

AROA BIOSURGERY FY22 RESULTS AND FY23 OUTLOOK

HIGHLIGHTS

FY22 Results

- Audited full year product revenue of NZ\$39.2 million, reflecting an 81% increase on FY21. On a constant currency¹ basis, product revenue was NZ\$37.7 million (an increase of 84% on FY21), exceeding the Company's upgraded constant currency guidance of NZ\$34-37 million. Total revenue (inclusive of project fees) was NZ\$39.7 million, representing growth of 78%.
- Product gross margin of 76% (75% constant currency), representing an 8% increase on FY21.
- Result delivered despite COVID-19 continuing to impact access to hospitals and procedure volumes in the US.
- Normalised EBITDA loss for FY22 was NZ\$1.5 million, compared to a loss of NZ\$3.3 million in FY21. Normalised loss before income tax was \$5.2 million (NZ GAAP Loss before income tax of NZ\$8.3 million) compared to NZ\$7.5 million in FY21 (NZ GAAP Loss before income tax of NZ\$19.1 million).
- Strong cash balance of NZ\$56.1 million with no debt.

FY23 Outlook

- Product revenue guidance of NZ\$51-55 million, to deliver 30-40% growth on FY22.
- Product gross margins are expected to improve to 77% due to increased sales of higher margin Myriad™ products and improving manufacturing efficiencies (despite increased indirect overheads from the new manufacturing facility).
- AROA is continuing to invest in its US salesforce and product development to drive growth in FY23 and beyond. As a result, it is forecasting an EBITDA loss for FY23.
- Given the dynamic and evolving impact of COVID-19, guidance is subject to no material decline in US medical procedure numbers or sustained disruption to AROA's manufacturing or transportation activities and TELA Bio, Inc. delivering on its revenue guidance of US\$40-45 million in CY22.² It also assumes an average NZD/USD exchange rate of 0.70.
- AROA will host a webinar today at 11.30am AEST to discuss the results. [Click here to register.](#)

Soft tissue regeneration company Aroa Biosurgery Limited (ASX:ARX, 'AROA' or the 'Company') is pleased to release its audited full year results for the period ended 31 March 2022.

¹ Constant currency removes the impact of exchange rate movements. This approach is used to assess the AROA group's underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the USD. The NZD/USD exchange rate of 0.72 has been used in the constant currency analysis for FY21/FY22, representing the AROA group's budget rate for FY22. All references in this announcement to '**constant currency**' or '**CC**' are as set out in this footnote.

² Refer to TELA Bio, Inc.'s news release dated 10 May 2022.

FY22 Results

Normalized Profit or Loss¹

	Reported 2022 NZ\$000	Reported 2021 NZ\$000	Reported YoY %	CC 2022 NZ\$000	CC YOY %
Product revenue	39,154	21,575	81	37,731	84
Other revenue	526	767	(31)	507	(30)
Total revenue	39,680	22,342	78	38,238	80
Gross profit	30,303	15,524	95	28,861	100
Product gross margin %	76%	68%	800 bps	75%	800 bps
Other income	1,116	2,682	(58)	1,116	(58)
Normalised selling and administrative expenses ²	(27,693)	(18,142)	53	(27,032)	53
Research and development	(8,354)	(6,425)	30	(8,354)	30
Total normalised operating expenses	(36,047)	(24,567)	47	(35,386)	47
Normalised EBIT	(4,628)	(6,361)	27	(5,409)	22
<i>Add back: Depreciation & amortisation</i>	3,131	3,071	2	3,131	2
Normalised EBITDA	(1,497)	(3,290)	55	(2,278)	41
Net finance expenses	(618)	(1,111)	(44)	(749)	(57)
Normalised loss before income tax	(5,246)	(7,472)	(30)	(6,158)	(29)

- The normalised profit or loss is non-conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the AROA Group's ("Group") comparative financial performance without any distortion from NZ GAAP accounting treatment specific to one-off, non-cash fair value adjustment of pre-offer shares issued in February and May 2020; and one-off transaction costs associated with AROA's successful initial public offering ("IPO") on the ASX in July 2020 and capital raise in August 2021. The impact of non-cash share-based payments expense has also been removed from the Profit or Loss. This approach is used by Management and the Board to assess the Group's comparative financial performance.
- These items have been normalised by the amounts outlined within the section headed 'Reconciliation of Normalised Profit or Loss to NZ GAAP Profit or Loss' at the end of this announcement.

Product Revenue

Product revenue for the year was NZ\$39.2 million (NZ\$37.7 million in constant currency) representing growth of 81% on the previous year (84% in constant currency). Myriad™, OviTex™³ and OviTex PRS products were the major contributors to the growth whereas Endoform™ grew modestly as expected. Endoform and Myriad sales contributed 27% and 10% respectively to total product sales, with sales of OviTex and OviTex PRS contributing to the balance.

Other Revenue

Other revenue represents project fees income received for product development projects undertaken with TELA Bio, Inc. ("TELA Bio"). TELA Bio is AROA's sales and distribution partner for hernia and breast reconstruction products.

³ OviTex is a trademark of TELA Bio, Inc.

Gross Margin %

Product gross margin % increased by 8% to 76% (75% in constant currency) in the current year, as a result of increasing economies of scale, manufacturing efficiency improvements and the growth in sales of high margin Myriad products.

Other Income

Other income represents government grants, subsidies, rent and other sundry income. In the current year, the Group recognised a tax credit of NZ\$1.0 million under the Research & Development Tax Incentive program, which is expected to be received during FY23. In FY21, the Group received NZ and US Government wage subsidies of NZ\$1.3 million and Government research & development grants of NZ\$1.2 million.

Normalised Operating Expenses

Selling and administrative expenses were NZ\$27.7 million, representing a 53% increase (53% in constant currency) from NZ\$18.1 million in FY21. This reflects the increased investment into the Company's US-based sales operations.

Research and development expenses increased (from NZ\$6.4 million in FY21) to NZ\$8.4 million, representing a 30% change (no currency impact). This was largely attributable to the increased investment into the Company's Dead Space Management platform.

Cashflows

Despite a decrease in the Normalised EBITDA loss in FY22 compared to FY21, net cash outflow from operating activities in FY22 was NZ\$11.5 million compared to NZ\$5.0 million in FY21. This increase in net cash outflow from operations is primarily the result of the timing of OviTex and OviTex PRS sales during the final quarter and the respective receipts of those sales falling in Q1 FY23. Investment in working capital also increased during the current year as a result of the year-on-year sales growth.

Cash on hand and term deposits increased to NZ\$56.2 million as at 31 March 2022 (from NZ\$35.4 million as at 31 March 2021), resulting from the Company's successful capital raise in August 2021 which netted NZ\$47.7 million. Repayment of borrowings totalled NZ\$10.8 million (inclusive of NZ\$1.3 million in interest) during the year, leaving the Company debt-free at the end of FY22. Purchases of property, plant and equipment of NZ\$4.5 million compared to NZ\$1.3 million in FY21, reflects the investment during the current year into expanding the Company's manufacturing facility.

FY23 Outlook

AROA will be focused on continuing to build out its US commercial operations to drive revenue growth and take advantage of the opportunities presented by its expanded product portfolio.

The Company expects to deliver strong growth in FY23, with forecasted product revenue of NZ\$51-55 million. This reflects a 30-40% increase on FY22.

AROA anticipates that its dedicated US field sales team and focused attention on the hospital operating room setting will drive Myriad growth. Sales to TELA Bio are expected to continue to grow, as it builds momentum with a reported 40% increase in TELA Bio's revenue for Q1 CY22 over the previous corresponding period.⁴

The Company expects product gross margins to improve to 77% due to increased sales of higher margin Myriad products and improving manufacturing efficiencies as per above (despite increased indirect

⁴ Refer to TELA Bio's news release dated 10 May 2022.

overheads from the new manufacturing facility).

AROA is continuing to invest into its US salesforce and accelerating its new products pipeline to drive growth in FY23 and beyond. As a result, the Company is forecasting an EBITDA loss for FY23.

Given the dynamic and evolving impact of COVID-19, this guidance is subject to there no material decline in US medical procedure numbers or sustained disruption to AROA's manufacturing or transportation activities and TELA Bio delivering on its revenue guidance⁴ of US\$40-45 million in CY22 (representing 36-53% growth on CY21). It also assumes an average NZD/USD exchange rate of 0.70.

Commenting on AROA's outlook for FY23, Managing Director and CEO Brian Ward said: "2022 was a year of strategic realignment to accelerate our growth and we are very pleased with the results delivered."

"As I've previously stated, we consider AROA to be well placed for significant growth in FY23 and beyond."

"Our investment in our US sales force has delivered a strong pipeline of clinical evaluations, value committee approvals and hospital conversions for Myriad. We expect to continue to build momentum and expand this team over the next 12 months."

"We are also very encouraged by TELA Bio's strong recent results and CY22 revenue projections."

"AROA's product range is designed to offer specific solutions for different wound types and stages of healing across the full continuum of patient care. We are continuing to extend our body of clinical evidence and demonstrate that our individual products can improve healing outcomes. We are also increasingly seeing healthcare providers use our products in combination to optimise healing outcomes. By purposefully pricing our products to improve patient access, we are well placed to drive increased adoption and deliver on our mission to unlock regenerative healing for *everybody*."

Investor Webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Tuesday 24 May 2022 at 11.30am AEST, to discuss the results released to the ASX this morning.

Investors can register for the webinar via the following link:

https://us02web.zoom.us/webinar/register/WN_Zg8LIFYQSwmDcHkzl-KsZQ

Investors can submit questions prior to the webinar to shinsley@aroabio.com or do so via the Q&A function on Zoom.

Reconciliation of Normalised Profit or Loss to NZ GAAP Profit or Loss

Reconciliation of Normalised Profit or Loss to NZ GAAP Profit or Loss

	Reported 2022 NZ\$000	Reported 2021 NZ\$000
Normalised loss before income tax	(5,246)	(7,472)
Share based payments	(2,965)	(2,010)
Transaction costs	(50)	(1,607)
Other losses	-	(8,013)
Loss before income tax (NZ GAAP)	(8,261)	(19,102)

Share Based Payments

Share based payments of NZ\$3.0 million relate to the vesting of share options issued to employees and Directors of the Company on IPO and to the vesting of "one-off" grants to certain employees, including the US based sales team.

Transaction Costs

Transaction costs of NZ\$0.1 million in the current year relate to the costs associated with the capital raise in August 2021. Transaction costs in FY21 of NZ\$1.6 million relate to the IPO on ASX in July 2020 and include lead manager fees, legal fees, accounting and audit fees, ASX listing fees and road show expenses.

Other Losses

Other losses of NZ\$8.0 million in FY21 are a non-cash, one-off expense attributable to the fair value adjustment of pre-offer shares issued in February and May 2020, which were classified as financial liabilities as opposed to equity in accordance with NZ IAS 32. During FY21, these financial liabilities at fair value through profit or loss were fully reclassified as equity, following the successful IPO.

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Authorised on behalf of the Aroa Biosurgery Board of Directors by Brian Ward, CEO.

Contacts

Investor

Simon Hinsley
Investor Relations
shinsley@aroabio.com
+ 61 401 809 653

Media

Australia
Matthew Wright
matt@nwrcommunications.com.au
+61 451 896 420

New Zealand
Piet De Jong
piet.dejong@baldwinboyle.com
+64 21 812 766



About AROA™

Aroa Biosurgery is a soft-tissue regeneration company committed to 'unlocking regenerative healing for everybody'. We develop, manufacture, sell and distribute medical and surgical products to improve healing in complex wounds and soft tissue reconstruction. Our products are developed from a proprietary AROA ECM™ technology platform, a novel extracellular matrix biomaterial derived from ovine (sheep) forestomach. AROA's products have been used in more than four and a half million procedures to date, with distribution into our key market of the United States via our direct sales force and our partner TELA Bio. Founded in 2008, AROA is headquartered in Auckland, New Zealand and is listed on the Australian Securities Exchange (ASX:ARX). www.aroabio.com

About Myriad™

Myriad Matrix™ is an extracellular matrix graft, composed of AROA ECM and designed for soft tissue reconstruction and complex wounds. Myriad Morcells™ is a powder format of Myriad Matrix that easily conforms to optimize contact with irregular wound beds.

About Endoform™

Endoform™ products are unique extracellular matrix products, composed of AROA ECM, for the management of acute and chronic wounds.

About Symphony™

Symphony is a new product which has been developed off the strength of AROA ECM. It is applied as a graft and is surgically fixed at the margins. It is designed to support healing during the proliferative phase to reduce time to wound closure, particularly in patients whose healing is severely impaired or compromised due to disease.

About AROA's dead space management platform technology

This is a new system which AROA is developing, designed to close tissue cavities at a surgical site created by surgical dissection or tissue removal. It is comprised of a specially designed AROA ECM implant that is coupled to an external single-use negative pressure pump. When the product is deployed, the tissue surfaces are drawn together, held in place and tissue fluids are carried by the vacuum to an external fluid collection bag. AROA intends to develop and launch a new class of products utilising this new platform technology.

FINANCIAL REPORT TO 31 MARCH 2022

APPENDIX 4E – ASX Listing Rule 4.2A

Aroa Biosurgery Limited
ARBN 638 867 473

1. Details of the reporting period and the previous corresponding period

Reporting period	31 March 2022
Previous corresponding period	31 March 2021

2. Results for announcement to the market

			2022 NZ\$000	2021 NZ\$000
2.1 Revenue – Product sales	Up	81%	39,154	21,575
Revenue – Other	Down	31%	526	767
2.2 Loss before tax from ordinary activities	Down	57%	(8,261)	(19,102)
Normalised* loss before tax from ordinary activities	Down	30%	(5,246)	(7,472)
2.3 Loss after tax from ordinary activities attributable to members	Down	56%	(8,386)	(19,209)
2.4 Dividends			Nil	Nil
2.5 Record date for dividend entitlement			Not applicable	Not applicable

2.6 Brief explanation of figures 2.1 to 2.3:

Refer to the commentary included within our presentation of results with the consolidated financial statements.

* The normalised profit or loss is non-conforming financial information and has been provided to assist users of financial information to better understand and assess the comparative financial performance without any distortion from NZ GAAP accounting treatment specific to one-off, non-cash fair value adjustment of pre-offer shares issued in February and May 2020; and one-off transaction costs associated with initial public offering (“IPO”) on the ASX in July 2020 and capital raise in August 2021. The impact of non-cash share-based payments expense has also been removed from the Profit or loss.

3. Net tangible assets

	2022	2021
Net tangible assets* (NZ\$000)	77,889	34,458
Total number of securities on issue**	342,461,133	300,726,414
Net tangible assets per security (NZ\$)	0.23	0.11

* Net tangibles assets exclude all Intangible assets and Right of use assets, as reported within the Consolidated Statement of Financial Position

**Total number of securities on issue excludes all share options on issue.

4. Details of entities over which control has been gained or lost during the period: Not applicable

5. Details of dividends paid: Not applicable

6. Details of dividend reinvestment plans: Not applicable

7. Details of associates and joint venture entities: Not applicable

FINANCIAL REPORT TO 31 MARCH 2022

APPENDIX 4E – ASX Listing Rule 4.2A

(continued)

8. **Set of accounting standards used in preparation of the consolidated financial statements:** NZ equivalent to International Financial Reporting Standards

This report is based on the consolidated financial statements for the year ended 31 March 2022, which have been audited by BDO Auckland (the Company's auditor) with the Independent Auditor's Report included in the 31 March 2022 consolidated financial statements. The report is not subject to an audit report that includes a modified opinion, emphasis of matter or other matter paragraph.

This report should be read in conjunction with the consolidated financial statements for the year ended 31 March 2022 and any public announcements made by Aroa Biosurgery Limited during the reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

Dated 23 May 2022



James Agnew
Company Secretary

AROA BIOSURGERY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2022

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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AROA BIOSURGERY LIMITED**

Opinion

We have audited the consolidated financial statements of Aroa Biosurgery Limited (“the Company”) and its subsidiaries (together, “the Group”), which comprise the consolidated statement of financial position as at 31 March 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (“ISAs (NZ)”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company or any of its subsidiaries.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue - TELA Bio revenue share

Key Audit Matter

The Group’s largest customer is TELA Bio who is the Group’s USA sales and distribution partner for abdominal wall reconstruction and hernia repair and breast reconstruction in North America and Europe. The contract with TELA Bio entitles the Group to an agreed percentage of TELA Bio’s net sales. This revenue is considered to be variable consideration (“revenue share”). The consideration is variable since the quantum of TELA Bio’s

How The Matter Was Addressed in Our Audit

Our audit procedures comprised the following:

- We have obtained and evaluated Management’s TELA Bio revenue share accrual assessment as at 31 March 2022.
- We have obtained Management’s calculations prepared for the revenue share accrual and evaluated the reasonableness of key inputs and assumptions. The key inputs included sales history, expiry dates of inventory held, and average selling prices achieved by TELA

Recognition of revenue - TELA Bio revenue share

Key Audit Matter

inventory that is eventually sold and the price that it is sold at are uncertain.

Variable consideration recognised is estimated by using the expected value method. The estimation is based on information that is reasonably available to the Group which incorporates key factors including sales history, expiry date of inventory held, and average selling prices achieved by TELA Bio. The amount of variable consideration is only recorded by the Group to the extent that it is highly probable that a significant reversal in the amount of the cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

We consider this to be a key audit matter because of the judgement involved in determining the variable consideration and the quantum of the accrued revenue of \$4.770m.

Refer to note 3 revenue and segment information and note 11 trade and other receivables of the consolidated financial statements.

Goodwill impairment test

Key Audit Matter

The Group has recognised goodwill on a historical acquisition. The goodwill balance of \$5.538m at 31 March 2022 is subject to an annual impairment test in accordance with NZ IAS 36 - *Impairment of Assets*.

The Directors performed their impairment test, by considering the recoverable amount of the Group's goodwill using a value in use calculation. This calculation is complex and subject to key inputs and assumptions such as discount rates and future cash flows, which inherently include a degree of estimation uncertainty and are prone to potential bias and inconsistent application and therefore considered to be a key audit matter

Refer to note 14 intangible assets of the consolidated financial statements.

How The Matter Was Addressed in Our Audit

- Bio. We considered an independent research paper which covered TELA Bio.
- We have obtained confirmation from TELA Bio, confirming the actual revenue share for their sales made in the year ended 31 March 2022.
 - We have compared the key inputs and assumptions with those used by Management last year and considered if these are indicative of Management bias.
 - We considered if the amount of variable consideration estimated is only recorded by the Group to the extent that it is highly probable that a significant reversal in the amount of the cumulative revenue recognised will not occur.
 - We have reviewed the disclosures in note 3 and 11 to the consolidated financial statements, including the revenue recognition policy, to the requirements of the accounting standard.

How The Matter Was Addressed in Our Audit

- Our audit procedures comprised the following:
- We have obtained and evaluated Management's goodwill impairment assessment as at 31 March 2022.
 - We obtained Management's value in use calculations prepared for the Cash Generating Unit ('CGU'). We evaluated and challenged the key inputs and assumptions. The key inputs included revenue growth rates, terminal growth rate, gross margins and discount rate.
 - We engaged our internal valuation experts to review the mechanics of the value in use calculation against the valuation methodology, and the discount rate used.
 - We reviewed Management's sensitivity analysis performed on key inputs and assumptions to determine the extent to which any changes would affect the recoverable amount of the assets. We also

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Goodwill impairment test

considered and tested alternate sensitivities.

- We compared the carrying value of the CGU to the recoverable amount determined by the impairment test to identify any impairment losses.
- We have reviewed the disclosures in note 14 to the consolidated financial statements, including impairment and sensitivity analysis, to the requirements of the accounting standard.

Accounting for share based payment arrangements

Key Audit Matter

During the year, the Group issued options to certain employees, including Directors, under the share based payment arrangements. The share based payment arrangements included both market based and non-market based vesting conditions. In determining the value of the new arrangements, the Group used the services of a third-party valuation specialist.

The Group also had existing share based payment arrangements that were exercised during the year and one arrangement where the vesting conditions were modified which altered the estimate of the number of options expected to vest.

The share based payments expense recorded for the year ended 31 March 2022 is \$2.965m. Details of these share based payment arrangements are disclosed in note 5 employee benefit expenses and note 21 share based payments reserve of the consolidated financial statements.

There is judgement involved in determining the value of share based payment arrangements and subsequent recording of the fair value as an expense over the estimated vesting period. As a result and given the magnitude of the expense in the current year, the audit of the share based payment arrangements was considered a key audit matter.

How The Matter Was Addressed in Our Audit

Our audit procedures comprised the following:

- We have obtained and evaluated Management's Treatment of share based payment arrangements Assessment as at 31 March 2022.
- We agreed the terms of the share based payment arrangements issued during the year to contracts.
- We have assessed, in conjunction with our valuation specialists, the appropriateness of the valuation methodology used by management's specialist and the key input assumptions such as volatility rates, expected life and probability of achieving the market-based performance condition.
- We have assessed the Group's judgements in relation to the probability of achieving non-market based vesting conditions including those related to the modified option.
- We recalculated the share based payments expense recorded in the Statement of Profit or Loss and Other Comprehensive Income over the relevant vesting periods
- We reviewed the disclosures in note 5 and 21 in relation to the share based payment arrangements.

Other Information

The directors are responsible for the other information. The other information comprises the Aroa Biosurgery FY22 Results and FY23 Outlook - Commentary, and Appendix 4E - ASX Listing Rule 4.2A (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>.

This description forms part of our auditor's report.

Who we Report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Chris Neves.

BDO Auckland

BDO Auckland
Auckland
New Zealand
23 May 2022

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

	Notes	2022 \$000	2021 \$000
Revenue	3	39,680	22,342
Cost of sales		(9,377)	(6,818)
Gross profit		30,303	15,524
Other income	3	1,116	2,682
Selling and administrative expenses		(30,708)	(21,759)
Research and development expenses		(8,354)	(6,425)
Other losses	7	-	(8,013)
Operating loss before net financing costs	4,5	(7,643)	(17,991)
Finance income	6	535	800
Finance expenses	6	(1,153)	(1,911)
Net finance expenses		(618)	(1,111)
Loss before income tax		(8,261)	(19,102)
Income tax expense	8	(125)	(107)
Loss for the year attributable to shareholders		(8,386)	(19,209)
Other comprehensive income			
Items that will or maybe reclassified to profit or loss			
Exchange (loss)/income arising on translation of foreign operations		(385)	332
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	10	(345)	615
Total other comprehensive income		(730)	947
Total comprehensive loss for the year attributable to shareholders		(9,116)	(18,262)
Earnings per share during the year:			
Basic earnings per share (cents)	22	(2.45)	(6.39)
Diluted earnings per share (cents)	22	(2.45)	(6.39)

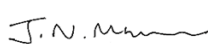
The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	Notes	2022 \$000	2021 \$000
Current assets			
Cash and cash equivalents	9	6,165	15,381
Term deposits	9	50,000	20,000
Derivative assets	25	-	31
Trade and other receivables	11	18,494	8,106
Inventories	12	3,981	3,608
Tax receivable		-	39
Financial assets at fair value through other comprehensive income	10	1,239	1,584
Total current assets		79,879	48,749
Non-current assets			
Property, plant and equipment	13	10,023	6,707
Prepayments	11	149	171
Right of use assets	18	5,333	5,951
Intangible assets	14	17,269	18,077
Total non-current assets		32,774	30,906
Total assets		112,653	79,655
Current liabilities			
Trade and other payables	15	3,089	2,744
Employee benefits	16	2,982	2,030
Interest-bearing loans and borrowings	17	-	9,952
Lease liabilities	19	589	566
Tax payables		51	-
Total current liabilities		6,711	15,292
Non-current Liabilities			
Provisions		164	161
Lease liabilities	19	5,287	5,716
Total non-current liabilities		5,451	5,877
Total liabilities		12,162	21,169
Net assets		100,491	58,486
Equity			
Share capital	20	145,755	97,316
Share based payment reserve	21	4,812	2,130
Foreign currency translation reserve		(187)	198
Equity investment reserve		1,239	1,584
Accumulated losses		(51,128)	(42,742)
Total equity		100,491	58,486

On behalf of the Board
23 May 2022


Jim McLean - Chairman


Brian Ward – CEO

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 31 March 2022

	Notes	Share Capital \$000	Accumulated Losses \$000	Foreign Currency Translation Reserve \$000	Equity Investment Reserve \$000	Share Based Payment Reserve \$000	Total Equity \$000
Balance as at 1 April 2021		97,316	(42,742)	198	1,584	2,130	58,486
Comprehensive income							
Loss for the year		-	(8,386)	-	-	-	(8,386)
Other comprehensive income for the year		-	-	(385)	(345)	-	(730)
Total comprehensive income for the year		-	(8,386)	(385)	(345)	-	(9,116)
Transactions with shareholders							
Issue of equity securities	20	47,740	-	-	-	-	47,740
Employee shares exercised	20/21	457	-	-	-	(283)	174
Employee shares forfeited	21	-	-	-	-	(162)	(162)
Share based payments	21	242	-	-	-	3,127	3,369
Total transactions with shareholders		48,439	-	-	-	2,682	51,121
Balance as at 31 March 2022		145,755	(51,128)	(187)	1,239	4,812	100,491
Balance as at 1 April 2020		29,353	(23,533)	(134)	969	951	7,606
Comprehensive income							
Loss for the year		-	(19,209)	-	-	-	(19,209)
Other comprehensive income for the year		-	-	332	615	-	947
Total comprehensive income for the year		-	(19,209)	332	615	-	(18,262)
Transactions with shareholders							
Issue of Series C3 preference shares		33,833	-	-	-	-	33,833
Issue of equity securities	20	30,554	-	-	-	-	30,554
Employee shares exercised	20	2,601	-	-	-	(807)	1,794
Employee shares forfeited	21	-	-	-	-	(25)	(25)
Share based payments	21	975	-	-	-	2,011	2,986
Total transactions with shareholders		67,963	-	-	-	1,179	69,142
Balance as at 31 March 2021		97,316	(42,742)	198	1,584	2,130	58,486

The above consolidated statement of movements in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2022

	Note	2022 \$000	2021 \$000
Cash flows from operating activities			
Cash receipts from sales revenue		29,376	21,044
Cash receipts from license fees, project fees, and grant income		1,654	2,552
Cash paid to suppliers and employees		(41,329)	(28,115)
Interest received		136	134
Interest paid		(1,340)	(853)
Income tax received		-	231
Income tax paid		(19)	-
Net cash outflow from operating activities	27a	(11,522)	(5,007)
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(4,455)	(1,265)
Purchase of intangible assets	14	(416)	(235)
Term deposits	9	(30,000)	(20,000)
Net cash outflow from investing activities		(34,871)	(21,500)
Cash flows from financing activities			
Proceeds from issue of shares	27b	50,324	34,951
Proceeds from financial liabilities at FVTPL	27b	-	19,804
Transaction costs related to issues of equity securities or convertible debt securities		(2,214)	(4,329)
Repayment of borrowings/deferred consideration		(9,514)	(12,596)
Lease liability – Principal payments		(575)	(322)
Lease liability – Interest payments		(388)	(409)
Net cash inflow from financing activities	27b	37,633	37,099
Net (decrease)/increase in cash and cash equivalents		(8,760)	10,592
Effect of exchange rate fluctuations on cash and cash equivalents		(456)	939
Cash and cash equivalents at beginning of year		15,381	3,850
Cash and cash equivalents at end of year	9	6,165	15,381

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. Corporate information

Aroa Biosurgery Limited ("the Company") together with its subsidiaries (the "Group") is a leading regenerative medicine company which develops, manufactures and distributes medical devices for wound and tissue repair using its proprietary extracellular matrix (ECM) technology.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 64 Richard Pearse Drive, Airport Oaks, Auckland.

Aroa Biosurgery Incorporated is a subsidiary of Aroa Biosurgery Limited and is incorporated and domiciled in the United States. The address of its registered office is 7220 Trade St, Suite 306, San Diego, California 92121.

The consolidated financial statements of Aroa Biosurgery Limited and its subsidiaries (the "Group") for the year ended 31 March 2022 comprise the Company and its two subsidiaries, Aroa Biosurgery Incorporated and Mesynthes Nominee Limited. All subsidiary entities have a balance date of 31 March.

Equity holding	Principal Activity	Place of Business	2022	2021
			%	%
Aroa Biosurgery Incorporated	Sales & Distribution	US	100	100
Mesynthes Nominee Limited	Nominee Shareholder	NZ	100	100

The consolidated financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. These consolidated financial statements were authorised for issue by the Board of Directors on 23 May 2022.

2. Summary of significant accounting policies

Statement of compliance and basis of preparation

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, as appropriate for profit orientated entities. The consolidated financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following item (refer to individual accounting policies for details):

- Financial assets at fair value through other comprehensive income

Functional and presentation currency

The consolidated financial statements are presented in New Zealand dollars (\$) which is the Company's functional and Group's presentation currency. All financial information is presented in New Zealand dollars rounded to the nearest thousands, except where otherwise indicated.

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Significant estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Estimates and judgements were made in respect of the value of development expenditure capitalised (refer to Note 4), the likely term of leased premises, which impacts leasehold improvements assets and right of use assets capitalised (refer to Notes 13 and 18), TELA Bio Incorporated ("TELA Bio") accrued revenue (refer to Notes 3 and 11), the value of share-based payments (refer to Note 21), and the impairment of intangible assets (refer to Note 14).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

2. Summary of significant accounting policies (continued)

Use of estimates and judgements (Continued)

As a result of the ongoing COVID-19 pandemic, management assessed its impact on financial statement areas as outlined below.

- Going concern: The Directors have concluded that the Company is a going concern. Refer below.
- Inventory: Management considers any extra risk caused by COVID-19 as of reporting date is not material given the average remaining shelf life for inventories on hand being significantly more than 12 months and a strong recovery in sales activities noted in the year. Refer to Note 12.
- Investments: The Group's financial assets include listed equities. Management is satisfied that there is no impairment to the value as of reporting date. Refer to Note 10.
- Intangible assets: The Group measured the recoverable amounts of assets by assessing the recoverable amount based on value in use calculations for goodwill. No impairment was noted. Refer to Note 14.

Going concern

The Group posted a net loss before tax of \$8,261,000 for the year (2021: loss before tax of \$19,102,000). The Group posted total operating cash outflow of \$11,522,000 (2021: outflow of \$5,007,000).

The Directors have continued to apply the going concern assumption as the basis of the preparation of the consolidated financial statements.

In reaching their conclusion that the going concern assumption is appropriate, the Directors have considered the ability to achieve financial performance and cash flow forecasts prepared by management, and the sufficiency of the cash on hand as at the reporting date.

In addition, management considers that the impact of COVID-19 pandemic does not cast significant doubt on the Group's ability to continue as a going concern. This is in line with the product revenue recovering strongly, in excess of management's internal expectations, in the reporting period. Management is not aware of any other event or condition that may cast significant doubt on its going concern assumptions.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at the reporting date and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Changes in accounting policies

No new standards have been adopted in the annual financial statements for the year ended 31 March 2022.

New standards, interpretations and amendments not yet effective

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The Group does not expect these amendments issued by the IASB, but not yet effective, to have a material impact on its consolidated financial statements when applied in the future.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

3. Revenue and segment information

The Group is in the business of developing, manufacturing and selling soft tissue repair products. Revenue from contracts with customers is recognised when performance obligations pursuant to that contract are satisfied by the Group.

The Group has identified the following main categories of revenue:

Sales of goods

The Group's revenue primarily consists of the sale of its products. Revenue is recorded when the customer takes possession of the product. All contracts with customers are standardised and satisfy the criteria of transaction approval, identification of each party's rights, payment terms, commercial substance, and probable collection based on the customer's ability and intention to pay. Revenue is recognised at a point in time when control over the product transfers to the customer, which is assessed to be at the time of receipt of goods by the customer.

The Group also sells its products via a distributor model whereby the sales are made direct to a distributor being the customer of the Group, with the distributor permitted to resell the Aroa products to an end user. The Group has assessed these arrangements to consider that control passes to the distributor at the point the distributor takes possession of the products. The Group considers itself to be acting as principal in the sale of goods to distributors and recognise revenue on a gross basis.

All contracts with distributors are standardised and satisfy the criteria of transaction approval, identification of each party's rights, payment terms, commercial substance, and probable collection based on the customer's ability and intention to pay. Revenue is recognised at a point in time when control over the product transfers to the distributor as the customer, which is assessed to be at the time of receipt of goods by the distributor.

a. Revenue share

The Group's largest customer is TELA Bio who is the Group's sales and distribution partner for abdominal wall reconstruction and hernia repair and breast reconstruction in North America and Europe. The contract with TELA Bio entitles the Group to an agreed percentage of TELA Bio's net sales. This revenue is considered to be variable consideration ("revenue share"). The consideration is variable since the quantum of TELA Bio's inventory that is eventually sold and the price that it is sold at are uncertain.

The consideration from TELA Bio is received from a transfer price for the products shipped to TELA Bio, with the balance of the consideration received on quarterly true up to the agreed percentage based on TELA Bio's net sales. The Group estimates the true up on TELA Bio's inventory at the reporting date by using the expected value method. The estimation is based on information that is reasonably available to the Group which incorporates key factors including sales history, expiry date of inventory held and average selling prices achieved by TELA Bio. The amount of variable consideration estimated is only recorded by the Group to the extent that it is highly probable that a significant amount of the cumulative revenue recognised will be received in the future.

Project fees

Project fees received are recognised over time when the performance obligations are fulfilled pursuant to the project development agreement. Any project fees received, for which the requirements under the project agreement have not been completed, are carried as income in advance (liability) until all applicable performance obligations have been fulfilled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

3. Revenue and segment information (continued)

	2022 \$000	2021 \$000
Sales of goods (USA)	38,077	20,617
Sales of goods (Rest of the world)	1,077	958
Project fees (USA)	526	767
Total revenue	39,680	22,342
Revenue recognised point in time	39,154	21,575
Revenue recognised over time	526	767
Total revenue	39,680	22,342

Segment information

Revenues from external customers are from sales of goods and project fees as reflected above.

The Group sells its products and services to external customers who are largely located in the United States of America (the "USA") as reflected in the sales above.

For the purpose of the internal reporting provided to the chief operating decision makers, business activities, performances and any associated assets and liabilities are reviewed as a consolidated group.

Revenues of approximately \$25,336,000 (2021: \$11,811,000) are derived from a single external customer, being sales of products and services to TELA Bio, which is the Group's sales and distribution partner.

The Group held all of its non-current assets in New Zealand with an exception of the right-of-use assets of approximately \$0.1m for the leasehold property in the USA.

Other income

Other income includes research and development related grants and rent income. The Group expects to receive a tax credit payment of \$965,000 under the Research and Development Tax Incentive program. (2021: \$1.2 million under Callaghan Innovation grant). The Group received no COVID-19 related subsidies or business support measures from New Zealand and US governments during the reporting period. (2021: \$1.3 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

4. Operating loss before net financing costs

	Note	2022 \$000	2021 \$000
Operating loss before net financing costs includes the following:			
Fair value adjustments to financial liabilities at FVTPL	7	-	8,013
Transaction costs relating to issue of securities		50	1,607
Auditor's fees:			
Statutory audit		113	128
Other assurance engagements:			
Half-year review		55	54
Research and development review		-	5
Raw materials and consumables		4,269	2,865
Depreciation:	13/18		
Property, Plant & Equipment - Research and development *		369	367
Property, Plant & Equipment - Other		765	747
Right of use assets – Research and development *	18	115	84
Right of use assets – Other	18	658	658
Non-executive directors' fees	23	411	389
Insurance		817	756
Rental lease costs – low value and short-term leases		110	121
Amortisation:			
Patents	14	63	54
Customer relationships and reacquired rights	14	1,161	1,161
Write-down of inventory to net realisable value		118	70
Research and development *		7,847	5,974

* Total research & development expenditure is \$8,354,000 (2021: \$6,425,000). It includes an amount of \$515,000 (2021: \$660,000) funded by third parties outside of the Group. All research & development has been expensed in accordance with New Zealand Equivalent to International Accounting Standard 38 – Intangible Assets ('NZ IAS 38').

5. Employee benefit expenses

	Note	2022 \$000	2021 \$000
Salaries & wages (including bonuses)		24,071	16,166
Employer contributions defined contribution Superannuation scheme inclusive of tax		2,032	652
Share based payments - employee share ownership plan	21	30	96
Share based payments - share options plan	21	2,935	1,889
Total employee benefit expenses		29,068	18,803

Employee entitlements includes an amount of \$4,461,000 (2021: \$3,070,600) disclosed as part of research and development expenditures in Note 4 and includes an amount of \$173,000 (2021: \$305,000) relating to share-based payments for shares issued to the Directors as disclosed in Note 23.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

6. Net finance income/(expenses)

Finance income and finance expenses have been accrued to reporting date using the effective interest method.

	Note	2022 \$000	2021 \$000
Finance income – assets at amortised cost			
Interest received on bank balances		403	154
Foreign currency gains		132	646
Total finance income		535	800
Finance expenses – liabilities at amortised cost			
Interest expenses – borrowings		-	(23)
Interest expenses – deferred consideration		(747)	(1,478)
Interest expenses – lease liabilities	19	(403)	(406)
Finance cost – make good provision		(3)	(4)
Total finance expenses		(1,153)	(1,911)
Net finance expenses		(618)	(1,111)

Interest expenses on deferred consideration relates to the deferred consideration of \$747,000 (2021: \$1,478,000) owed to Hollister for the purchase of the Wound Care business. This balance was fully repaid in August 2021. Refer to Note 17.

7. Other losses

	2022 \$000	2021 \$000
Fair value adjustment on financial liabilities at FVTPL	-	(8,013)
Total other losses	-	(8,013)

The fair value adjustment on financial liabilities at FVTPL relates to Series C (3) Preference shares that were fully reclassified to equity upon IPO in the year ended 31 March 2021.

8. Income taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences arising on the initial recognition of goodwill; and

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

8. Income taxes (continued)

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised, such reductions are reversed when the probability of future taxable profits improves.

Income tax recognised in profit or loss and other comprehensive income

Reconciliation of income tax expense	2022 \$000	2021 \$000
Accounting loss before income tax	(8,261)	(19,102)
Income Tax @ 28%	(2,313)	(5,349)
Impact of tax rates in overseas jurisdictions	(30)	110
Expenses not deductible for tax purposes	1,141	3,225
Foreign tax credits forfeited	-	-
Income not subject to tax	(270)	-
Recognition deferred tax on temporary differences and tax losses	1,597	2,121
Tax losses not recognised in current year	-	-
Income Tax Expense	125	107

Major components of tax expense/(income)

	2022 \$000	2021 \$000
Current tax expense		
Current period	125	107
R&D tax credit	-	-
Total current tax benefit	-	-
Deferred tax (income)	-	-
Total tax expense	125	107

As at 31 March 2022, the Company had tax losses of \$9,520,482 (2021: \$14,587,081). Utilisation of these tax losses is dependent upon the Group meeting the continuity of ownership provisions of the Income Tax Act 2007 and carrying forward and offsetting the net losses against net taxable income earned in subsequent years by the Group.

The Group has elected to defer expenditure relating to research and development allowed under section DB34 of the Income Tax Act 2007. As at 31 March 2022, the Group had \$16,993,721 (2021: \$12,100,040) of expenditure available to offset against subsequent years income subject to section EJ23 of the Income Tax Act 2007.

Deferred tax assets have been recognised to the extent they offset deferred tax liabilities. No additional deferred tax has been recognised on tax losses or deferred research and development expenditure in 2022 on the basis that large tax profits are not foreseeable in the year ending 31 March 2023.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

8. Income taxes (continued)

	2022	2021
	\$000	\$000
Deferred tax assets/(liabilities) recognised:		
Accrued revenue	-	(872)
Deferred R&D expenditure	2,612	2,870
Intangible assets	(2,993)	(3,319)
Other	290	856
Provision	91	465
Unused tax losses	-	-
Total deferred tax asset/(liability) recognised	-	-
	2022	2021
	\$000	\$000
Deferred tax assets/(liabilities) unrecognised (tax effected)		
Temporary differences	1,043	531
Deferred R&D expenditure	2,146	519
Unused tax losses	2,666	4,084
Total deferred tax asset/(liability) unrecognised (tax effected)	5,855	5,134

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2022

9. Cash and cash equivalents & term deposits

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short term deposits with maturities of three months or less and bank overdrafts.

	2022	2021
	\$000	\$000
Bank balances	6,165	15,381
Total cash and cash equivalents	6,165	15,381

During the year, the Group entered into short-term deposit arrangements with the Bank of New Zealand, ASB Bank and Westpac. The term deposits not yet matured as of the reporting date had an average rate of 1.54% (2021: 1.09%) per annum with a maturity of less than 6 months from the reporting date.

	2022	2021
	\$000	\$000
Term deposits	50,000	20,000
Total term deposits	50,000	20,000

10. Financial assets at fair value through other comprehensive income

The Group classifies the following financial assets at fair value through other comprehensive income ("FVTOCI"):

- Equity investments for which the Group has elected to recognise fair value gains or losses through other comprehensive income.

Financial assets measured at FVTOCI include the following:

	2022	2021
	\$000	\$000
US listed equity securities	1,239	1,584
Total financial assets at FVTOCI	1,239	1,584

The USA listed equity securities comprise of the Group's investment in TELA Bio. In November 2019, TELA Bio listed on the NASDAQ. The Group held 74,316 (2021: 74,316 shares) shares at a value of US\$11.63 per share as at the reporting date (2021: US\$14.90).

The fair value of the listed equity securities is based on published market price (level 1 in the fair value hierarchy) and is revalued at reporting date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

11. Trade and other receivables

Trade and other receivables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less provision for impairment.

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

	2022 \$000	2021 \$000
Trade receivables	10,385	2,790
Less provision for impairment of trade receivables	(28)	(10)
Net trade receivables	10,357	2,780
Prepayments	1,325	918
Total prepayment	1,325	918
Other receivables	682	538
Other receivables - GST	235	35
Other receivables – Revenue share	4,770	3,116
Other receivables – Grant accrual	1,125	719
Total current trade and other receivables	18,494	8,106
Prepayments	149	171
Total non-current prepayments	149	171

Trade receivables amounting to \$10,357,000 (2021: \$2,780,000) are shown net of impairment losses. Provisions have been made appropriately after considering the impact of COVID-19. Trade receivables are interest free. Trade receivables of a short-term duration are not discounted. Other receivables include an accrual of tax credit income relating to the Research and Development Tax Incentive program, Callaghan Innovation grant accrual, accrued revenue share from TELA Bio which is based on the historical performance and trends. Refer to Note 3.

The non-current portion of prepayment relates to the Group's contract with Watercare for its access to water and associated investments made in its premises. The prepayment is amortised over the same period that the premises are leased by the Group.

(i) **Impaired receivables**

As at 31 March 2022, current trade receivables with a nominal value of \$28,000 (2021: \$10,000) were impaired and provided for.

(ii) **Past due but not impaired receivables**

As at 31 March 2022, trade receivables of \$3,175,000 (2021: \$135,000) were past due but not impaired. Subsequent to the reporting date, the Group received over \$2,100,000 of these past due trade receivables.

The ageing analysis of trade receivables is as follows:

	2022 \$000	2021 \$000
Current	7,212	2,645
1 - 30 days overdue	2,733	88
30 - 60 days overdue	163	49
60 - 90 days overdue	140	2
90+ days overdue	137	6
Total trade receivables	10,385	2,790

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2022

12. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs to sell. An inventory provision is created to reflect instances where the product is expected to expire before being sold.

	2022	2021
	\$000	\$000
Raw materials	1,111	539
Work in progress	1,228	1,436
Finished goods	2,047	1,913
Provision for obsolescence	(405)	(280)
Total inventories	3,981	3,608

As at 31 March 2022, inventories of \$404,518 (2021: \$279,832) value were impaired and provided for.

13. Property, plant & equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

For plant and equipment, depreciation is based on the cost of an asset less its residual value. Where significant components of individual assets that have a useful life that is different from the remainder of those assets, those components are depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Assets under construction are not subject to depreciation.

The useful life estimate for the current year of significant items of property, plant and equipment are as follows:

Leasehold improvements	10 years
Plant & equipment	4 - 11 years
Fixtures & fittings	3 - 10 years
Computer equipment & software	3 - 4 years

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
For the year ended 31 March 2022
13. Property, plant & equipment (continued)

Depreciation methods, rates and residual values are reviewed at reporting date and adjusted if appropriate.

	Lease- hold Improvements	Capital Work In Progress	Plant and Equip- ment	Fixture & Fitting	Computer Equip- ment & Software	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost						
Balance 1 April 2021	1,586	457	8,559	585	968	12,155
Additions	-	3,936	134	44	341	4,455
Transfers in/ (out)	45	(228)	42	-	141	-
Disposals	-	-	(169)	(5)	(163)	(337)
Balance 31 March 2022	1,631	4,165	8,566	624	1,287	16,273
Accumulated Depreciation						
Balance 1 April 2021	(999)	-	(3,559)	(207)	(683)	(5,448)
Depreciation	(77)	-	(809)	(54)	(194)	(1,134)
Disposals	-	-	164	5	163	332
Balance 31 March 2022	(1,076)	-	(4,204)	(256)	(714)	(6,250)
Net Book Value						
Balance 1 April 2021	587	457	5,000	378	285	6,707
Balance 31 March 2022	555	4,165	4,362	368	573	10,023

	Lease- hold Improvements	Capital Work In Progress	Plant and Equip- ment	Fixture & Fitting	Computer Equip- ment & Software	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost						
Balance 1 April 2020	1,472	807	7,506	436	698	10,919
Additions	114	458	249	149	270	1,240
Transfer in/(out)	-	(808)	808	-	-	-
Disposals	-	-	(4)	-	-	(4)
Balance 31 March 2021	1,586	457	8,559	585	968	12,155
Accumulated Depreciation						
Balance 1 April 2020	(945)	-	(2,738)	(161)	(516)	(4,360)
Depreciation	(54)	-	(825)	(46)	(167)	(1,092)
Disposal	-	-	4	-	-	4
Balance 31 March 2021	(999)	-	(3,559)	(207)	(683)	(5,448)
Net Book Value						
Balance 1 April 2020	527	807	4,768	275	182	6,559
Balance 31 March 2021	587	457	5,000	378	285	6,707

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2022

14. Intangible assets

Patents that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Trademarks have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses.

Patent and trademark costs are amortised on a straight-line basis over the useful life.

Goodwill, customer relationships and reacquired rights are attributable to the purchase of the wound care business entered into between the Group and Hollister Incorporated. Goodwill is not amortised.

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment charges are included in profit or loss. An impairment loss recognised for goodwill is not reversed.

Customer relationships and reacquired rights are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current period are as follows:

Patents and trademarks	8 - 17 years
Customer relationships	9 years
Reacquired rights	18 years

Amortisation methods, rates and residual values are reviewed at reporting date and adjusted if appropriate.

Currently no development expenditure is capitalised (refer to Note 4)

	Patents & Trademarks \$000	Customer Relationships \$000	Reacquired rights \$000	Goodwill \$000	Total \$000
Cost					
Balance 1 April 2021	938	5,563	9,772	5,538	21,811
Additions	416	-	-	-	416
Balance 31 March 2022	1,354	5,563	9,772	5,538	22,227
Accumulated Amortisation					
Balance 1 April 2021	(251)	(1,854)	(1,629)	-	(3,734)
Amortisation	(63)	(618)	(543)	-	(1,224)
Balance 31 March 2022	(314)	(2,472)	(2,172)	-	(4,958)
Net Book Value					
Balance 1 April 2021	687	3,709	8,143	5,538	18,077
Balance 31 March 2022	1,040	3,091	7,600	5,538	17,269

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

14. Intangible assets (continued)

	Patents & Trademarks \$000	Customer relationships \$000	Reacquired rights \$000	Goodwill \$000	Total \$000
Cost					
Balance 1 April 2020	703	5,563	9,772	5,538	21,576
Additions	235	-	-	-	235
Balance 31 March 2021	938	5,563	9,772	5,538	21,811
Accumulated Amortisation					
Balance 1 April 2020	(197)	(1,236)	(1,086)	-	(2,519)
Amortisation	(54)	(618)	(543)	-	(1,215)
Balance 31 March 2021	(251)	(1,854)	(1,629)	-	(3,734)
Net Book Value					
Balance 1 April 2020	506	4,327	8,686	5,538	19,057
Balance 31 March 2021	687	3,709	8,143	5,538	18,077

On 31 March 2022, the Group tested whether goodwill has suffered any impairment. For the purpose of impairment testing, goodwill is allocated to the Group's Wound Care business, at which goodwill is monitored for internal management purposes.

The recoverable amount is determined based on value in use calculations using the method of estimating future cash flows and determining a discount rate in order to calculate the present value of the cash flows.

A discounted cash flow ("DCF") model has been based on five-year forecast cash flow projections. The budget for the year ending 31 March 2023 was the basis for the first year's projections and projections for subsequent years have been based on the Group's long-term outlook. Other key assumptions are as follows:

	2022
Discount rate post tax	10.2%
Terminal growth rate	3.0%

No impairment was identified for the Wound Care business as a result of this review, nor under any reasonable possible change, in any of the key assumptions described above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

15. Trade and other payables

Trade and other payables are initially recognised at fair value plus directly attributable transaction costs and subsequently at amortised cost. Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid.

	2022 \$000	2021 \$000
Trade payables	1,333	740
Accrued expenses	1,707	1,977
Other payables	49	27
Total trade and other payables	3,089	2,744

Trade payables generally have terms of 30 days and are interest free. Trade payables of a short-term duration are not discounted.

16. Employee benefits

(i) Short term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave that is expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The obligations are presented as other payables and accruals in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

	2022 \$000	2021 \$000
Leave and wages accrual	1,452	1,000
Bonus accrual	1,530	1,030
Employee benefits	2,982	2,030

17. Interest bearing loans and borrowings

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

	2022 \$000	2021 \$000
Interest-bearing loans and borrowings	-	-
Deferred consideration	-	9,952
Total interest bearing liabilities – current	-	9,952
Interest-bearing loans and borrowings	-	-
Deferred consideration	-	-
Total interest bearing liabilities – non-current	-	-

At the reporting date, no interest bearing debt facilities remain in place.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

18. Right of use assets

	Properties \$000	Equipment \$000	Total \$000
As at 1 April 2021	5,951	-	5,951
Additions	-	-	-
Depreciation	(773)	-	(773)
Modification adjustment	155	-	155
As at 31 March 2022	5,333	-	5,333

	Properties \$000	Equipment \$000	Total \$000
Balance 1 April 2020	2,154	21	2,175
Addition	4,431	-	4,431
Depreciation	(721)	(21)	(742)
Modification adjustment	87	-	87
Balance 31 March 2021	5,951	-	5,951

19. Lease liabilities

	Properties \$000	Equipment \$000	Total \$000
As at 1 April 2021	6,282	-	6,282
Additions	-	-	-
Modification Adjustment	155	-	155
Interest expenses	403	-	403
Lease payments	(964)	-	(964)
As at 31 March 2022	5,876	-	5,876
Current	589	-	589
Non-current	5,287	-	5,287
Total	5,876	-	5,876

	Properties \$000	Equipment \$000	Total \$000
As at 1 April 2020	2,063	22	2,085
Addition	4,431	-	4,431
Modification adjustment	87	-	87
Interests	409	1	410
Lease payments	(708)	(23)	(731)
As at 31 March 2021	6,282	-	6,282
Current	566	-	566
Non-current	5,716	-	5,716
Total	6,282	-	6,282

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

19. Lease liabilities (continued)

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they are dependent on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability may also include:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

19. Lease liabilities (continued)

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Nature of leasing activities (in the capacity as lessee)

The Group leases three properties in the jurisdictions in which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation and in others to be reset periodically to market rental rates. The Group also leases certain items of plant and equipment.

As standard industry practice, the Group's property leases are subject to market rent reviews. A 1% increase in these payments would result in an additional \$10,000 outflow compared to the current period's cash outflow.

20. Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

	2022 \$000	2021 \$000
Share capital at beginning of the year	97,316	29,353
Reclassification of financial liabilities at FVTPL to equity	-	33,833
Shares issued from capital raise / IPO	47,740	30,554
Shares issued from Share Plan and Option Plan	699	3,576
Share capital at end of the year	145,755	97,316

# of shares	Ordinary shares	Total
At 1 April 2021	300,726,414	300,726,414
Issue of share capital	41,734,719	41,734,719
Balance 31 March 2022	342,461,133	342,461,133

In August 2021, the Group raised additional capital of AU\$45,435,000 net of acquisition costs and issued 40,684,305 ordinary shares. During the reporting period, an additional 1,050,414 shares were issued under the share purchase and share option scheme for \$699,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

21. Share based payments reserve

Share option plan

The Group operates a share option plan for selected employees to provide an opportunity to participate in a Share Option Plan. This is an offer of options to acquire ordinary shares. Under the terms of the plan, a parcel of options was issued to employees with an exercise price equal to the market valuation of shares at the time of offer. The grant of share options is split into three tranches vesting over a three year period.

The fair value of the options has been measured using the Revenue Ruling 59-60 and standard practice. Revenue Ruling 59-60 outlines the standard of value, approach, methods, and factors to be considered in valuing shares of the stock of the closely held entity similar to the Company. Revenue rulings are public administrative rulings by the Internal Revenue Service in the United States Department of the Treasury of the United States federal government.

The share based payments reserve comprises the fair value of the employee share purchase plan before its classifications to share capital upon settlement.

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Key valuation assumptions for the share option plan are:

Parameters	Assumptions for Share Options		
	Issued on April 2021	Issued on June 2021	Issued on August 2021
Valuation date	Grant date		
Beginning stock price	The Group's stock price was based on the publicly traded share price at the valuation date.		
Risk free rate	The risk-free rate was based on the rate of treasury securities with the same term as the estimated time for the projection period.		
Volatility	The volatility (standard deviation) was estimated based on an analysis of the historical and implied volatility for the Group's guideline publicly traded competitors.		
Dividend yield	The dividend yield was assumed to be nil.		

	2022 \$000	2021 \$000
Balance as at 1 April	2,130	951
Share based payment expense	3,127	2,011
Employee shares exercised	(283)	(807)
Forfeiture of shares	(162)	(25)
Balance as at 31 March	4,812	2,130

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

21. Share based payments reserve (continued)

a) Aroa Biosurgery share option plan (the "Option Plan") – prior to IPO

Under the Option Plan prior to IPO, the Company granted directors, key management and certain employees, options to subscribe for ordinary shares since 2017.

The opening balance of share options and the share options exercised during the prior year are prior to the 75:1 share split, which took effect upon the initial public offering in July 2020.

Summary of options granted under the Option Plan – prior to IPO

	2022 Average exercise price per option NZ\$	2022 # of options	2021 Average exercise price per option NZ\$	2021 # of options
Opening balance	0.10	3,919,575	7.42	131,695
Granted during the period	-	-	-	-
Exercised during the period	0.10	(834,375)	7.47	(79,434)
Impact of share split	-	-	-	3,867,314
Forfeited during the period	-	-	-	-
Closing balance	0.10	3,085,200	0.10	3,919,575
Vested and exercisable as at 31 March	0.10	1,896,450	0.10	1,660,200

Share options outstanding at the end of the year have the following expiry dates:

Grant date	Expiry date	Share options	Share options
		31 March 2022	31 March 2021
1 October 2018	01 October 2028	1,339,900	2,009,275
1 July 2019	01 October 2028	307,500	472,500
1 December 2019	30 November 2029	1,437,800	1,437,800
Total		3,085,200	3,919,575

b) Aroa Biosurgery share option plan (the "Option Plan") – on and after IPO

The Group offered the executive employees and directors new share options upon the listing of the Group in July 2020. Additionally, certain employees received share options on 29 September 2020.

Grants under the Option Plan comprised 8 million share options with various vesting conditions including non-market service conditions, market conditions and non-market performance conditions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

21. Share based payments reserve (continued)

Summary of options granted under the Option Plan – on and after IPO

	2022 Average exercise price per option NZ\$	2022 # of options	2021 Average exercise price per option NZ\$	2021 # of options
Opening balance	0.93	7,950,200	-	-
Granted in July 2020	-	-	0.81	6,177,000
Granted in September 2020	-	-	1.45	1,873,200
Granted in April 2021	1.23	350,000	-	-
Granted in June 2021	1.14	2,535,000	-	-
Granted in August 2021	1.24	3,525,000	-	-
Exercised during the year	0.50	(402,425)	-	-
Forfeited during the period	1.07	(1,056,200)	1.45	(100,000)
Closing balance	1.07	12,901,575	0.93	7,950,200
Vested and exercisable at 31 March	0.99	7,620,050	0.82	1,828,550

Share options – on and after IPO outstanding at the end of the year have the following expiry dates:

Grant date	Expiry date	Share options	Share options
		31 March 2022	31 March 2021
24 July 2020	23 July 2025	5,338,375	6,177,000
29 September 2020	28 September 2025	1,683,200	1,773,200
22 April 2021	31 March 2026	300,000	-
28 June 2021	28 June 2026	2,405,000	-
9 August 2021	8 August 2026	3,175,000	-
Total		12,901,575	7,950,200

22. Earnings per share

Earnings per share has been calculated based on shares and share options issued at the respective measurement dates.

	2022	2021
Numerator		
Loss for the year after tax ("N") in \$000	(8,386)	(19,209)
Denominator		
Weighted average number of ordinary shares used in basic EPS ("D1")	342,162	300,401
Effects of:		
Employee share options *	17,142	12,563
Weighted average number of shares used in diluted EPS ("D2")	342,162	300,401
	Cents	Cents
Basic earnings per share (N/D1 x 100)	(2.45)	(6.39)
Diluted earnings per share (N/D2 x 100)	(2.45)	(6.39)

* As employee share options are anti-dilutive, these were not included in the calculation of diluted earnings per share above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

23. Related parties

(i) **Subsidiaries**

Interests in subsidiaries are set out in Note 1.

(ii) **Key management compensation**

Key management includes Directors (Executive and Non-Executive) and the executive management team.

The total compensation for the executive management team is \$2,255,000 (FY21: \$3,139,000). (excluding share based payments of \$594,000 (FY2021: \$1,255,000)). The total compensation for Non-Executive Directors, excluding share based payments of \$173,000 (FY2021: \$305,000), is \$411,000 (FY2021: \$389,000).

(iii) **Year end balances**

There were no related party receivables and related party payables at year end (2021: \$nil).

(iv) **Transactions with related parties**

There were no other related party transactions during the year.

24. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and aging analysis for credit risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters whilst optimising the return on risk.

Foreign exchange risk

The Group is exposed to currency risk on sales, purchases and liabilities that are denominated in a currency other than the respective functional currency of the Company, being NZ dollars (NZD). The currency risk arises primarily with respect to sales, expenses and the deferred consideration previously due to Hollister in US dollars (USD).

The Group has certain net monetary assets/(liabilities) that are exposed to foreign currency risk. The table below summarises the Group's net exposure at reporting date to foreign currency risk, against its respective functional currency, expressed in NZ dollars.

Exposure to foreign currency risk

2022	USD \$000	AUD \$000	EUR \$000
Cash and cash equivalents	2,473	-	-
Trade and other receivables	7,367	-	-
Financial assets at FVTOCI	864	-	-
Trade and other payables	(832)	(148)	-
Interest-bearing loans and borrowings	-	-	-
Foreign currency forwards (sell foreign currency)	-	-	-
Foreign currency swaps (buy foreign currency)	-	-	-
Net exposure	9,872	(148)	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

24. Financial risk management (continued)

2021	USD \$000	AUD \$000	EUR \$000
Cash and cash equivalents	4,809	-	-
Trade and other receivables	1,457	-	46
Financial assets at FVTOCI	1,107	-	-
Trade and other payables	(861)	(55)	-
Interest-bearing loans and borrowings	(6,956)	-	-
Foreign currency forwards (sell foreign currency)	-	-	-
Foreign currency swaps (buy foreign currency)	2,300	-	-
Net exposure	1,856	(55)	46

The following significant exchange rates applied during the year:

	Average rate 2022	Average rate 2021	Closing rate 2022	Closing rate 2021
NZD/USD	0.6966	0.6711	0.6975	0.6989

Sensitivity analysis – underlying exposures

A 5% weakening/strengthening of the NZ dollar against the US dollar at 31 March 2022 would have increased/decreased equity and the net result for the period by the amounts shown below. Based on historical movements a 5% increase or decrease in the NZ dollar is considered to be a reasonable estimate. This analysis assumes that all other variables remain constant.

US dollar

The Group's net result and equity for the period would have been \$744,000 higher on a 5% weakening of the NZ dollar (2021: \$140,000 higher), and \$677,000 lower on a 5% strengthening of the NZ dollar as at 31 March 2022 (2021: \$126,000 lower).

Interest rate risk

The Group's cash flow interest rate risk arises from borrowings at floating rates and/or fixed rates as at the reporting date.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the reporting date are as follows:

	2022 \$000	2021 \$000
3 months or less	-	-
3 - 12 months	-	9,952
1-2 years	-	-
Total interest bearing loans and borrowings	-	9,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

24. Financial risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as from the Group's receivables due from customers. Only major banks are accepted for cash and deposit balances.

Payment and delivery terms are agreed to within each of the respective customers agreements. Aging of payments due from customers are monitored on a regular basis.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in Note 25. The Group does not foresee losses on trade receivables over the next 12 months. The Group does not hold any collateral as security.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments in respect of financial liabilities.

		Less than 3 months	3-12 months	Between 1 and 2 years	Over 2 years	Total contractual cash flows	Total Carrying amounts
At 31 March 2022	Note	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trade and other payables	15	3,089	-	-	-	3,089	3,089
Lease liabilities	19	164	781	884	5,709	7,538	5,876
Interest bearing liabilities	17	-	-	-	-	-	-
Total		3,253	781	884	5,709	10,627	8,965
		Less than 3 months	3-12 months	Between 1 and 2 years	Over 2 years	Total contractual cash flows	Total Carrying amounts
At 31 March 2021	Note	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trade and other payables	15	2,744	-	-	-	2,744	2,744
Lease liabilities	19	158	792	931	6,395	8,276	6,282
Interest bearing liabilities	17	205	9,952	-	-	10,157	9,952
Total		3,107	10,744	931	6,395	21,177	18,978

Capital adequacy

The Board's aim is to maintain a strong capital base to sustain future development of the business and to maintain investor and creditor confidence. The shareholder funds raised to date provide the Group a sufficient capital base to continue to grow the business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

25. Financial instruments by category

(i) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group become a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liability category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(ii) Non-derivative financial assets

The Group initially recognises financial assets at amortised cost on the date that they are originated.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, assets at amortised cost.

At 31 March 2022	Note	Assets at amortised cost \$000	Assets at Fair value through other comprehensive income \$000	Total \$000
Assets as per consolidated Statement of Financial Position				
Cash and cash equivalents	9	6,165		6,165
Term Deposit	9	50,000		50,000
Trade and other receivables	11	16,934	-	16,934
Financial assets at FVTOCI	10	-	1,239	1,239
Total financial assets		73,099	1,239	74,338

At 31 March 2022	Note	Liabilities at amortised cost \$000	Liabilities at fair value through profit or loss \$000	Total \$000
Liabilities as per consolidated Statement of Financial Position				
Trade and other payables	15	1,382	-	1,382
Lease liabilities	19	5,876	-	5,876
Interest-bearing loans and borrowings	17	-	-	-
Total financial liabilities		7,258	-	7,258

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

25. Financial instruments by category (continued)

At 31 March 2021	Note	Assets at amortised cost \$000	Assets at Fair value through other comprehensive income \$000	Total \$000
Assets as per consolidated Statement of Financial Position				
Cash and cash equivalents	9	15,381	-	15,381
Term Deposit	9	20,000	-	20,000
Trade and other receivables	11	7,154	-	7,154
Financial assets at FVTOCI	10	-	1,584	1,584
Total financial assets		42,535	1,584	44,119

At 31 March 2021	Note	Liabilities at amortised cost \$000	Liabilities at fair value through profit or loss \$000	Total \$000
Liabilities as per consolidated Statement of Financial Position				
Trade and other payables	15	768	-	768
Lease liabilities	19	6,282	-	6,282
Interest-bearing loans and borrowings	17	9,952	-	9,952
Total financial liabilities		17,002	-	17,002

26. Events after the reporting date

There have been no significant events subsequent to reporting date which required disclosure in or adjustment to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

27. Other Disclosures

a. Reconciliation of loss after income tax to cash flow from operating activities

	2022 \$000	2021 \$000
Loss after tax	(8,386)	(19,209)
Add (deduct) non-cash items:		
Depreciation of property, plant and equipment	1,134	1,092
Depreciation of right of use assets	773	742
Gain on disposal of assets	4	4
Amortisation of intangibles	1,224	1,215
Share based payments	2,966	1,985
Foreign exchange loss - deferred consideration	(11)	(1,742)
Interest - deferred consideration	747	1,478
Interest – lease liabilities	403	406
Foreign currency translation	212	(30)
Fair value adjustment on financial liabilities at FVTPL	-	8,014
Non-Capitalised IPO costs	50	1,607
Movement in working capital:		
Movement in provisions	3	4
Movement in tax receivable	90	412
Movement in trade and other receivables	(10,388)	(489)
Movement in inventory	(323)	632
Movement in trade and other payables	1,320	(298)
Movement in interest payables	(1,340)	(830)
Net cash flows from operating activities	(11,522)	(5,007)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

27. Other Disclosures (continued)

b. Reconciliation cashflow from financing activities

	Interest bearing loans and borrowings – Current	Interest bearing loans and borrowings- Non current	Financial liabilities at fair value through profit or loss	Deferred consideration	Lease liabilities	Paid up share capital	Transaction Cost	Total
	Note 17 \$000	Note 17 \$000	Note 10 \$000	\$000	Note 19 \$000	Note 20 \$000	\$000	\$000
At 1 April 2021	-	-	-	(9,952)	(6,282)	(97,316)	-	(113,550)
Cash flow	-	-	-	9,514	963	(50,324)	2,214	(37,633)
Non-cash flow:	-	-	-	-	-	-	-	-
FX on deferred consideration	-	-	-	(155)	-	-	-	(155)
Interest - deferred consideration	-	-	-	593	-	-	-	593
Conversion of liability to equity	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	(283)	-	(283)
Lease	-	-	-	-	(154)	-	-	(154)
Interest on lease payments	-	-	-	-	(403)	-	-	(403)
Allocation of Transaction cost	-	-	-	-	-	2,168	(2,214)	(46)
At 31 March 2022	-	-	-	-	(5,876)	(145,755)	-	(151,631)

	Interest bearing loans and borrowings – Current	Interest bearing loans and borrowings- Non current	Financial liabilities at fair value through profit or loss	Deferred consideration	Lease liabilities	Paid up share capital	Transaction Cost	Total
	Note 17 \$000	Note 17 \$000	Note 10 \$000	\$000	Note 19 \$000	Note 20 \$000	\$000	\$000
At 1 April 2020	(840)	(1,119)	(6,827)	(21,682)	(2,084)	(29,353)	-	(61,905)
Cash flow	840	1,119	(19,804)	10,637	731	(34,951)	4,329	(37,099)
Non-cash flow:	-	-	-	-	-	-	-	-
FX on deferred consideration	-	-	-	1,241	-	-	-	1,241
Interest - deferred consideration	-	-	-	(148)	-	-	-	(148)
Conversion of liability to equity	-	-	33,833	-	-	(33,833)	-	-
Share based payments	-	-	-	-	-	(807)	-	(807)
Lease	-	-	-	-	(4,518)	-	-	(4,518)
Interest on lease payments	-	-	-	-	(411)	-	-	(411)
Fair value adjustment on financial liabilities at FVTPL	-	-	(8,030)	-	-	-	-	(8,030)
Allocation of Transaction cost	-	-	828	-	-	1,629	(4,329)	(1,873)
At 31 March 2021	-	-	-	(9,952)	(6,282)	(97,316)	-	(113,550)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

27. Other Disclosures (continued)

c. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at reporting date exchange rates are recognised profit or loss.

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 and are recognised in Other Comprehensive Income (except on impairment in which case foreign currency differences that have been recognised in Other Comprehensive Income are reclassified to profit or loss).

d. Goods and services tax (GST)

Revenues and expenses have been recognised in the financial statements exclusive of GST except that irrecoverable GST input tax has been recognised in association with the expense to which it relates. All items in the Statement of Financial Position are stated exclusive of GST except for receivables and payables which are stated inclusive of GST.

e. Capital commitments

As at 31 March 2022, the Group had equipment capital commitments of \$337,000 (2021: \$611,000).

f. Contingent liabilities

As at 31 March 2022, the Group had no significant contingent liabilities (2021: \$nil).

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DIRECTORY

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ARBN 638 867 473

Non-Executive Director and Chairman

Jim McLean

Non-Executive Directors

Steve Engle

Phil McCaw

John Pinion

John F Diddams

Chief Executive Officer and Managing Director

Brian Ward

Company Secretaries

James Agnew

Tracy Weimar

Registered Office and Address for Service

64 Richard Pearse Drive

Mangere

Auckland 2022

Telephone: +64 9 869 3035

Auditor

BDO Auckland

Level 4, BDO Centre

4 Graham Street

Auckland 1010

Banker

Bank of New Zealand

Deloitte Centre

80 Queen Street

Auckland 1010

Share Registry

Boardroom Pty Limited

Level 12, 225 George Street

Sydney NSW 2000