	Other			Superannuation	Long service leave			
Non-Executive Directors									
I Macpherson – Chairman	67,036	-	-	-	6,201	-	73,237	-	-
F Wood	40,000	-	-	-	-	-	40,000	-	-
J Curnock Cook	40,000	-	-	-	-	-	40,000	-	-
M McNamara	40,000	-	-	-	-	-	40,000	-	-
M Perry	47,177	-	-	-	-	-	47,177	-	-
D Gooding (resigned 30 June 2014)	57,292	-	-	-	5,299	-	62,591	-	-
Sub-total Non-Executive Directors	291,505	-	-	-	11,500	-	303,005		
Executive Directors									
W Dolphin – CEO (resigned 11 December 2013)	174,901	(30,242)*	72,104	63,213**	45,848	11,430	337,254	3.3	18.7
Other Key Management Personnel & Executives									
L Glover – General Manager Asia Pacific	157,015	-	268	27,906	16,856	2,623	234,466	12.7	-
W Marshall – VP Operations	142,856	-	70,988	10,515	1,100	-	225,459	-	-
A Quick – VP Research & Technology	189,747	-	33,459	45,279	10,727	45,190	324,402	13.9	-
D Leeves (left 7 October 2013)	116,056	-	5,994	(22,102)	4,642	-	104,590	-	-
T Rooney – Interim CEO	266,953	-	16,588	61,952	15,014	56,440	416,947	13.5	-
L Whitlock (joined 11 November 2013)	130,875	-	738	8,082	10,391	13,241	163,327	8.1	-
G Chiappini – Company Secretary	36,000	-	-	-	-	-	36,000	-	-
Sub-total executive KMP & Executives	1,039,502	-	128,035	131,632	58,730	144,669	1,505,191		
Totals	1,505,908	(30,242)	200,139	194,845	116,078	2,623	156,099		

* Comprises a recovery of penalty tax from HMRC (UK) on behalf of W Dolphin for UK taxation in relation to the UK secondment in prior years.

** The cash bonus for W Dolphin was approved by the Board on 6 December 2013 and paid in January 2014. 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 2015. As they relate to services for the year ended 30 June 2014, they have been accrued in this remuneration report.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Table 3: 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	3.5	-
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 & Executives	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 HMRC (UK) 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 26 November 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 4: Compensation of Key Management Personnel

	2014 \$	2013 \$
Short-term employee benefits	1,989,351	1,938,887
Share-based payment	156,099	60,669
Total compensation	2,145,450	1,999,556

Table 5: Option holdings of Key Management Personnel

30 June 2014	Balance at 1 July 2013	Granted as remuneration	Options exercised	Net change other	Balance at 30 June 2014	Vested at 30 June 2014	Vested and exercisable at 30 June 2014	Vested and not exercisable at 30 June 2014
Directors								
W Dolphin	9,698,750		-	(375,000)ii	9,323,750	9,323,750	9,323,750	-
Other KMP								
T Rooney	1,800,000	750,000	-	-	2,550,000	1,350,000	1,350,000	-
A Quick	1,000,000	1,000,000	-	(1,000,000)	1,000,000	1,000,000	1,000,000	-
W Marshall	500,000	-	-	(500,000)	-	-	-	-
L Glover	700,000	700,000	-	(700,000)	700,000	700,000	700,000	-
L Whitlock	-	700,000	-	-	700,000	200,000	200,000	-
D Leeves	700,000	-	-	(700,000)i	-	-	-	-
	14,398,750	3,150,000	-	(3,275,000)	14,273,750	12,573,750	12,573,750	-

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	-
	11,992,500	2,500,000	-	(97,925)	14,398,750	11,548,750	11,548,750	-

i Relates to options lapsed as a result of leaving employment on 7 October 2013

ii Relates to options which were cancelled

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Table 6: Shareholdings of Key Management Personnel

30 June 2014	Balance at 1 July 2013	Granted as remuneration	On exercise of options	Net change other	Balance at 30 June 2014
Directors					
I Macpherson	10,799,997	-	-	-	10,799,997
F Wood	723,365	-	-	-	723,365
P Watt (resigned 19 October 2012)	110,199	-	-	(110,199)	-
D Gooding (resigned 30 June 2014)	3,354,528	-	-	-	3,354,528
W Dolphin (resigned 11 December 2013)	2,003,569	-	-	-	2,003,569
Other KMP					
All	-	-	-	-	-
	16,991,658	-	-	(110,199)	16,881,459

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

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.

Other transactions with Key Management Personnel and their related parties

- (i) During the period fees of \$43,000 (2013: \$nil) were paid, under normal terms and conditions, to the F.A.T.S Pty Ltd of which I Macpherson is a director.
- (ii) During the period fees of \$45,646 (2013: \$90,030) were paid, under normal terms and conditions, to Gooding Partners Chartered Accountants, of which D Gooding is a partner.

AVITA MEDICAL LIMITED
REMUNERATION REPORT (continued)

Table 7: Compensation options: Granted and vested during the year

	Number of options granted during the year		Number of options vested during the year	
	2014	2013	2014	2013
Executives				
T Rooney	750,000	1,800,000	1,050,000	300,000
A Quick	1,000,000	-	1,000,000	-
L Whitlock	700,000	-	200,000	-
L Glover	700,000	-	700,000	-
W Dolphin	-	-	750,000	1,406,250
D Leeves	-	700,000*	-	100,000

*700,000 options lapsed during the year due to cessation of employment.

The total fair value of options granted during the year was \$162,319 (2013: \$88,340) which is allocated over the vesting period. It should be noted that while options are fully vested, no value can be obtained from them until there has been a significant increase in the share price, since the exercise price of the options materially exceeded the market price at the time of granting.

Details of options issued during the period:

2,300,000 exercisable at \$0.16 expiring 28 February 2017, issued to several employees on 28 February 2014.

700,000 exercisable at \$0.175 expiring 28 February 2017, issued to an employee on 28 February 2014.

250,000 exercisable at \$0.10 expiring 30 June 2017, issued to the interim Chief Executive Officer on 15 December 2013.

250,000 exercisable at \$0.12 expiring 30 June 2017, issued to the interim Chief Executive Officer on 15 December 2013.

250,000 exercisable at \$0.14 expiring 30 June 2017, issued to the interim Chief Executive Officer on 15 December 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:

	Meetings of Committees		
	Directors' Meetings	Remuneration	Audit
Number of meetings held:	8	2	2
Number of meetings attended:			
Ian Macpherson	8	2	2
Fiona Wood	5	N/A	N/A
Jeremy Curnock Cook	6	2	N/A
Matthew McNamara	8	N/A	2
Michael Perry	6	NA	N/A
Dalton Gooding	6	2	2
William Dolphin – resigned 11 December 2013	4	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, however on a 'as required' basis, formally constitutes a Nominations Committee dealing with appointment of Executives and Directors.

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

Audit	Remuneration
Ian Macpherson (c)	Dalton Gooding (resigned from committee 21 March 2014)
Matthew McNamara	Ian Macpherson (c)
Lou Panaccio (appointed 1 July 2014)	Jeremy Curnock Cook
Dalton Gooding (resigned from committee 21 March 2014)	Mike Perry (appointed to committee 21 March 2014)

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 19 of this report.

NON-AUDIT SERVICES

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

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

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to be 'Lou Panaccio', with a long horizontal stroke extending to the right.

Lou Panaccio
Chairman
Dated: 26 August 2014
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 2014, 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, 26 September 2014

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**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 2014 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 2014.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Lou Panaccio', with a long horizontal stroke extending to the right.

Lou Panaccio
Chairman
Dated: 26 August 2014
Perth, Western Australia

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

Report on the financial report

We have audited the accompanying financial report of Avita Medical Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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 2014 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2(u) in the financial report which indicates that the Group incurred a net loss of \$5,147,391 during the year ended 30 June 2014 and, as of that date, the Group's cash outflows from operating activities equates to \$6,924,939. These conditions, along with other matters as set forth in Note 2(u), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 9 to 20 of the Directors' Report for the year ended 30 June 2014. 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 2014, complies with Section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



P W Warr
Partner - Audit & Assurance

Perth, 26 September 2014

AVITA MEDICAL LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated	
	Notes	2014 \$	2013 \$
Continuing operations			
Sale of goods	4 (a)	2,683,133	2,814,990
Cost of sales	4 (e)	(670,893)	(676,502)
Gross profit		<u>2,012,240</u>	<u>2,138,488</u>
Other revenue	4 (b)	594,581	1,237,285
Operating costs			
Administrative expenses		(5,639,513)	(5,449,632)
Share based payments		(183,214)	(82,338)
Research and development expenses		(784,113)	(2,601,046)
Sales and marketing expenses		(2,633,418)	(3,390,659)
Finance costs	4 (c)	(25,675)	(91)
Amortisation of intellectual property	4 (d)	-	(73,000)
Loss from continuing operations before income tax		<u>(6,659,112)</u>	<u>(8,220,993)</u>
Income tax benefit	6	1,511,721	128,054
Loss for the period	5	<u>(5,147,391)</u>	<u>(8,092,939)</u>
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Foreign currency translation		35,489	133,503
Other comprehensive income for the period, net of tax		35,489	133,503
Total comprehensive loss for the period		<u>(5,111,902)</u>	<u>(7,959,436)</u>
Loss for the period is attributable to:			
Non-controlling interest		-	-
Owners of Avita Medical Limited		(5,147,391)	(8,092,939)
		<u>(5,147,391)</u>	<u>(8,092,939)</u>
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		-	-
Owners of Avita Medical Limited		(5,111,902)	(7,959,436)
		<u>(5,111,902)</u>	<u>(7,959,436)</u>
Basic loss per share	5	(1.58) cents	(2.69) cents
Diluted loss per share	5	(1.58) cents	(2.69) cents

This consolidated statement of profit or loss and other 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 2014

		Consolidated	
	Notes	2014	2013
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	7	3,648,390	10,616,849
Trade and other receivables	8	2,546,939	1,215,382
Prepayments		195,473	187,586
Inventories	9	782,236	761,785
Total Current Assets		7,173,038	12,781,602
Non-Current Assets			
Plant & equipment	10	139,801	127,029
Total Non-Current Assets		139,801	127,029
TOTAL ASSETS		7,312,839	12,908,631
LIABILITIES			
Current Liabilities			
Trade and other payables	11	1,689,252	2,243,783
Provisions	12	96,965	209,538
Total Current Liabilities		1,786,217	2,453,321
TOTAL LIABILITIES		1,786,217	2,453,321
NET ASSETS		5,526,622	10,455,310
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	13	111,441,930	111,441,930
Accumulated losses	14	(106,602,169)	(101,706,766)
Reserves	14	686,861	720,146
TOTAL EQUITY		5,526,622	10,455,310

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 2014

		Consolidated	
	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers		2,925,693	2,990,444
Payments to suppliers and employees		(10,548,853)	(11,567,164)
Government grants received		343,278	787,578
Tax refund received – R&D claim		129,315	90,123
Interest received		186,002	412,354
Interest paid		(25,675)	(91)
Royalties and other income received		65,301	37,353
		<hr/>	<hr/>
Net cash flows used in operating activities	15	(6,924,939)	(7,249,403)
Cash flows from investing activities			
Purchase of plant & equipment		(75,541)	(83,596)
Gain on disposal of plant & equipment		5,000	-
		<hr/>	<hr/>
Net cash flows used in investing activities		(70,541)	(83,596)
Cash flows from financing activities			
Proceeds from issue of shares and options		-	10,401,080
Capital raising expenses		-	(673,649)
		<hr/>	<hr/>
Net cash flows provided by financing activities		-	9,727,431
Net increase/(decrease) in cash and cash equivalents		(6,995,480)	2,394,432
Cash and cash equivalents at beginning of period		10,616,849	8,230,593
Impact of foreign exchange		27,021	(8,176)
		<hr/>	<hr/>
Cash and cash equivalents at end of period	7	3,648,390	10,616,849

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 2014

Consolidated	Contributed equity	Accumulated losses	Employee equity benefit reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2013	111,441,930	(101,706,766)	962,277	(242,131)	10,455,310
Loss for the period	-	(5,147,391)	-	-	(5,147,391)
Other comprehensive income – foreign currency translation	-	-	-	35,489	35,489
Total comprehensive loss for the year	-	(5,147,391)	-	35,489	(5,111,902)
Transactions with owners in their capacity as owners					
Expired options	-	251,988	(251,988)	-	-
New shares	-	-	-	-	-
Share based payments	-	-	183,214	-	183,214
Cost of share placement	-	-	-	-	-
Balance at 30 June 2014	111,441,930	(106,602,169)	893,503	(206,642)	5,526,622

Consolidated	Contributed equity	Accumulated losses	Option premium reserve	Employee equity benefit reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$	\$
Balance 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	-	82,338
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

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 2014**

1. CORPORATE INFORMATION

The financial report of Avita Medical Limited (the Company) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 26 August 2014.

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

The nature of the operations and principal activities of the Group are described in the Directors' Report 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 2014. These are outlined in the following tables.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New/revised pronouncement	Superseeded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> • AASB 9 <i>Financial Instruments</i> (December 2010) • [Also refer to AASB 2013-9 and AASB 2014-1 below] • 	<ul style="list-style-type: none"> • AASB 139 <i>Financial Instruments: Recognition and Measurement</i> (in part) 	<ul style="list-style-type: none"> • AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. <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> <ul style="list-style-type: none"> (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) 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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <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</p>	<ul style="list-style-type: none"> • 1 January 2018 	<p>Management has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018 and the IASB is yet to finalise the remaining phases of its project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (AASB 139 in Australia).</p> <ul style="list-style-type: none"> •

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
		<p>accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:</p> <ul style="list-style-type: none"> • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. <p>AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.</p> <p>Consequential amendments arising from AASB 9 are contained in AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>, AASB 2010-10 <i>Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters</i>, AASB 2012-6 <i>Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures</i>, AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> and AASB 2014-1 <i>Amendments to Australian Accounting Standards</i>.</p> <ul style="list-style-type: none"> • See TA Alert 2009-22, TA Alert 2010-49, TA Alert 2013-13 and TA Alert 2014-08 for further information. 		
<ul style="list-style-type: none"> • AASB 2012-3 <i>Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities</i> 	None	<ul style="list-style-type: none"> • AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement. 	<ul style="list-style-type: none"> • 1 January 2014 	<p>When AASB 2012-3 is first adopted for the year ending 30 June 2015, there will be no impact as this standard merely clarifies existing requirements in AASB 132.</p>

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> AASB 2013-3 <i>Recoverable Amount Disclosures for Non-Financial Assets</i> 	None	<p>These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.</p> <p>When developing IFRS 13 <i>Fair Value Measurement</i>, the IASB decided to amend IAS 36 <i>Impairment of Assets</i> to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.</p> <p>AASB 2013-3 makes the equivalent amendments to AASB 136 <i>Impairment of Assets</i>.</p>	<ul style="list-style-type: none"> 1 January 2014 	When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact given that they are largely of the nature of clarification of existing requirements.
<ul style="list-style-type: none"> AASB 1031 <i>Materiality</i> (December 2013) 	<ul style="list-style-type: none"> AASB 1031 <i>Materiality</i> (July 2004, as amended) 	<p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework for the Preparation and Presentation of Financial Statements</i> (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed, AASB 1031 will be withdrawn.</p>	<ul style="list-style-type: none"> 1 January 2014 	When the revised AASB 1031 is first adopted for the year ending 30 June 2015, it is unlikely to have any significant impact.
<ul style="list-style-type: none"> AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> (Part B: Materiality) 	<ul style="list-style-type: none"> None 	<p>Part B of AASB 2013-9 deletes references to AASB 1031 in various Australian Accounting Standards (including Interpretations).</p>	<ul style="list-style-type: none"> 1 January 2014 	When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> (Part C: Financial Instruments) 	<ul style="list-style-type: none"> AASB 139 <i>Financial Instruments: Recognition and Measurement</i> (in part) 	<p>These amendments:</p> <ul style="list-style-type: none"> add a new chapter on hedge accounting to AASB 9 <i>Financial Instruments</i>, substantially overhauling previous accounting requirements in this area; allow the changes to address the so-called 'own credit' issue that were already included in AASB 9 to be applied in isolation without the need to change any other accounting for financial instruments; and defer the mandatory effective date of AASB 9 from '1 January 2015' to '1 January 2017'. <p>Note that, subsequent to issuing these amendments, the AASB has issued AASB 2014-1 which defers the effective date of AASB 9 to '1 January 2018'.</p> <p>See TA Alert 2013-13 for further information.</p>	<ul style="list-style-type: none"> 1 January 2015 	Management has not yet assessed the full impact of these amendments.
<ul style="list-style-type: none"> AASB 14 <i>Regulatory Deferral Accounts</i> 	None	AASB 14 permits first-time adopters of Australian Accounting Standards who conduct rate-regulated activities to continue to account for amounts related to rate regulation in accordance with their previous GAAP. Accordingly, an entity that applies AASB 14 may continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of its regulatory deferral account balances. This exemption is not available to entities who already apply Australian Accounting Standards.	1 January 2016	When AASB 14 becomes effective for the first time for the year ending 30 June 2017, it will not have any impact.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)</i> 	None	<p>Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards <i>Annual Improvements to IFRSs 2010-2012 Cycle</i> and <i>Annual Improvements to IFRSs 2011-2013 Cycle</i>.</p> <p>Among other improvements, the amendments arising from <i>Annual Improvements to IFRSs 2010-2012 Cycle</i>:</p> <ul style="list-style-type: none"> (a) clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and (b) amend AASB 8 <i>Operating Segments</i> to explicitly require the disclosure of judgements made by management in applying the aggregation criteria. <p>Among other improvements, the amendments arising from <i>Annual Improvements to IFRSs 2011-2013 Cycle</i> clarify that an entity should assess whether an acquired property is an investment property under AASB 140 <i>Investment Property</i> and perform a separate assessment under AASB 3 <i>Business Combinations</i> to determine whether the acquisition of the investment property constitutes a business combination.</p>	<ul style="list-style-type: none"> 1 July 2014 	When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> AASB 2014-1 <i>Amendments to Australian Accounting Standards</i> (Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)) 	None	<p>Part B of AASB 2014-1 makes amendments to AASB 119 <i>Employee Benefits</i> to incorporate the IASB's practical expedient amendments finalised in International Financial Reporting Standard <i>Defined Benefit Plans: Employee Contributions</i> (Amendments to IAS 19) in relation to the requirements for contributions from employees or third parties that are linked to service.</p> <p>The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. In contrast, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of AASB 119 for the gross benefit.</p>	<ul style="list-style-type: none"> 1 July 2014 	When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact.
<ul style="list-style-type: none"> AASB 2014-1 <i>Amendments to Australian Accounting Standards</i> (Part C: Materiality) 	None	Part C of AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 <i>Materiality</i> , which historically has been referenced in each Australian Accounting Standard.	<ul style="list-style-type: none"> 1 July 2014 	When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact.
<ul style="list-style-type: none"> AASB 2014-1 <i>Amendments to Australian Accounting Standards</i> (Part D: Consequential Amendments arising from AASB 14) 	None	Part D of AASB 2014-1 makes consequential amendments arising from the issuance of AASB 14.	<ul style="list-style-type: none"> 1 January 2016 	When these amendments become effective for the first time for the year ending 30 June 2017, they will not have any impact.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> AASB 2014-1 <i>Amendments to Australian Accounting Standards</i> (Part E: Financial Instruments) 	None	<p>Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 <i>Financial Instruments</i> to annual reporting periods beginning on or after 1 January 2018. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction of Chapter 6 <i>Hedge Accounting</i> into AASB 9 and to amend reduced disclosure requirements for AASB 7 <i>Financial Instruments: Disclosures</i> and AASB 101 <i>Presentation of Financial Statements</i>.</p>	<ul style="list-style-type: none"> 1 January 2015 	The entity has not yet assessed the full impact of these amendments.
<ul style="list-style-type: none"> AASB Interpretation 21 <i>Levies</i> 	None	<p>Interpretation 21 addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements (in particular, when the entity should recognise a liability to pay a levy).</p> <p>Interpretation 21 is an interpretation of AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. AASB 137 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.</p>	<ul style="list-style-type: none"> 1 January 2014 	When this interpretation is first adopted for the year ending 30 June 2015, there will be no material impact on the financial statements as the entity is not subject any levies addressed by this interpretation.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<i>Standards issued by the IASB, but not yet by the AASB</i>				
<ul style="list-style-type: none"> IFRS 15 <i>Revenue from Contracts with Customers</i> 	<ul style="list-style-type: none"> IAS 18 <i>Revenue</i> IAS 11 <i>Construction Contracts</i> IFRIC 13 <i>Customer Loyalty Programmes</i> IFRIC 15 <i>Agreements for the Construction of Real Estate</i> IFRIC 18 <i>Transfer of Assets from Customers</i> 	<ul style="list-style-type: none"> IFRS 15: <ul style="list-style-type: none"> replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related Interpretations establishes a new control-based revenue recognition model changes the basis for deciding whether revenue is to be recognised over time or at a point in time provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing) expands and improves disclosures about revenue In the Australian context, the Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian Standard (AASB 15 <i>Revenue from Contracts with Customers</i>), along with a new Exposure Draft (ED) on income from transactions of Not-for-Profit (NFP) entities by September 2014. For further information, refer to TA Alert 2014-04 and IFRS Newsletter (June 2014) – Special Edition on Revenue 	<ul style="list-style-type: none"> 1 January 2017 	<ul style="list-style-type: none"> Management has not yet assessed the full impact of this Standard.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> Clarification of <i>Acceptable Methods of Depreciation and Amortisation</i> (Amendments to IAS 16 and IAS 38) 	None	<ul style="list-style-type: none"> The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment. The amendments to IAS 38 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two limited circumstances: <ul style="list-style-type: none"> the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian amendment shortly. 	<ul style="list-style-type: none"> 1 January 2016 	When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<ul style="list-style-type: none"> Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) 	None	<ul style="list-style-type: none"> The amendments to IFRS 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in IFRS 3 <i>Business Combinations</i>, should: <ul style="list-style-type: none"> apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not remeasured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and provide disclosures for business combinations as required by IFRS 3 and other IFRSs. The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian amendment shortly. 	<ul style="list-style-type: none"> 1 January 2016 	When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

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).

The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

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

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

(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 2014

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 2014

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 presentational currency

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

Transactions and balances

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

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

Translation of Group Companies functional currency to presentational currency

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

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

(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 2014

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

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

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

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

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

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) 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)

(o) 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.

(p) Financial Instruments

Recognition, Initial Measurement and Derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and Subsequent Measurement of Financial Assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at Fair Value Through Profit or Loss ('FVTPL')
- Held-To-Maturity ('HTM') investments; or
- Available-For-Sale ('AFS') financial assets

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in the Statement of Profit or Loss and Other Comprehensive Income are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Financial Instruments (continued)

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial Assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in the Statement of Profit or Loss and Other Comprehensive Income. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM Investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses for AFS debt securities are recognised in profit or loss if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For AFS equity investments impairment reversals are not recognised in profit or loss and any subsequent increase in fair value is recognised in other comprehensive income.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

(t) 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.

(u) Going Concern

These financial statements have been prepared on the basis of going concern, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. During the financial year ended 30 June 2014, the Group has generated a loss for the period of \$5,147,391 (2013: \$8,092,939) and the Group has used cash in operations of \$6,924,939 (2013: \$7,429,403).

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

Should the Group not be successful in obtaining further funding in the next twelve months it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

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.

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

(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 recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to profit or loss.

Control over investees

Although Avita Medical Limited holds only 15% of the total of the A, B and C class shares of MENA management and the Board have determined it controls MENA due to holding 70% of the voting rights, as only A Class shares have voting rights and Avita Medical Limited holds 70% of these shares, control of the Board with 2 out of 3 seats held by Avita Directors and the agreements specify that MENA's sole purpose is a vehicle to enter foreign markets. Refer to note 16(a).

(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 17. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

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 2014

4. REVENUES AND EXPENSES

	2014 \$	2013 \$
(a) Revenue		
Sale of goods	2,683,133	2,814,990
Other revenue	594,581	1,237,285
Total revenue	3,277,714	4,052,275

	2014 \$	2013 \$
(b) Other revenue		
Bank interest receivable	186,002	412,354
Grant income	343,278	787,578
Other income	65,301	37,353
	594,581	1,237,285

	2014 \$	2013 \$
(c) Finance costs		
Other loans	25,675	91
	25,675	91

	2014 \$	2013 \$
(d) Depreciation, impairment and amortisation included in profit or loss		
Depreciation	63,711	48,924
(Gain)/loss on disposal of plant & equipment	(3,656)	2,870
Amortisation of intangible assets	-	73,000

	2014 \$	2013 \$
(e) Cost of sales	670,893	676,502

Inventories recognised as an expense as a result of expiration for the year ended 30 June 2014 totalled \$114,954 (2013: \$68,233). 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 2014

4. REVENUES AND EXPENSES (continued)

	2014 \$	2013 \$
(f) Lease payments and other expenses included in profit or loss		
Minimum lease payments – operating lease	179,595	179,595
	2014 \$	2013 \$
(g) Employee benefits expense		
Wages and salaries	3,003,424	3,239,424
Defined contribution superannuation expense	241,418	163,838
Share-based payments expense	183,214	82,338
	<u>3,428,056</u>	<u>3,485,600</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:

	2014 \$	2013 \$
Net loss for the period	(5,147,391)	(8,092,939)
Weighted average number of ordinary shares for basic and diluted loss per share	325,308,404	300,507,224

Transactions involving ordinary shares or potential ordinary shares that would change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of the completion of these financial statements are disclosed in note 25 to the financial statements.

A total of 15,423,750 options (2013: 18,872,140) 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 2014

6. INCOME TAX

(a) Income tax expense	2014	2013
The major components of income tax benefit are:	\$	\$
<i>Current income tax benefit:</i>		
Current income tax benefit – R&D Claim	(1,517,058)	(128,064)
	<hr/>	<hr/>
Income tax benefit reported in profit or loss – R&D Claim	(1,517,058)	(128,064)

(b) Numerical reconciliation of income tax expense to prima facie tax payable	2014	2013
	\$	\$
Loss from continuing operations before income tax expense	(6,659,112)	(8,220,993)
	<hr/>	<hr/>
	(6,659,112)	(8,220,993)
Tax at the Australian rate of 30% (2013 – 30%)	(1,997,734)	(2,466,298)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Other	965,024	10,820
Tax losses not brought to account	1,032,710	2,455,478
Research and development tax offset	(1,517,058)	(128,064)
	<hr/>	<hr/>
	(1,517,058)	(128,064)
Movement in deferred tax asset	(180,430)	(79,214)
Deferred tax assets not brought to account as realisation is not considered probable	180,430	79,214
	<hr/>	<hr/>
Income tax benefit	(1,517,058)	(128,064)

(c) Non-current assets – deferred tax assets	2014	2013
	\$	\$
The balance comprises temporary differences attributable to:		
Provisions	32,202	90,996
Property, plant and equipment	17,604	20,176
Intangible assets	892,366	989,202
Total deferred tax assets	<hr/> 942,172	<hr/> 1,100,374
Set off deferred tax liabilities pursuant to set-off provisions	-	-
	<hr/>	<hr/>
	942,172	1,100,374
Deferred tax assets not brought to account as realisation is not considered probable	(942,172)	(1,100,374)
	<hr/>	<hr/>
Deferred tax assets recognised	-	-

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

6. INCOME TAX (continued)

Movements – Consolidated	Provisions	Plant and equipment	Intangible assets	Other	Total
	\$	\$	\$	\$	\$
At 30 June 2012	175,836	23,403	984,959	-	1,184,198
(Charged) / credited to the consolidated statement of profit or loss and other 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
(Charged) / credited to the consolidated statement of profit or loss and other comprehensive income	(58,794)	(2,572)	109,076	-	(170,442)
(Charged) / credited directly to equity	-	-	-	-	-
At 30 June 2014	32,202	17,604	892,366	-	942,172

Tax losses

The Group has income tax losses for which no deferred tax asset is recognised on the consolidated statement of financial position of \$69,401,431 (2013: \$72,447,888) 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>	<u>Total Losses</u>	<u>Relevant Tax Rate</u>	<u>Relevant Tax</u>
	\$	%	\$
Australia	32,932,851	30%	9,879,856
United States	9,390,127	30%	2,817,038
United Kingdom	26,713,926	25.5%	6,812,051
Italy	425,873	27.5%	117,115
Kuwait	(61,346)	15%	(9,202)
Total	69,401,431		19,616,858

Unrecognised temporary differences

At 30 June 2014, there is no recognised or unrecognised deferred income tax liability (2013: \$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 (2013: \$nil).

Tax consolidation

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

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

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

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2014 \$	2013 \$
Cash at bank and in hand	765,692	1,316,283
Short-term deposits	2,882,698	9,300,566
	3,648,390	10,616,849

8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2014 \$	2013 \$
Trade receivables	507,020	947,406
Allowance for doubtful debts	(9,837)	(174,287)
	497,183	773,119
Other receivables	2,049,756	442,263
	2,546,939	1,215,382

(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.

A gain of \$164,450 (2013: loss \$149,720) has been recognised by the Group in the current year on recovery of these previously impaired receivables.

Movements in the allowance for impairment loss were as follows:

	2014 \$	2013 \$
At 1 July	174,287	24,567
Received during the year	(164,450)	-
Charge for the year	-	149,720
At 30 June	9,837	174,287

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

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**
2014	Consolidated	507,020	297,308	164,803	8,974	25,413	10,522
2013	Consolidated	947,406	375,778	212,968	70,262	114,111	174,287

* Past due not impaired ("PDNI")

** Considered impaired ("CI")

Receivables past due but not considered impaired are: \$25,413 (2013: \$114,111). 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 19.

9. CURRENT ASSETS – INVENTORIES

	2014 \$	2013 \$
Raw materials and components at cost	312,407	312,037
Finished goods at cost	469,829	449,748
Total inventories at cost	782,236	761,785

A provision of \$nil (2013: \$56,845) has been allocated against raw materials to reduce the carrying amount of certain inventory items to nil net realisable value. The change in provision of inventory has been included in the cost of sales line item as a cost of inventories in the consolidated statement of profit or loss and other comprehensive income.

Inventory expense

Inventories recognised as an expense as a result of expiration for the year ended 30 June 2014 totalled \$114,954 (2013: \$68,233). 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 2014

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 2014	
At 1 July 2013, net of accumulated depreciation	127,029
Exchange movements	3,468
Additions	75,541
Disposals	(2,526)
Depreciation charge for the year	<u>(63,711)</u>
At 30 June 2014, net of accumulated depreciation	<u>139,801</u>

At 30 June 2014	
Cost	740,405
Accumulated depreciation	<u>(600,604)</u>
Net carrying amount	<u>139,801</u>

	<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>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

11. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2014 \$	2013 \$
Trade payables	440,936	971,719
Accruals and other payables	1,248,316	1,272,064
Carrying amount of trade and other payables	1,689,252	2,243,783

(a) Fair value

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

(a) Interest rate, foreign exchange and liquidity risk

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

12. CURRENT LIABILITIES – PROVISIONS

	2014 \$	2013 \$
Provision for annual leave (i)	65,277	150,231
Other employee benefits (ii)	-	30,242
Provision for long service leave (iii)	31,688	29,065
	96,965	209,538

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 previous CEO, W Dolphin.
- (iii) A provision is recognised for long service leave due to employees at the end of the year.

13. CONTRIBUTED EQUITY

	2014 \$	2013 \$
<i>Ordinary shares</i>		
Authorised, issued and fully paid	111,441,930	111,441,930

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 2013	325,308,404	111,441,930
New shares	-	-
Capital issue costs	-	-
At 30 June 2014	325,308,404	111,441,930

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

13. CONTRIBUTED EQUITY (continued)

Capital management

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

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

During 2014, 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 the reporting date. Neither the Company nor any of the subsidiaries are subject to externally imposed capital requirement.

14. ACCUMULATED LOSSES AND RESERVES

(a) Movements in accumulated losses were as follows:

	2014 \$	2013 \$
Balance 1 July	(101,706,766)	(96,676,634)
Net loss attributable to owners of Avita Medical Limited	(5,147,391)	(8,092,939)
Transfer from expired / lapsed options	251,988	3,062,807
Balance 30 June	(1086,602,169)	(101,706,766)

(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 18 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 2014

15. CONSOLIDATED STATEMENT OF CASH FLOWS RECONCILIATION

	2014	2013
	\$	\$
Reconciliation of net loss after tax to net cash flows from operations		
Loss from ordinary activities after tax	(5,147,391)	(8,092,939)
<i>Adjustments for non-cash items:</i>		
Depreciation	63,711	48,924
Amortisation	-	73,000
Share options expensed	183,214	82,338
Shares issued	-	51,000
Provision for impairment of trade and other receivables	-	68,925
Write-off on inventory	-	64,578
(Profit)/loss on disposal of PPE	2,527	2,870
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in inventories	(20,451)	(46,173)
(Increase) / decrease in trade and other receivables	(1,331,557)	246,592
(Increase) / decrease in prepayments	(7,887)	(49,746)
(Decrease) / increase in trade and other payables	(554,532)	557,206
(Decrease) / increase in provisions	(112,573)	(255,978)
Net cash used in operating activities	(6,924,939)	(7,249,403)

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

16. RELATED PARTY DISCLOSURE

(a) Subsidiaries

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

<i>Name</i>	<i>Country of Incorporation</i>	<i>% Equity interest at 30 June 2014</i>	<i>% Equity interest at 30 June 2013</i>	<i>Investment (\$) at 30 June 2014</i>	<i>Investment (\$) At 30 June 2013</i>
C3 Operations Pty Ltd	Australia	100%	100%	-	-
Avita Medical Europe Ltd	United Kingdom	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>

The consolidated financials does not include any financial information for Avita Medical MENA Limited as there has been no activity since December 2012.

Although Avita Medical Limited holds only 15% of the total of the A, B and C class shares of MENA management and the Board have determined it controls MENA due to holding 70% of the voting rights, as only A Class shares have voting rights and Avita Medical Limited holds 70% of these shares, control of the Board with 2 out of 3 seats held by Avita Directors and the agreements specify that MENA's sole purpose is a vehicle to enter foreign markets.

(b) Ultimate parent

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

(c) Key Management Personnel

Details relating to Key Management Personnel, including remuneration paid, are included in the Directors' report.

(d) Transactions with related parties

Subsidiaries of the Group:

As at the reporting date of 30 June 2014, Avita Medical Europe Ltd had a receivable balance of \$333,887 (2013: \$15,649) from Avita Medical Italia Srl.

During the period inter-company sales were made of \$16,178 (2013: \$36,944) by Avita Medical Europe Ltd to Avita Medical Italia Srl.

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 2014

17. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

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

	2014 \$	2013 \$
Expenses arising from equity-settled share-based payment transactions	183,214	82,338
Total expense arising from share-based payment transactions	183,214	82,338

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2014 and 2013.

(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	01/07/2010	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
375,000	30/09/2013	30/11/2018
4,323,750		

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

17. 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:

	2014 No	2014 WAEP	2013 No	2013 WAEP
Outstanding at the beginning of the year	15,498,750	0.14	12,942,500	0.14
Expired during the year	(2,750,000)	0.14	-	-
Cancelled	(375,000)	0.14	(93,500)	0.14
Granted during the year	3,750,000	0.155	2,650,000	0.15
Lapsed during the year	(700,000)	0.15	-	-
Outstanding at the end of the year	15,423,750	0.145	15,499,000	0.14

As at the date of signing this report, there were 15,423,750 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.

375,000 exercisable at \$0.14 expiring 30 November 2018, issued to the Chief Executive Officer at the Annual General Meeting held on 30 November 2010.

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

150,000 exercisable at \$0.15 expiring 9 July 2015, issued to an employee on 9 July 2012.

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

2,300,000 exercisable at \$0.16 expiring 28 February 2017, issued to several employees on 28 February 2014.

700,000 exercisable at \$0.175 expiring 28 February 2017, issued to an employee on 28 February 2014.

250,000 exercisable at \$0.10 expiring 30 June 2017, issued to the interim Chief Executive Officer on 15 December 2013.

250,000 exercisable at \$0.12 expiring 30 June 2017, issued to the interim Chief Executive Officer on 15 December 2013.

250,000 exercisable at \$0.14 expiring 30 June 2017, issued to the interim Chief Executive Officer on 15 December 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 corporate body.

Shares issued as a result of the exercise of options

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

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

17. 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 2014 is 2.312 years (2013: 2.513 years).

(e) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.10 - \$0.175 (2013: \$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 \$162,319 (2013: \$109,986). The total fair value of the options granted during the year is \$162,319 (2013: \$109,986).

(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:

	2014	2013
Dividend yield (%)	0%	0%
Expected volatility (%)	61%	65%
Risk-free interest rate (%)	2.71%	3.16%
Expected life of option	To maturity	To maturity
Option exercise price (\$)	16c	15c
Weighted average share price at grant date (\$)	12.5c	10c

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 9,323,750 options issued to Dr Dolphin all are vested, and of the 2,550,000 options issued to T Rooney, 1,200,000 are unvested.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

18. SEGMENT INFORMATION

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

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

The Chief Executive Officer reviews the financial and operating performance of the business primarily from a geographic perspective. On this basis, management have identified three reportable operating segments being the Asia Pacific 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 2014 is as follows:

	<i>Asia Pacific</i> \$	<i>EMEA</i> \$	<i>Americas</i> \$	<i>Total</i> \$
Year ended 30 June 2014				
Revenue				
Sale of goods	2,188,489	494,644	-	2,683,133
Other revenues from external customers	53,507	1,677	353,395	408,579
Interest received	182,720	2,450	832	186,002
Total revenue and other income per consolidated statement of profit or loss and other comprehensive income	2,424,716	498,771	354,227	3,277,714
Segment net operating profit / (loss) before tax	332,909	(2,264,792)	(3,206,295)	(5,138,178)
Reconciliation of segment net result before tax to loss before income tax:				
Corporate charges				(1,520,934)
Loss before income tax				(6,659,112)

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:

	2014 %	2013 %
Australia	78.2	79.6
Other	21.8	20.4
Total revenue	100	100

AVITA MEDICAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

18. SEGMENT INFORMATION (continued)

	<i>Asia Pacific</i>	<i>EMEA</i>	<i>Americas</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2014				
Segment assets				
Segment operating assets	2,605,975	1,025,979	1,054,709	4,686,663
Unallocated assets				<u>2,626,176</u>
Total assets per the consolidated statement of financial position				<u>7,312,839</u>
Segment liabilities				
Segment operating liabilities	278,381	913,564	405,194	1,597,139
Unallocated liabilities				<u>189,078</u>
Total liabilities per the consolidated statement of financial position				<u>1,786,217</u>
	<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 profit or loss and other comprehensive income	<u>2,767,101</u>	<u>551,823</u>	<u>733,351</u>	<u>4,052,275</u>
Segment net operating profit / (loss) before tax	527,063	(2,744,469)	(4,392,849)	(6,610,225)
Reconciliation of segment net result before tax to loss before income tax:				
Corporate charges				(1,537,768)
Amortisation of intellectual property				<u>(73,000)</u>
Loss before income tax				<u>(8,220,993)</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

18. 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				12,908,631
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				2,453,321

The following tables present revenue, expenditure and certain asset information regarding the type of products for the years ended 30 June 2014 and 30 June 2013.

	<i>Regenerative Medicine</i>	<i>Respiratory</i>	<i>Total</i>
	\$	\$	\$
Year ended 30 June 2014			
Revenue			
Sale of goods	785,493	1,897,640	2,683,133
Other revenue	369,132	-	369,132
Total segment revenue	1,154,625	1,897,640	3,052,265
Unallocated revenue			225,449
Total revenue and other income per consolidated statement of profit or loss and other comprehensive income			3,277,714
Other segment information			
Segment operating assets	3,524,179	1,161,034	4,685,213
Unallocated assets			2,627,626
Total assets per the consolidated statement of financial position			7,312,839
Capital expenditure			75,541

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

18. SEGMENT INFORMATION (continued)

	<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	1,472,399	2,066,905	3,539,304
Unallocated revenue			512,971
Total revenue and other income per consolidated statement of profit or loss and other comprehensive income			4,052,275
Other segment information			
Segment operating assets	2,925,775	1,145,386	4,071,161
Unallocated assets			8,837,470
Total assets per the consolidated statement of financial position			12,908,631
Capital expenditure			83,596

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

	2014 \$	2013 \$
Financial Assets		
Cash and cash equivalents	3,648,390	10,616,849
Trade and other receivables	2,546,939	1,215,382
Financial Liabilities		
Trade and other payables	(1,689,251)	(2,243,783)
Provisions	(96,965)	(209,538)
Net	4,409,113	9,378,910

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

19. 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:

	2014 \$	2013 \$
Financial Assets		
Cash and cash equivalents	3,648,390	10,616,849
Net exposure	3,648,390	10,616,849

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 2014, none of the Group's cash balances are at a fixed rate of interest (2013: 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 2014, 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)	
	2014 \$	2013 \$	2014 \$	2013 \$
+1% (100 basis points)	36,484	106,168	36,484	106,168
-1% (100 basis points)	(36,484)	(106,168)	(36,484)	(106,168)

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 26% (2013: 32%) of the Group's sales are denominated in currencies other than the functional currency, whilst approximately 64% (2013: 68%) of costs are denominated in the functional currency.

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 30 June 2014, the Group had the following exposure to foreign currencies:

	2014 \$	2013 \$
Financial Assets		
Cash and cash equivalents	918,600	1,569,171
Trade and other receivables	582,042	734,326
	<u>1,500,642</u>	<u>2,303,497</u>
Financial Liabilities		
Trade and other payables	(958,553)	(1,742,014)
	<u>542,089</u>	<u>561,483</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 2014, 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)	
	2014 \$	2013 \$	2014 \$	2013 \$
AUD/GBP + 10%	1,954	(48,256)	1,954	(48,256)
AUD/GBP – 5%	(977)	24,128	(977)	24,128
AUD/USD +10%	(24,468)	11,007	(24,468)	11,007
AUD/USD – 5%	12,234	(5,504)	12,234	(5,504)
AUD/EUR +10%	(31,695)	(41,967)	(31,695)	(41,967)
AUD/EUR – 5%	15,847	24,983	15,847	24,983
AUD/KWD +10%	-	23,067	-	23,067
AUD/KWD -5%	-	(11,533)	-	(11,533)

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 2014

19. 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 2014.

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

	2014 \$	2013 \$
6 months or less	1,689,251	2,243,783
6-12 months	-	-
1-3 years	-	-
	<u>1,689,251</u>	<u>2,243,783</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 2014	< 6 months \$	6-12 months \$	1-5 years \$	Total \$
Financial Assets				
Cash & cash equivalents	3,648,390	-	-	3,648,390
Trade & other receivables	2,546,939	-	-	2,546,939
	<u>6,195,329</u>	-	-	<u>6,195,329</u>
Financial Liabilities				
Trade & other payables	(1,689,251)	-	-	(1,689,251)
	<u>(1,689,251)</u>	-	-	<u>(1,689,251)</u>
Net maturity	<u>4,506,078</u>	-	-	<u>4,506,078</u>

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Year ended 30 June 2013	< 6 months \$	6-12 months \$	1-5 years \$	Total \$
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>
Financial Liabilities				
Trade & other payables	(2,243,783)	-	-	(2,243,783)
Net maturity	<u>(9,588,448)</u>	-	-	<u>(9,588,448)</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 2014

20. 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:

	2014 \$	2013 \$
Within one year	169,889	140,889
After one year but not more than five years	559,758	495,135
Total minimum lease payments	729,647	636,024

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

21. AUDITORS' REMUNERATION

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

	2014 \$	2013 \$
<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	73,000	65,190
<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	41,038	42,595
Other services in relation to the entity and any other entity in the consolidated Group		
- Taxation advice	30,141	33,716
	144,179	141,501

AVITA MEDICAL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2014

22. PARENT ENTITY INFORMATION

Information relating to Avita Medical Limited:	2014 \$	2013 \$
Current assets	4,070,978	8,837,470
Total assets	4,070,978	8,837,470
Current liabilities	189,078	285,065
Total liabilities	189,078	285,065
Net assets	3,881,900	8,552,405
Issued capital	111,441,930	111,441,930
Accumulated losses	(108,221,032)	(105,855,855)
Share option reserves	661,002	2,966,330
Total shareholders' equity	3,881,900	8,552,405
Loss of parent entity	3,809,979	7,576,116
Total comprehensive loss of the parent entity	3,809,979	7,576,116
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 \$1,600,000 (2013: \$7,971,000) of intercompany loans to subsidiaries. The impairment charges are eliminated on consolidation.

23. DEED OF CROSS GUARANTEE

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

Avita Medical Limited
 C3 Operations Pty Ltd
 Visiomed Group 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 2014

23. DEED OF CROSS GUARANTEE (continued)

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

Continuing operations	2014 \$	2013 \$
Sale of goods	2,188,489	2,256,248
Other revenue	182,720	473,512
Revenue	2,371,209	2,729,760
Cost of sales	(590,332)	(592,279)
Gross Profit	1,780,877	2,137,481
Other income	53,506	37,340
Operating costs		
Administrative expenses	(2,101,161)	(2,151,746)
Research and development expenses	(3,564,498)	(160,569)
Sales and marketing expenses	(889,161)	(873,314)
Finance costs	(25,578)	-
Impairment of intercompany loans	-	(7,971,000)
Amortisation of intellectual property	-	(73,000)
Loss from continuing operations before income tax	(4,746,015)	(9,054,808)
Income tax benefit	1,517,058	129,315
Total comprehensive loss for the period	(3,228,957)	(8,925,493)

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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2014

23. DEED OF CROSS GUARANTEE (continued)

	2014 \$	2013 \$
Current Assets		
Cash and cash equivalents	2,729,790	9,047,079
Trade and other receivables	2,007,750	669,452
Prepayments	73,161	66,550
Inventories	414,129	191,860
Total Current Assets	<u>5,224,830</u>	<u>9,974,941</u>
Non-Current Assets		
Plant & equipment	7,320	7,914
Intangible assets	-	-
Intercompany loans	-	96,616
Total Non-Current Assets	<u>7,320</u>	<u>104,530</u>
TOTAL ASSETS	<u>5,232,150</u>	<u>10,079,471</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	411,547	334,516
Provisions	55,912	147,220
Total Current Liabilities	<u>467,459</u>	<u>481,736</u>
Non-Current Liabilities		
Intercompany loans	95,260	-
Total Non-Current Liabilities	<u>95,260</u>	<u>-</u>
TOTAL LIABILITIES	<u>562,719</u>	<u>481,736</u>
NET ASSETS	<u>4,669,431</u>	<u>9,597,735</u>
EQUITY		
Contributed equity	111,441,930	111,441,930
Accumulated losses	(107,461,066)	(104,860,092)
Reserves	688,567	3,015,897
TOTAL EQUITY	<u>4,669,431</u>	<u>9,597,735</u>

24. EVENTS AFTER THE REPORTING DATE

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