AROA™

AROA BIOSURGERY FY24 RESULTS AND FY25 OUTLOOK

HIGHLIGHTS

FY24 Results

- Delivered on guidance.[1]
- **Total revenue was NZ$69.1 million**, representing 12% growth on FY23 (excludes one-off license fees). Full-year **product revenue of NZ$68.0 million**, reflecting a 12% increase on FY23 (10% on a constant currency[2] basis) and an 18% increase from H1 FY24 to H2 FY24.
- **73% increase in full-year Myriad™ product revenue** to NZ$23.3 million, reflecting a 70% increase on a constant currency basis.
- Full-year OviTex™[3]/OviTex PRS product revenue of NZ$32.6 million, reflecting a transitional reduction of 7% compared to FY23 due to inventory management measures implemented by TELA Bio, Inc. (**TELA Bio**) in CY23. The impact of these measures was confined to H1 FY24, as TELA Bio's demand for the products re-aligned with their sales in H2 FY24, to deliver a **19% increase in the Company's OviTex/OviTex PRS revenue** compared to H1 FY24.
- **Product gross margin of 85%**, representing a 1% increase on FY23 (both on a reported and constant currency basis).
- Normalised EBITDA[4] loss of NZ$3.1 million, compared to a NZ$1.5 million normalised EBITDA profit in FY23. In addition to the impact from revenue, this primarily reflects continued investment into AROA's US sales operation and increased investment into clinical activities, including the Symphony™ randomised control trial (**Symphony RCT**).
- Strong **cash balance of NZ$29.5 million** with no debt.

FY25 Outlook

- **Total revenue guidance of NZ$80-87 million**, reflecting 21-32% constant currency growth on FY24. This will be driven by continuing Myriad sales momentum and TELA Bio's sales re-aligning with their revenue forecasts.
- Expected **normalised EBITDA profit of NZ$2-6 million**, achieved through investment in growth and increased sales productivity to drive profitability and positive operating cashflows in FY25.
- Guidance assumes an average NZ$/US$ exchange rate of 0.64 (compared to the average rate of 0.61 in FY24), and is subject to TELA Bio delivering on its CY24 guidance of US$74.5-76.5 million (representing 27-31% growth on CY23).
- AROA will host a webinar today at 9.00 am AEST to discuss the results. Click here to register.

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[1] Results are presented on a reported basis. Guidance was provided on an average NZ$/US$ rate of 0.615 compared to an average NZ$/US$ rate of 0.61.

[2] Constant currency removes the impact of exchange rate movements. This approach is used to assess the AROA group's ('Group') underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the US$. All references in this announcement to 'constant currency' or 'CC' are as set out in this footnote.

[3] OviTex and TELA Bio are trademarks of TELA Bio, Inc.

[4] Normalised revenue and EBITDA 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 Group's comparative financial performance without any distortion from the one-off transactions. The impact of non-cash share-based payment expenses and unrealised foreign currency gains or losses 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. All references to normalised EBITDA in this announcement are as set out in this footnote.

AROA BIOSURGERY LIMITED
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Soft tissue regeneration company Aroa Biosurgery Limited (ASX: ARX, 'AROA' or the 'Company') is pleased to release its full-year results for the period ended 31 March 2024.

FY24 Results

Normalised Profit or Loss

	FY24 NZ$000	H2 FY24 NZ$000	H1 FY24 NZ$000	FY23 NZ$000	YoY %
Product sales	67,966	36,780	31,186	60,512	12
Other revenue	1,100	415	685	1,090	1
Total revenue	**69,066**	**37,195**	**31,871**	**61,602**	12
Gross profit	**58,973**	**32,165**	**26,808**	**51,718**	14
Product gross margin %	**85%**	**86%**	**84%**	**84%**	100 bps
Other income	1,664	694	970	1,734	(4)
Normalised selling and administrative expenses[1]	(58,968)	(31,486)	(27,482)	(45,132)	31
Research and development	(9,159)	(4,057)	(5,102)	(10,612)	(14)
Total normalised operating expenses	**(68,127)**	**(35,543)**	**(32,584)**	**(55,744)**	23
Normalised EBIT	**(7,490)**	**(2,684)**	**(4,806)**	**(2,292)**	236
Add back: depreciation & amortisation	4,395	2,256	2,139	3,834	15
Normalised EBITDA	**(3,095)**	**(428)**	**(2,667)**	**1,542**	(314)
Normalised net finance income[1]	1,390	687	703	1,394	-
Normalised loss before income tax	**(6,100)**	**(1,997)**	**(4,103)**	**(898)**	602

1. 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$68.0 million representing 12% growth on the previous year (10% in constant currency). Myriad performed well, with a 73% increase to NZ$23.3 million (70% on a constant currency basis). As expected, although TELA Bio's CY23 sales increased by 41%, their focus on inventory management measures dampened demand for OviTex/OviTex PRS in FY24, to deliver product revenue of NZ$32.6 million (a 7% and 8% reduction from FY23, on a reported and constant currency basis respectively). The overall impact of these initiatives was confined, as TELA Bio's demand for the products re-aligned with their sales in H2 FY24 to deliver a 19% increase in OviTex/OviTex PRS revenue compared to H1 FY24. Endoform™ sales were in line with FY23, with a modest contribution from Symphony.

Ex-USA product revenue continued its strong year-on-year growth, with a 58% increase on FY23 to NZ$2.8 million (FY23 revenue was NZ$1.7m, reflecting 60% growth on the prior year).

Normalised Other Revenue

Normalised other revenue for the year was constant with FY23,[5] at NZ$1.1 million. This represents project fee income received for product development projects undertaken with TELA Bio.

[5] The FY23 figure excludes a 'one-off' royalty payment of NZ$1.8 million received from TELA Bio.

Product Gross Margin %

Full-year product gross margin increased by 1% on both a reported and constant currency basis, to 85%. This primarily resulted from sales growth of AROA's high-margin Myriad products and ongoing manufacturing efficiency improvements.

Other Income

Other income was constant with FY23, at ~NZ$1.7 million. This comprised of tax credits valued at NZ$1.7 million under the Research & Development Tax Incentive program (compared to NZ$1.6 million previously).

Normalised Operating Expenses & EBITDA

Selling and administrative expenses were NZ$59.0 million, representing a 31% increase from NZ$45.1 million in FY23. This was driven by the continued expansion of AROA's US-based sales operations, growth in aggregate commission payments to US sales staff for increased Myriad sales, and increased clinical development activities. The latter reflects a larger investment (NZ$3.6 million) into the Symphony RCT during FY24 than anticipated, due to faster patient recruitment. The Symphony RCT (n=120) is an 18-month multi-centre study assessing the product's efficacy in treating diabetic foot ulcers. The data from the study, which is expected to be published in FY25, will be an important catalyst in driving Symphony sales.

Research and development expenses were NZ$9.2 million, compared to NZ$10.6 million in FY23. This was largely due to the reduced expenditure on the Company's second platform technology (Enivo™), decreasing from approximately NZ$7 million in FY23 to NZ$5 million in FY24. As previously communicated, AROA has received US Food and Drug Administration (**FDA**) clearance for two (of three) components of the Enivo system and is engaging with the FDA to confirm the design of clinical and pre-clinical studies to support a further clearance to commercialise the Enivo system. We will provide a further update on this in due course.

The Company capitalised NZ$2.8 million of development costs in FY24, compared with NZ$1.3 million in FY23.[6] These development costs primarily represent investments made into existing product line extensions and manufacturing process improvements, where AROA has certainty of the investments generating future economic benefits.

The Company generated a normalised EBITDA loss of NZ$3.1 million in FY24, compared to a NZ$1.5 million profit in FY23. The normalised loss before income tax was NZ$6.1 million (NZ GAAP Loss before income tax of NZ$10.4 million) compared to a loss of NZ$0.9 million in FY23 (NZ GAAP Loss before income tax of NZ$0.4 million). In the absence of the Enivo development investment in FY24, AROA would have delivered a normalised EBITDA profit of NZ$1.2 million.

Cashflows

Quarterly cashflows from operating activities progressed towards breakeven during the year, with the Company posting positive net cash inflows from operations in the fourth quarter. On a full-year basis, net cash outflows from operating activities were NZ$7.4 million (compared to previous outflows of NZ$3.8 million), resulting from the Company's increased investment into its US commercial operations and clinical development activities.

[6] Capitalisation in line with the NZ Equivalent to International Accounting Standard 38 (NZ IAS 38).

Purchases of property plant and equipment reduced from NZ$6.0 million in FY23 to NZ$3.5 million for FY24. This continued investment was into additional manufacturing capacity which is expected to complete by Q3 FY25.

Capitalised development costs were NZ$2.8 million (compared to NZ$1.3 million in FY23) reflecting investment into product line extensions and manufacturing process improvements.

AROA ended FY24 with a strong cash balance of NZ$29.5 million, compared to NZ$44.7 million as at 31 March 2023. The Company remains debt-free.

FY25 Outlook

AROA is focused on investment in growth and increased sales productivity to drive profitability and positive operating cashflows in FY25.

The Company expects to deliver FY25 total revenue of NZ$80-87 million, reflecting 21-32% constant currency growth on FY24. This will be driven by continuing Myriad sales momentum and TELA Bio's sales re-aligning with their revenue forecasts.

AROA has a strong platform to drive continued Myriad growth in FY25. This year, the Company's field sales team delivered a 31% increase in Myriad active accounts[7] and deeper penetration within existing accounts. Sales efficiency is a critical focus and is continuing on an upward trend, with improved sales representative productivity across all categories of tenure. As previously communicated, AROA is putting more emphasis on trauma procedures and particularly those where Myriad is used in combination with negative pressure wound therapy (**NPWT**). The Company expects Myriad to provide a range of benefits in these procedures, including in the quality & rate of healing, as well as from a health economics perspective, and is focusing its clinical development accordingly. Preliminary experience suggests that Myriad in combination with NPWT may accelerate healing, reduce interventions & pain, and reduce NPWT applications. The Company is also expecting to complete two prospective studies in the coming year to support clinical adoption in these procedures.

The outlook for OviTex/OviTex PRS is strong, with TELA Bio upgrading its initial CY24 guidance[8] to US$74.5-76.5 million, reflecting 27-31% year-on-year growth.[9] The re-alignment between TELA Bio's demand for, and sales of, OviTex/OviTex PRS in H2 FY24 signals a return to the previous growth curve. AROA also expects TELA Bio's streamlined stockholdings to smooth demand and bring both parties' sales into closer alignment going forward.

Given the estimated market opportunity of over US$4 billion[10] for AROA's existing commercial portfolio and the Enivo system, the Company will be prioritising investment into clinical activities to increase the evidence base required to drive market penetration for its products. FY25 investment in the Enivo system will be moderate and focused on progressing FDA clearance. Research & development expenditure during the year will otherwise be geared towards line extensions for existing products.

The Company expects to end the year with a normalised EBITDA profit of NZ$2-6 million.

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[7] Represents a comparison in accounts to which Myriad sales were made in the three consecutive months prior to FY24 and FY23.
[8] Published on 21 March 2024, of US$74-76 million for CY24.
[9] TELA Bio press release dated 9 May 2024.
[10] Sources: Idata, Soft Tissue Repair Market 2022; DRG Millennium Research data; Hernia Repair Devices, 2020; AROA management estimates; DRG Millennium Research, Breast Implants & Reconstructive devices, 2018.

Guidance assumes an average NZ$/US$ exchange rate of 0.64, compared to the average rate of 0.61 in FY24, and is subject to TELA Bio delivering on its CY24 guidance referenced above.

Managing Director and CEO Brian Ward commented: "FY24 brought a mix of challenges and successes. Myriad performed well, with our US sales team delivering 73% year-on-year sales growth, driven by active account growth[11] and increased productivity. TELA Bio's inventory management improvements led to a reduction in their stockholding from approximately 33% of revenue in FY23 to around 22% in FY24, but this has now set us up for more aligned sales growth moving forward.

With these adjustments now behind us, we are confident that FY25 will see a return to our previous trajectory. Delivering shareholder value remains our top priority, and we are focused on demonstrating that AROA is becoming a high growth cashflow positive business."

Investor Webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Tuesday 21 May 2024 at 9.00 am AEST, to discuss the results released to the ASX this morning.

Investors can register for the webinar by clicking on this link.

Questions can be submitted prior to the webinar to investor@aroa.com, or during the webinar, via the Q&A function on Zoom or by using the 'raise hand' function on Zoom to ask a question live.

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 2024 NZ$000	Reported 2023 NZ$000
Normalised loss before income tax	**(6,100)**	**(898)**
Other Revenue	-	1,759
Unrealised foreign currency (losses) / gains	(1,146)	1,333
Share based payment expenses	(3,181)	(2,578)
Loss before income tax (NZ GAAP)	**(10,427)**	**(384)**

Other Revenue

Other revenue of NZ$1.8 million in the prior year represents receipt of TELA Bio's final royalty payment to AROA pursuant to the parties' licensing agreement.

Share Based Payment Expense

Share based payments is a non-cash expense that reflects the three-year grant of share options issued to employees between July 2020 and March 2024.

[11] Represents accounts to which Myriad sales were made in the three consecutive months prior to the end of the applicable period.

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Unrealised FX (losses) / gains

Unrealised FX gains are non-cash (losses) or gains that reflect the (loss) / gain on US$ denominated transactions that have not been completed as at the reporting date.

< ENDS >

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

Contacts

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About AROA™

Aroa Biosurgery is a soft-tissue regeneration company committed to 'unlocking regenerative healing for every*body*'. 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.

Over 6 million AROA products have been used globally in a range of procedures to date, with distribution into our key market of the United States via our direct sales force and our partner TELA Bio, Inc. Founded in 2008, AROA is headquartered in Auckland, New Zealand and is listed on the Australian Securities Exchange (ASX: ARX). www.aroa.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 morcellised version of Myriad Matrix that easily conforms to optimize contact with irregular wound beds. Myriad Morcells Fine is a morselized conformable ECM graft that can be used either by itself or synergistically with Myriad Matrix.

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 Enivo™

This is a new Tissue Apposition Platform 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.

About OviTex™ and OviTex PRS

OviTex and OviTex PRS are reinforced bioscaffolds manufactured by AROA. The products are based on AROA ECM technology, co-developed with our US-based partner, TELA Bio, Inc. (TELA Bio) and sold by TELA Bio in the United States and Europe. TELA Bio is licensed to sell OviTex for abdominal wall reconstruction and hernia repair. Since the first hernia product was launched in 2016, the portfolio has expanded to include hernia products for minimally invasive surgery (robotic) and the launch of OviTex PRS (licensed to TELA Bio for breast reconstruction).

FINANCIAL REPORT TO 31 MARCH 2024

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 2024
Previous corresponding period	31 March 2023

2. Results for announcement to the market

			2024 NZ$000	2023 NZ$000
2.1 Revenue – Product sales	Up	12%	67,966	60,512
Revenue – Other	Down	(61%)	1,100	2,848
2.2 Loss before tax from ordinary activities	Up	2,615%	(10,427)	(384)
Normalised* loss before tax from ordinary activities	Up	579%	(6,100)	(898)
2.3 Loss after tax from ordinary activities attributable to members	Up	2,584%	(10,628)	(396)
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 non-cash share-based payments expense and unrealised foreign currency gains and losses.

3. Net tangible assets

	2024	2023
Net tangible assets* (NZ$000)	68,789	77,865
Total number of securities on issue**	344,207,834	343,109,468
Net tangible assets per security (NZ$)	0.20	0.23

* 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 2024

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 2024, which have been audited by BDO Auckland (the Company's auditor) with the Independent Auditor's Report included in the 31 March 2024 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 2024 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 21 May 2024

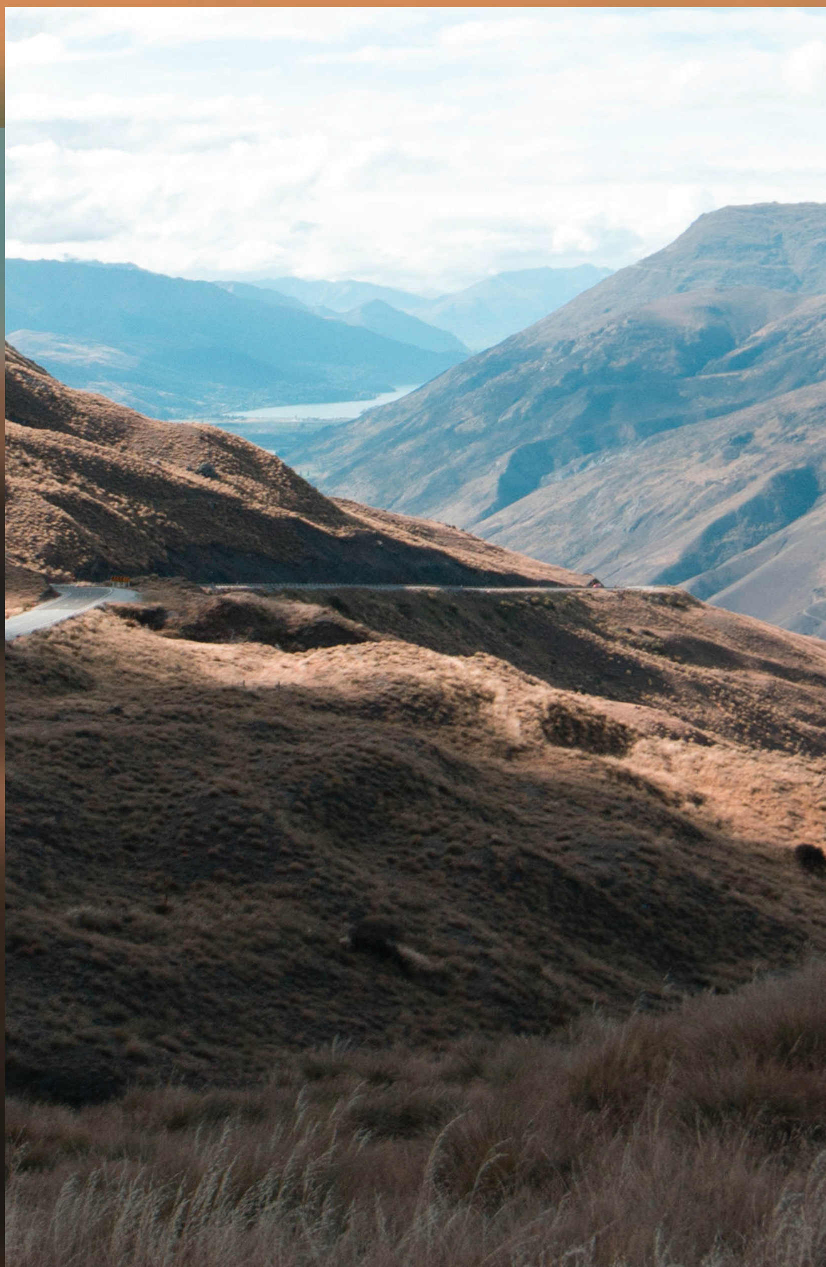
James Agnew
Company Secretary

AROA™

AROA BIOSURGERY LIMITED

Consolidated Financial Statements

31 MARCH 2024



Unlocking regenerative healing for every*body*

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DIRECTORS' RESPONSIBILITY STATEMENT

For the year ended 31 March 2024

The Directors are pleased to present the consolidated financial statements of Aroa Biosurgery Limited and the Group ("Group") for the year ended 31 March 2024.

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the Group as at 31 March 2024 and the results of their operations and cash flows for the year ended 31 March 2024.

The Directors consider that the consolidated financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied and supported by reasonable and prudent judgments and estimates and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that the proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and enables them to ensure that the financial statements comply with the Financial Reporting Act 2013.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken of safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Approved for and on behalf of the Board of Directors on 21 May 2024.

J. N. McLean

Jim McLean - Chairman

B. R. Ward

Brian Ward – CEO

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 2024, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of movements in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2024, 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") and IFRS® Accounting Standards.

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	How The Matter Was Addressed in Our Audit
The Group's largest customer is TELA Bio who is the Group's sales and distribution partner for abdominal wall reconstruction, 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.	• We evaluated Management's revenue recognition policy based on our understanding of the contract with TELA Bio and the requirements of NZ IFRS15 - *Revenue from contracts with customers*. • We obtained Management's calculations and accounting paper prepared for the revenue share accrual and evaluated the reasonableness of key inputs and assumptions. The key inputs included sales history, revenue

Recognition of revenue – TELA Bio revenue share

Key Audit Matter	How The Matter Was Addressed in Our Audit
Variable consideration to be 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, forecast revenue growth, 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. During the year ended 31 March 2024, Management changed their accounting estimate for the TELA Bio revenue share by revising the assumptions disclosed in Note 2 Summary of significant accounting policies of the consolidated financial statements. 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 $15.14m. Refer to Note 2 Summary of significant accounting policies - *change in accounting estimates* and Note 3 Revenue and segment information of the consolidated financial statements.	growth factors, expiry dates of inventory held, and average selling prices achieved by TELA Bio. • We obtained confirmation from TELA Bio, confirming their stock holding, sales history and the actual revenue share for their sales made in the year ended 31 March 2024. • We 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 reviewed the disclosures in Notes 2 and 3 to the consolidated financial statements, including the revenue recognition policy, to the requirements of the accounting standard.

Intangible assets impairment assessment

Key Audit Matter	How The Matter Was Addressed in Our Audit
The Group has recognised goodwill, customer relationships and reacquired rights intangible assets on a historical acquisition. The goodwill of $5.54m, customer relationships of $1.85m and reacquired rights of $6.52m at 31 March 2024 are subject to an annual impairment test in accordance with NZ IAS 36 - *Impairment of Assets*. Management performed their impairment test, by considering the recoverable amount of the Cash Generating Unit ('CGU') (to which the intangible assets are allocated) using a value in use calculation. This calculation is complex and subject to key inputs and assumptions such as	• We obtained an understanding of key controls relating to the review and approval of the impairment review. • We obtained Management's impairment assessment including the value in use calculation prepared for the 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 assessed the accuracy of previous forecasts to actual performance to form a view on the reliability of

Intangible assets impairment assessment

Key Audit Matter	How The Matter Was Addressed in Our Audit
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 12 Intangible assets of the consolidated financial statements.	Management's forecasting ability and to understand key differences between historical actual versus forecast performance. • We engaged our internal valuation experts to assess the methodology used by Management in their value in use calculation is in accordance with NZ IAS 36 - *Impairment of Assets*, the accuracy of the model and to assess the terminal growth rate and discount rate based on our expert's market and valuation knowledge. • 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 CGU. We also considered and tested alternative sensitivities. • We compared the carrying value of the CGU to the recoverable amount determined by the value in use calculation to identify any impairment losses. • We reviewed the disclosures in Note 12 to the consolidated financial statements, including impairment and sensitivity analysis, to the requirements of the accounting standard.

Share-based payment arrangements

Key Audit Matter	How The Matter Was Addressed in Our Audit
The Group issued options to certain employees, including Directors, under the share-based payment arrangements during the year ended 31 March 2024. 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 and forfeited during the year.	• We evaluated Management's assessment on the treatment of the share-based payment arrangements in accordance with NZ IFRS 2 – *Share-based Payment*. • We agreed the terms of the share-based payment arrangements issued during the year to offer letters and rules of the share option plan. • We assessed, in conjunction with our internal valuation experts, the appropriateness of the valuation methodology used by Management's

Share-based payment arrangements

Key Audit Matter	How The Matter Was Addressed in Our Audit
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. The share-based payments expense recorded for the year ended 31 March 2024 is $3.40m resulting in a share-based reserve of $10.27m as at 31 March 2024. Details of these share-based payment arrangements are disclosed in Note 4 Employee benefit expenses and Note 18 Share based payments reserve of the consolidated financial statements.	specialist and the key input assumptions such as volatility rates, expected life and probability of achieving the market-based performance conditions. • We assessed the Group's judgements in relation to the probability of achieving non-market based vesting conditions. • We recalculated the share-based payments expense recorded in the profit or loss over the relevant vesting periods. • We reviewed the disclosures in Note 4 and 18 in relation to the share-based payment arrangements to the requirements of the accounting standard.

Capitalisation of internally generated intangible assets

Key Audit Matter	How The Matter Was Addressed in Our Audit
The Group has recognised internal development costs of $2.82m as an intangible asset during the year ended 31 March 2024. The Group incurs significant expenditure in researching and developing medical devices for wound and soft tissue repair. The Group capitalises expenditure incurred in the development of products and processes when certain criteria are met as disclosed in Note 12 to the consolidated financial statements. Costs that do not meet the criteria for capitalisation are expensed to profit or loss as incurred. There is judgement involved in determining whether expenditure incurred can be capitalised as an intangible asset and the costs directly attributable to create, produce, and prepare the asset to be capable of operating in the manner intended by management. We consider this to be a key audit matter because of the judgement involved in determining expenditure able to be capitalised and the quantum of the amount of the amount capitalised of $2.82m. Refer to Note 12 intangible assets of the consolidated financial statements.	• We evaluated Management's assessment on the treatment of the capitalised development costs in accordance with NZ IAS 38 - *Intangible Assets* to determine if they met the recognition criteria. • We assessed whether expenditure capitalised was directly attributable to creating, producing, and preparing the asset to be capable of operating in the manner intended by Management. • We agreed a sample of costs capitalised to appropriate supporting documentation. • We reviewed the disclosures in Note 12 in relation to the internally generated intangible assets to the requirements of the accounting standard.

Other Information

The directors are responsible for the other information. The other information comprises the Aroa Biosurgery FY24 Results and FY25 Outlook, 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 auditors 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 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 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, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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 (but does not include the consolidated financial statements and our auditor's report thereon), 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 IFRS Accounting Standards, 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 Blair Stanley.

BDO Auckland

BDO Auckland
Auckland
New Zealand
21 May 2024

AROA

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2024

	Notes	2024 $000	2023 $000
Revenue	3	69,066	63,360
Cost of sales		(10,093)	(9,884)
Gross profit		**58,973**	**53,476**
Other income	3	1,664	1,734
Selling and administrative expenses		(62,149)	(47,709)
Research and development expenses		(9,159)	(10,612)
Loss from operations before net financing income	4	**(10,671)**	**(3,111)**
Finance income	5	2,002	3,111
Finance expenses	5	(1,758)	(384)
Net finance income		**244**	**2,727**
Loss before income tax		**(10,427)**	**(384)**
Income tax expense	6	(201)	(12)
Loss for the year attributable to shareholders		**(10,628)**	**(396)**
Other comprehensive income			
Items that will or may be reclassified to profit or loss			
Exchange gain / (loss) arising on translation of foreign operations		836	(1,328)
Items that will or may be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	8	(557)	21
Total other comprehensive income /(loss)		**279**	**(1,307)**
Total comprehensive loss for the year attributable to shareholders		**(10,349)**	**(1,703)**

Earnings per share during the year:

Basic earnings per share (cents)	19	(3.09)	(0.12)
Diluted earnings per share (cents)	19	(3.09)	(0.12)

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

AROA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2024

	Notes	2024 $000	2023 $000
Current assets			
Cash and cash equivalents	7	11,522	9,540
Term deposits	7	18,000	35,134
Derivative assets		-	192
Trade and other receivables	9	13,437	14,329
Inventories	10	8,104	4,831
Prepayments		1,816	1,439
Contract assets	3(a)	15,140	11,071
Tax receivable		313	339
Financial assets at fair value through other comprehensive income	8	703	1,260
Total current assets		**69,035**	**78,135**
Non-current assets			
Property, plant, and equipment	11	15,769	14,234
Prepayments		104	126
Right of use assets	15	6,447	6,403
Intangible assets	12	19,702	17,623
Total non-current assets		**42,022**	**38,386**
Total assets		**111,057**	**116,521**
Current liabilities			
Trade and other payables	13	3,741	3,607
Derivative liabilities		1,061	-
Employee benefits	14	3,708	3,745
Lease liabilities	16	1,004	559
Total current liabilities		**9,514**	**7,911**
Non-current liabilities			
Provisions		174	171
Lease liabilities	16	6,431	6,548
Total non-current liabilities		**6,605**	**6,719**
Total liabilities		**16,119**	**14,630**
Net assets		**94,938**	**101,891**
Equity			
Share capital	17	146,798	146,491
Accumulated losses		(62,152)	(51,524)
Foreign currency translation reserve		(679)	(1,515)
Equity investment reserve	8	703	1,260
Share based payment reserve	18	10,268	7,179
Total equity		**94,938**	**101,891**

On behalf of the Board
21 May 2024

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 2024

	Notes	Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Equity Investment Reserve	Share Based Payments Reserve	Total Equity
		$000	$000	$000	$000	$000	$000
Balance as at 1 April 2023		**146,491**	**(51,524)**	**(1,515)**	**1,260**	**7,179**	**101,891**
Comprehensive income							
Loss for the year		-	(10,628)	-	-	-	(10,628)
Other comprehensive income for the year		-	-	836	(557)	-	279
Total comprehensive income for the year		**-**	**(10,628)**	**836**	**(557)**	**-**	**(10,349)**
Transactions with shareholders							
Share based payment expenses	18		-	-	-	3,404	3,404
Forfeiture of unvested employee share options	18	-	-	-	-	(223)	(223)
Employee shares exercised	17/18	196	-	-	-	(92)	104
Issue of shares to employees	17	111	-	-	-	-	111
Total transactions with shareholders		**307**	**-**	**-**	**-**	**3,089**	**3,396**
Balance as at 31 March 2024		**146,798**	**(62,152)**	**(679)**	**703**	**10,268**	**94,938**
Balance as at 1 April 2022		**145,755**	**(51,128)**	**(187)**	**1,239**	**4,812**	**100,491**
Comprehensive income							
Loss for the year		-	(396)	-	-	-	(396)
Other comprehensive income for the year		-	-	(1,328)	21	-	(1,307)
Total comprehensive income for the year		**-**	**(396)**	**(1,328)**	**21**	**-**	**(1,703)**
Transactions with shareholders							
Share based payment expenses	18	-	-	-	-	2,676	2,676
Forfeiture of unvested employee share options	18	-	-	-	-	(98)	(98)
Employee shares exercised	17/18	564	-	-	-	(211)	353
Issue of shares to employees	17	172	-	-	-	-	172
Total transactions with shareholders		**736**	**-**	**-**	**-**	**2,367**	**3,103**
Balance as at 31 March 2023		**146,491**	**(51,524)**	**(1,515)**	**1,260**	**7,179**	**101,891**

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 2024

	Note	2024 $000	2023 $000
Cash flows from operating activities			
Cash receipts from sales of goods		65,247	52,408
Cash receipts from grant income, project fees, and license fees		2,763	4,167
Cash paid to suppliers and employees		(76,831)	(60,952)
Interest received		1,726	1,170
Dividend received		1	-
Interest paid		(10)	-
Income tax paid		(271)	(565)
Net cash outflow from operating activities	24a	**(7,375)**	**(3,772)**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(3,523)	(6,029)
Purchase of intangible assets	12	(644)	(250)
Capitalised development costs	12	(2,818)	(1,332)
Proceeds from term deposits	7	17,134	14,866
Net cash inflow from investing activities		**10,149**	**7,255**
Cash flows from financing activities			
Proceeds from issue of options		85	348
Proceeds from issue of shares		111	172
Lease liability – principal payments	16	(740)	(645)
Lease liability – interest payments	16	(490)	(379)
Net cash outflow from financing activities		**(1,034)**	**(504)**
Net increase in cash and cash equivalents		**1,740**	**2,979**
Effect of exchange rate fluctuations on cash and cash equivalents		242	396
Cash and cash equivalents at beginning of year		9,540	6,165
Cash and cash equivalents at end of year	7	**11,522**	**9,540**

Note: The Group has term deposits of $18,000,000 as at the reporting date (2023: $35,134,000). In line with *NZ IAS 7 Statement of Cash Flows,* term deposit with an initial maturity of more than three months does not become part of cash and cash equivalent and are therefore excluded in the cash and cash equivalent position in the statement of cash flows (refer to note 7).

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 2024

1. Corporate Information

Aroa Biosurgery Limited ("the Company") together with its subsidiaries (the "Group") is a leading soft tissue regeneration company which develops, manufactures and sells medical devices for wound and soft 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.

The consolidated financial statements of Aroa Biosurgery Limited and its subsidiaries (the "Group") for the year ended 31 March 2024 comprise the Company and its two subsidiaries, Aroa Biosurgery Incorporated and Mesynthes Nominee Limited. All subsidiary entities have a reporting date of 31 March.

Equity holding	Principal Activity	Place of Business	2024 %	2023 %
Aroa Biosurgery Incorporated	Sales & Distribution	US	100	100
Mesynthes Nominee Limited	Nominee Shareholder	NZ	100	100

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 9155 Brown Deer Road #2, San Diego, California 92121. Mesynthes Nominee Limited is a subsidiary of Aroa Biosurgery Limited and is incorporated and domiciled in New Zealand. The address of its registered office is 64 Richard Pearse Drive, Airport Oaks, Auckland.

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 21 May 2024.

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
- Derivative assets at fair value through profit or loss

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:

- TELA Bio Incorporated ("TELA Bio") accrued revenue (refer to notes 3 and "Change in accounting estimates - Tela Bio Accrued Revenue", as discussed below)
- research and development tax incentive accrual (refer to note 3)
- the likely term of leased premises, which impacts leasehold improvements assets and right of use assets capitalised (refer to notes 11, 15 and 16)
- impairment assessment of intangible assets (refer to note 12)
- the value of development expenditure capitalised (refer to note 12)
- the value of share-based payments (refer to note 18)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2024

2. Summary of significant accounting policies (continued)

Change in accounting estimates - Tela Bio accrued revenue

As disclosed in note 3 (a), TELA Bio is the Group's largest customer and sales and distribution partner for abdominal wall reconstruction, 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.

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 a quarterly true up to the agreed percentage based on TELA Bio's net sales. Using the expected value method, the Group estimates the true up on TELA Bio's inventory at the reporting date considering the expected sale of those products by TELA Bio. Having considered TELA Bio's revenue guidance for calendar year 2024, the Group updated certain assumptions such as forecast revenue growth and expiry date of inventory held used in calculating the accrued revenue for the current period.

The change in accounting estimates has resulted in a recognition of $3,561,000 in incremental accrued revenue in the current year. In accordance with *NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, the change in accounting estimate is recognised prospectively by including it in profit or loss in the financial year ended 31 March 2024.

Change in accounting estimates – Inventory valuation

During the year, the Company changed the allocation of overhead to inventory from hours-based cost driver to freeze-dried weight-based cost driver method, reflecting more accurate method of allocating overhead to inventory. The change in accounting estimates has resulted in an increase of inventory value by $928,000 with the corresponding credit in the cost of goods sold. In accordance with NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the change in accounting estimate is recognised prospectively by including it in profit or loss in the financial year ended 31 March 2024.

Going concern

The Group posted a net loss before tax of $10,427,000 for the year (2023: $384,000 loss). The Group posted total operating cash outflow of $6,856,000 (2023: outflow of $3,772,000).

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.

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.

New standards, interpretations and amendments not yet effective

There are no new standards, amendments or interpretations that have been adopted or are not yet effective that have a material impact on the Group except for the below standards:

- Disclosure of Accounting Policies (Amendments to NZ IAS 1 *Presentation of Financial Statements* and *IFRS Practice Statement 2 Making Materiality Judgements*)

  The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclosure "significant accounting policies" with "material" accounting policy information". The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

- Definition of Accounting Estimates (Amendments to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

  The amendments to NZ IAS 8, which added the definition of accounting estimates, clarify that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from the correction of prior period errors. These amendments clarify how entities make the distinction between changes in accounting estimate, changes in accounting policy and prior period errors.

- International Tax Reform – Pillar Two Model Rules (Amendment to IAS 12 *Income Taxes*)

These amendments had no effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2024

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, forecast revenue growth, 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. Amount receivable from Tela Bio at 31 March 2024 in relation to revenue share $15,140,000 (2023:$11,071,000), refer to note 2.

b. Project fees

Project fees received are recognised over time using the input method when the performance obligations are fulfilled pursuant to the project development agreement. The Company's input methods include resources consumed, labour hours expensed, costs incurred. 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.

c. Royalties

Royalty payment represents the payments received from TELA Bio upon achievement of cumulative net sales of the products in European territory. Royalty payments are recognised in the statement of profit or loss at a point in time upon completion of the performance obligation.

	2024 $000	2023 $000
Sales of goods (USA)	65,190	58,783
Sales of goods (Rest of the world)	2,776	1,729
Royalties (USA)	-	1,758
Project fees (USA)	1,100	1,090
Total revenue	**69,066**	**63,360**

Revenue recognised point in time	67,966	62,270
Revenue recognised over time	1,100	1,090
Total revenue	**69,066**	**63,360**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2024

3. Revenue and segment information (continued)

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 $33,746,000 (2023: $37,898,000) 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 $455,000 (2023: $550,000) for the leasehold property and property, plant and equipment of $209,000 (2023: $134,000) in the USA as of the reporting date.

Other income

	2024 $000	2023 $000
Research and development tax credit income	1,628	1,673
Other income	36	61
Balance at end of the year	**1,664**	**1,734**

4. Loss from operations before net financing income

Loss from operations before net financing income includes the following:	Note	2024 $000	2023 $000
Audit's fees:			
Statutory audit – BDO		163	135
Half-year review – BDO		55	55
Employee benefit expenses		45,137	37,158
Employer contributions defined contribution Superannuation scheme		2,632	1,929
Employee share-based payment expenses	18	3,404	2,578
Depreciation:			
Leasehold improvements	11	550	505
Plant and equipment	11	906	900
Furniture and fittings	11	72	64
Computer equipment	11	460	329
Right and use assets	15	1,024	807
Directors' fees (excluding share based payment expenses)	20	710	492
Insurance		1,462	1,187
Amortisation:			
Patents	12	126	74
Customer relationships	12	618	619
Reacquired rights	12	543	542
Capitalised development costs	12	96	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2024

5. Net finance income

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

	2024 $000	2023 $000
Finance income		
Interest received on bank balances – financial assets at amortised cost	1,800	1,315
Other finance income		
Foreign currency gains	94	463
Unrealised foreign currency gains on derivatives	-	192
Unrealised foreign currency gains	108	1,141
Total finance income	**2,002**	**3,111**
Finance expenses		
Interest expenses – lease liabilities (Note 16)	(490)	(378)
Other finance expenses		
Finance costs – make good provision	(14)	(6)
Unrealised foreign currency losses on derivatives	(1,254)	-
Total finance expenses	**(1,758)**	**(384)**
Net finance income	**244**	**2,727**

6. 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.

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.

6. Income taxes (continued)

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	2024 $000	2023 $000
Accounting loss before income tax	(10,427)	(384)
Income tax @ 28%	(2,920)	(108)
Impact of tax rates in overseas jurisdictions	(329)	(70)
Expenses not deductible for tax purposes	76	278
Tax credits received subject to tax	(21)	(84)
Income not subject to tax	-	(420)
Prior year tax over provisions	(51)	(211)
Recognition deferred tax on temporary differences and tax losses	3,446	627
Income tax expense	**201**	**12**

Major components of tax expense

	2024 $000	2023 $000
Current tax expense		
Current period	201	12
R&D tax credit	-	-
Total current tax benefit	-	**-**
Deferred tax (income)	-	-
Total tax expense	**201**	**12**

As at 31 March 2024, the Company has used all brought forward tax losses (2023: losses carried forward of $4,604,581). 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 2024, the Group had $33,193,250 (2023: $25,524,916) 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 deferred tax has been recognised on tax losses or deferred research and development expenditure in 2024 on the basis that large tax profits are not foreseeable in the year ending 31 March 2025. Total tax effected deferred tax asset not recognised at 31 March 2024 $9,752,000 (2023: $5,650,000).

6. Income taxes (continued)

Deferred tax assets/(liabilities) recognised:	2024 $000	2023 $000
Accrued revenue	(4,239)	(3,100)
Deferred R&D expenditure	5,642	5,425
Intangible assets	(2,316)	(2,993)
Rights of use assets	(1,678)	(1,639)
Lease liabilities	1,947	1,834
Other temporary differences	13	81
Provision	631	392
Total deferred tax asset/(liability) recognised	-	-

Deferred tax assets unrecognised (tax effected)	2024 $000	2023 $000
Temporary differences	6,335	1,722
Deferred R&D expenditure	3,417	2,639
Unused tax losses	-	1,289
Total deferred tax asset unrecognised (tax effected)	**9,752**	**5,650**

7. 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.

	2024 $000	2023 $000
Bank balances	11,522	9,540
Total cash and cash equivalents	**11,522**	**9,540**

During the year, the Group entered into short-term deposit arrangements with BNZ and Westpac. The term deposits not yet matured as of the reporting date had an average rate of 6.05% (2023: 4.96%) per annum with a maturity of 3-12 months from the reporting date.

	2024 $000	2023 $000
Term deposits	18,000	35,134
Total term deposits	**18,000**	**35,134**

8. 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 in relation the USA listed equity securities for Group's investment in TELA Bio for which the Group has elected to recognise fair value gains or losses through other comprehensive income. TELA Bio is the Group's largest customer and trading partner where the investment is held on a long term basis. The Group held 74,316 (2023: 74,316 shares) shares at a value of US$5.67 per share as at the reporting date (2023: US$10.64).

Financial assets measured at FVTOCI include the following:

	2024 $000	2023 $000
US listed equity securities		
Balance at beginning of the year	1,260	1,239
Changes in fair value through other comprehensive income	(557)	21
Balance at end of the year	**703**	**1,260**

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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9. 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.

	2024 $000	2023 $000
Trade receivables	11,446	12,225
Less provision for impairment of trade receivables	(309)	(580)
Net trade receivables	**11,137**	**11,645**
Other receivables	433	947
Other receivables – Research and Development Tax Incentive accrual	1,693	1,500
Trade and other receivables	**13,263**	**14,092**
GST receivable	174	237
Total current trade and other receivables	**13,437**	**14,329**

Trade receivables amounting to $11,137,000 (2023: $11,645,000) are shown net of impairment losses. Provisions have been made appropriately. 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.

(i) Impaired receivables

As at 31 March 2024, current trade receivables with a nominal value of $309,000 (2023: $580,000) were impaired and provided for.

(ii) Past due but not impaired receivables

As at 31 March 2024, trade receivables of $2,140,000 (2023: $3,733,000) were past due but not impaired. Subsequent to the reporting date, the Group received over $1,372,000 of these past due trade receivables.

The ageing analysis of trade receivables is as follows:

	2024 $000	2023 $000
Current	8,997	7,912
1 - 30 days overdue	1,286	2,545
30 - 60 days overdue	377	309
60 - 90 days overdue	246	234
90+ days overdue	540	1,225
Total trade receivables	**11,446**	**12,225**

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10. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the standard cost 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.

	2024 $000	2023 $000
Raw materials	2,475	1,911
Work in progress	4,178	2,191
Finished goods	2,050	938
Provision for obsolescence	(599)	(209)
Total inventories	**8,104**	**4,831**

11. 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	15 years
Plant & equipment	5-10 years
Fixtures & fittings	3 - 10 years
Computer equipment & software	3 years

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

(iv) Capital commitment

Please refer to note 24e for capital commitments.

11. Property, plant & equipment (continued)

	Leasehold Improvements	Capital Work In Progress	Plant and Equipment	Fixture & Fitting	Computer Equipment & Software	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance 1 April 2023	4,618	5,726	9,322	789	1,821	22,276
Additions	9	2,978	277	16	243	3,523
Transfers in/ (out)	248	(380)	132	-	-	-
Disposals	-	-	-	-	-	-
Balance 31 March 2024	**4,875**	**8,324**	**9,731**	**805**	**2,064**	**25,799**
Accumulated Depreciation						
Balance 1 April 2023	(1,581)	-	(5,098)	(320)	(1,043)	(8,042)
Depreciation	(550)	-	(906)	(72)	(460)	(1,988)
Disposals	-	-	-	-	-	-
Balance 31 March 2024	**(2,131)**	**-**	**(6,004)**	**(392)**	**(1,503)**	**(10,030)**
Net Book Value						
Balance 1 April 2023	3,037	5,726	4,224	469	778	14,234
Balance 31 March 2024	**2,744**	**8,324**	**3,727**	**413**	**561**	**15,769**

	Leasehold Improvements	Capital Work In Progress	Plant and Equipment	Fixture & Fitting	Computer Equipment & Software	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance 1 April 2022	1,631	4,165	8,566	624	1,287	16,273
Additions	46	4,889	397	152	533	6,017
Transfers in/ (out)	2,941	(3,328)	373	13	1	-
Disposals	-	-	(14)	-	-	(14)
Balance 31 March 2023	**4,618**	**5,726**	**9,322**	**789**	**1,821**	**22,276**
Accumulated Depreciation						
Balance 1 April 2022	(1,076)	-	(4,204)	(256)	(714)	(6,250)
Depreciation	(505)	-	(900)	(64)	(329)	(1,798)
Disposals	-	-	6	-	-	6
Balance 31 March 2023	**(1,581)**	**-**	**(5,098)**	**(320)**	**(1,043)**	**(8,042)**
Net Book Value						
Balance 1 April 2022	555	4,165	4,362	368	573	10,023
Balance 31 March 2023	**3,037**	**5,726**	**4,224**	**469**	**778**	**14,234**

12. 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	3 - 21 years
Customer relationships	9 years
Reacquired rights	18 years
Capitalised development costs*	5 years

*The Group commences the amortisation when the asset is completed.

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

Research costs are expensed as incurred. Costs associated with maintaining product development are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique product developments controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete asset so that it will be available for use;
- management intends to complete the asset and use or sell it;
- there is an ability to use or sell the asset;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell it; and
- the expenditure attributable to the asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are expensed when incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Development costs that have a finite useful life that have been capitalised are amortised from the commencement of the time at which they are available for use on a straight-line basis over the period of its expected benefit, not exceeding five years.

Capitalised development costs are carried at cost less accumulated amortisation and impairment losses.

Capitalised development costs are amortised over the periods the Group expects to benefit from utilising the products. The amortisation expense is included within selling and administrative expenses in profit or loss.

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12. Intangible assets (continued)

	Patents & trademarks $000	Customer relationships $000	Reacquired rights $000	Goodwill $000	Capitalised development costs $000	Total $000
Cost						
Balance 1 April 2023	1,611	5,563	9,772	5,538	1,332	23,816
Additions	644	-	-	-	2,818	3,462
Balance 31 March 2024	**2,255**	**5,563**	**9,772**	**5,538**	**4,150**	**27,278**
Accumulated Depreciation						
Balance 1 April 2023	(388)	(3,091)	(2,714)	-	-	(6,193)
Amortisation	(126)	(618)	(543)	-	(96)	(1,383)
Balance 31 March 2024	**(514)**	**(3,709)**	**(3,257)**	**-**	**(96)**	**(7,576)**
Net Book Value						
Balance 1 April 2023	1,223	2,472	7,058	5,538	1,332	17,623
Balance 31 March 2024	**1,741**	**1,854**	**6,515**	**5,538**	**4,054**	**19,702**

	Patents & trademarks $000	Customer relationships $000	Reacquired rights $000	Goodwill $000	Capitalised development costs $000	Total $000
Cost						
Balance 1 April 2022	1,354	5,563	9,772	5,538	-	22,227
Additions	257	-	-	-	1,332	1,589
Balance 31 March 2023	**1,611**	**5,563**	**9,772**	**5,538**	**1,332**	**23,816**
Accumulated Depreciation						
Balance 1 April 2022	(314)	(2,472)	(2,172)	-	-	(4,958)
Amortisation	(74)	(619)	(542)	-	-	(1,235)
Balance 31 March 2023	**(388)**	**(3,091)**	**(2,714)**	**-**	**-**	**(6,193)**
Net Book Value						
Balance 1 April 2022	1,040	3,091	7,600	5,538	-	17,269
Balance 31 March 2023	**1,223**	**2,472**	**7,058**	**5,538**	**1,332**	**17,623**

On 31 March 2024, 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 key assumptions used in calculating the recoverable amount are as follows:

	2024	2023
Discount rate post tax	10.6%	10.1%
Terminal growth rate	3.5%	3.5%
Average growth rates over the forecast period	25.8%	34.4%
Average gross profit over the forecast period	89%	88%

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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12. Intangible assets (continued)

Basis of key assumptions

Cash flow projections

The cashflow projections used in the recoverable amount calculations are based on management's budget for the year ending 31 March 2025, then applicable growth rates applied to revenue and costs from year 2 to 5. Management has used its past experience of revenue growth, operating costs, margin and external sources of information where appropriate to determine their expectations for the future.

Growth rates

The growth rates reflect the long-term average growth rates for the product lines and health care industry (publicly available).

Discount rates

The present value of the expected cash flows is determined by applying a suitable discount rate. The discount rate was derived based on the weighted average cost of capital (WACC) for comparable entities in the healthcare industry, based on market data. The discount rates reflect appropriate adjustments relating to market risk.

13. 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.

	2024 $000	2023 $000
Trade payables	1,709	1,909
Accrued expenses	2,032	1,693
Other payables	-	5
Total trade and other payables	**3,741**	**3,607**

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

14. Employee benefits

(i) Shor 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.

(i) Defined contribution plans

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

	2024 $000	2023 $000
Leave and wages accrual	2,512	1,864
Bonus accrual	1,196	1,881
Employee benefits	**3,708**	**3,745**

15. Right of use assets

	2024 Properties Total $000	2023 Properties Total $000
Balance at beginning of the year	6,403	5,333
Additions during the year	1,068	1,844
Depreciation for the year	(1,024)	(807)
Modification adjustment	-	33
Balance at end of the year	**6,447**	**6,403**

16. Lease liabilities

	2024 Properties Total $000	2023 Properties Total $000
Balance at beginning of the year	7,107	5,876
Additions during the year	1,068	1,844
Interest expense	490	378
Lease payments	(1,230)	(1,024)
Modification adjustment	-	33
Balance at end of the year	**7,435**	**7,107**
Current	1,004	559
Non-current	6,431	6,548
Total	**7,435**	**7,107**

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.

16. Lease liabilities (continued)

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.

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 of 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 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 an additional $12,000 outflow compared to the current period's cash outflow of $1,230,000 (2023: $1,024,000).

Please refer to note 21 for lease maturity analysis

17. Share capital

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. These ordinary shares have no par value.

	2024 $000	2023 $000
Share capital at beginning of the year	**146,491**	**145,755**
Shares exercised under share option plan	196	564
Issue of shares to employees	111	172
Share capital at end of the year	**146,798**	**146,491**

# of shares	**Ordinary shares 2024**	**Ordinary shares 2023**
At beginning of year	**343,109,468**	**342,461,133**
Issue of share capital	1,098,366	648,335
At end of year	**344,207,834**	**343,109,468**

18. 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 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:

Grant Date	6 October 2023 - Performance	6 October 2023 – Non-performance	3 August 2023	1 August 2022	14 November 2022
Share price at grant date (AUD)	0.819	0.755	0.910	0.775	0.930
Valuation date	6 October 2023	6 October 2023	4 August 2023	1 March 2023	14 November 2022
Share price at valuation date (AUD)	0.76	0.76	0.90	1.10	0.93
Average exercise price (NZD)	0.97	0.97	0.92	0.64	0.94
Expected volatility*	72%	72%	69%	72%	75%
Expected life	5 years	5 years	5 years	5 years	5 years
Risk free factor	3.98%-4.06%	4.10%	3.90%	3.55%	3.24%
Valuation model	Monte Carlo	Binomial	Binomial	Binomial	Binomial
Dividend yield	0%	0%	0%	0%	0%

	2024 $000	2023 $000
Balance as at 1 April	**7,179**	**4,812**
Share based payment expense	3,404	2,676
Employee shares forfeited	(223)	(98)
Total expenses recognised in consolidated statement of profit or loss	**3,181**	**2,578**
Employee shares exercised	**(92)**	**(211)**
Balance as at 31 March	**10,268**	**7,179**

18. 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.

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

	2024 Average exercise price per option NZ$	2024 # of options	2023 Average exercise price per option NZ$	2023 # of options
Opening balance	0.10	2,841,450	0.10	3,085,200
Exercised during the period	0.10	(1,105,725)	0.10	(243,750)
Closing balance	**0.10**	**1,735,725**	**0.10**	**2,841,450**
Vested and exercised as at 31 March	0.10	1,735,725	0.10	2,841,450

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

Grant date	Expiry date	Share options 2024	Share options 2023
1 October 2018	01 October 2028	790,725	1,339,900
1 July 2019	01 October 2028	-	228,750
1 December 2019	30 November 2029	945,000	1,272,800
Total		**1,735,725**	**2,841,450**

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

On the Group's IPO in July 2020, the share options were issued to certain employees and directors under a new share option plan. Under this plan, the Group continue to issue options to certain employees and directors.

Grants under the Option Plan comprised 25,348,855 (2023: 17,828,074) share options with various vesting conditions including non-market service conditions, market conditions and non-market performance conditions.

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18. Share based payments reserve (continued)

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

	2024 Average exercise price per option NZ$	2024 # of options	2023 Average exercise price per option NZ$	2023 # of options
Opening balance	1.09	17,828,074	1.07	12,901,575
Granted in August 2022	-	-	0.64	3,545,344
Granted in November 2022	0.93	50,000	0.94	2,093,580
Granted in August 2023	0.93	210,686	-	-
Granted in October 2023	0.97	8,978,601	-	-
Exercised during the year	0.81	(50,000)	1.23	(435,758)
Forfeited during the period	1.06	(1,668,506)	1.21	(276,667)
Closing balance	**0.78**	**25,348,855**	**1.09**	**17,828,074**
Vested and exercised as 31 March	1.09	11,919,471	1.22	8,964,193

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

Grant date	Expiry date	Share options 2024	Share options 2023
24 July 2020	23 July 2025	4,885,950	4,935,950
29 September 2020	28 September 2025	1,538,200	1,683,200
22 April 2021	31 March 2026	200,000	200,000
28 June 2021	28 June 2026	2,005,000	2,295,000
9 August 2021	8 August 2026	2,925,000	3,075,000
1 August 2022	29 February 2028	3,432,419	3,545,344
14 November 2022	13 November 2027	1,712,515	2,093,580
3 August 2023	13 November 2027	210,686	-
6 October 2023	30 June 2024 - 3 August 2028	8,439,085	-
Total		**25,348,855**	**17,828,074**

19. Earnings per share

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

	2024 '000	2023 '000
Numerator		
Loss for the year after tax ("N") in $000	(10,628)	(396)
Denominator		
Weighted average number of ordinary shares used in basic EPS ("D1")	343,825	342,917
Effects of:		
Employee share options *	24,049	18,673
Weighted average number of shares used in diluted EPS ("D2")	343,825	342,917
	Cents	**Cents**
Basic earnings per share (N/D1 x 100)	(3.09)	(0.12)
Diluted earnings per share (N/D2 x 100)	(3.09)	(0.12)

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

20. 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.

Executive management team	2024 $000	2023 $000
Short term employee benefits	2,239	2,421
Share based payment expenses	1,254	609
Total	**3,493**	**3,030**

Non-executive directors	2024 $000	2023 $000
Short term employee benefits	710	492
Share based payment expenses	316	262
Total	**1,026**	**754**

(iii) Year end balances
There were no related party balance at year end other than loans provided to key management personnel for acquisition of Company shares prior to IPO of $92,000 (2023: $117,000).

(iv) Transactions with related parties
There were no other related party transactions during the year.

21. 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 and expenses.

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

2024	USD $000	AUD $000	EUR $000	CAD $000
Cash and cash equivalents	1,446			
Trade and other receivables	6,763	-	68	31
Financial assets at FVTOCI	421	-	-	-
Trade and other payables	(3,796)	(30)	(1)	(4)
Lease liabilities	(289)	-	-	-
Derivatives	27,150	-	-	-
Net exposure	**31,695**	**(30)**	**67**	**27**

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21. Financial risk management (continued)

2023	USD $000	AUD $000	EUR $000
Cash and cash equivalents	3,199	-	-
Trade and other receivables	7,683	-	19
Financial assets at FVTOCI	791	-	-
Trade and other payables	(796)	(24)	-
Lease liabilities	(351)	-	-
Derivatives	22,650	-	-
Net exposure	**33,176**	**(24)**	**19**

The following significant exchange rates applied during the year:

	Average rate 2024	Average rate 2023	Closing rate 2024	Closing rate 2023
NZD/USD	**0.6101**	0.6246	**0.5991**	0.6275

Sensitivity analysis – underlying exposures

A 5% weakening/strengthening of the NZ dollar against the US dollar at 31 March 2024 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 $2,784,000 higher on a 5% weakening of the NZ dollar (2023: $2,780,000 higher), and $2,519,000 lower on a 5% strengthening of the NZ dollar as at 31 March 2024 (2023: $2,515,000 lower).

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.

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.

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For the year ended 31 March 2024

21. Financial risk management (continued)

Liquidity risk (continued)

At 31 March 2024	Note	Less than 3 months $000	3-12 months $000	Between 1 and 2 years $000	Over 2 years $000	Total contract-ual cash flows $000	Total carrying amounts $000
Financial liabilities							
Trade and other payables	13	3,741	-	-	-	3,741	3,741
Lease liabilities	16	370	1,113	1,523	6,070	9,076	7,435
Derivative liabilities		507	406	149	-	1,062	1,062
Total		**4,618**	**1,519**	**1,672**	**6,070**	**13,879**	**12,238**

At 31 March 2023	Note	Less than 3 months $000	3-12 months $000	Between 1 and 2 years $000	Over 2 years $000	Total contract-ual cash flows $000	Total carrying amounts $000
Financial liabilities							
Trade and other payables	13	3,607	-	-	-	3,607	3,607
Lease liabilities	16	202	1,024	1,261	6,380	8,867	7,107
Total		**3,809**	**1,024**	**1,261**	**6,380**	**12,474**	**10,714**

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.

22. Financial instruments by category

(i) Non-derivative financial liabilities

The Group recognises all other financial liabilities (including liabilities designated at fair value through profit or loss) 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 trade and other payables.

(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 other comprehensive income and financial assets at amortised cost.

22. Financial instruments by category (continued)

(iii) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value. Derivatives are carried in the consolidated statement of financial position at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in the finance income or expenses. The Group does not apply hedge accounting for derivative contracts.

At 31 March 2024	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	7	11,522	-	11,522
Term deposits	7	18,000	-	18,000
Trade and other receivables	9	13,263	-	13,263
Financial assets at FVTOCI	8	-	703	703
Total financial assets		**42,785**	**703**	**43,488**

At 31 March 2024	Note	Liabilities at amortised cost $000	Liabilities at fair value through profit and loss $000	Total $000
Liabilities as per Consolidated Statement of Financial Position				
Trade and other payables	13	1,709	-	1,709
Lease liabilities	16	7,435	-	7,435
Derivative liabilities		-	1,061	1,061
Total financial liabilities		**9,144**	**1,061**	**10,205**

At 31 March 2023	Note	Assets at amortised cost $000	Assets at fair value through other comprehensive income $000	Assets at fair value through profit and loss $000	Total $000
Assets as per Consolidated Statement of Financial Position					
Cash and cash equivalents	7	9,540	-	-	9,540
Term deposits	7	35,134	-	-	35,134
Trade and other receivables	9	14,092	-	-	14,092
Financial assets at FVTOCI	8	-	1,260	-	1,260
Derivative assets		-	-	192	192
Total financial assets		**58,766**	**1,260**	**192**	**60,218**

At 31 March 2023	Note	Liabilities at amortised cost $000	Total $000
Liabilities as per Consolidated Statement of Financial Position			
Trade and other payables	13	1,909	1,909
Lease liabilities	16	7,107	7,107
Total financial liabilities		**9,016**	**9,016**

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For the year ended 31 March 2024

22. Financial instruments by category (continued)

(iv) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below.

Financial assets	Note	2024 $000	2023 $000
US listed equity securities	8	703	1,260
Derivative financial (liabilities)/assets		(1,061)	192

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. The fair value of derivative assets is based on level 2 inputs.

(v) Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables.

Due to their short-term nature, the carrying value of cash and cash equivalents, term deposits, trade and other receivables, and trade and other payables approximates their fair value.

23. 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.

24. Other Disclosures

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

	2024 $000	2023 $000
Loss after tax	(10,628)	(396)
Add / (deduct) non-cash items:		
Depreciation of property, plant and equipment	1,988	1,798
Depreciation of right of use assets	1,024	807
Gain on disposal of assets	-	13
Amortisation of intangibles	1,383	1,229
Share based payment expenses	3,181	2,578
Interest – lease liabilities	490	378
Unrealised currency losses / (gains)	1,897	(266)
Movement in working capital:		
Movement in provisions	3	6
Movement in tax receivable	(26)	(387)
Movement in trade and other receivables	901	(2,235)
Movement in prepayments and contract assets	(4,424)	(6,393)
Movement in inventories	(3,273)	(2,748)
Movement in trade and other payables	109	1,844
Net cash flows from operating activities	**(7,375)**	**(3,772)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2024

24. Other Disclosures (continued)

b. Reconciliation of changes in liabilities arising from financing activities.

	Note	Total lease liabilities 2024 $000	Total lease liabilities 2023 $000
At 1 April		(7,107)	(5,876)
Cash flow		1,230	1,024
Non-cash flow:			
Additions during the year	16	(1,068)	(1,877)
Interest accrued during the year	16	(490)	(378)
At 31 March		**(7,435)**	**(7,107)**

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 2024, the Group had equipment capital commitments of $867,500 (2023: $3,051,000).

f. Contingent liabilities

As at 31 March 2024, the Group had no significant contingent liabilities (2023: $nil).

ARBN 638 867 473

Non-Executive Director and Chairman
Jim McLean

Non-Executive Directors
Catherine Mohr
Darla Hutton (Appointed in March 2024)
John F Diddams
John Pinion
Phil McCaw
Steve Engle (Retired in March 2024)

Chief Executive Officer and Managing Director
Brian Ward

Company Secretaries
James Agnew
Tracy Weimar

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