Allegra Orthopaedics Limited

ABN 71 066 281 132

Annual Report - 30 June 2016

Directors	Peter Kazacos Anthony Hartnell Sean Mulhearn
Company secretary	Richard Ulrick
Notice of annual general meeting	The annual general meeting of Allegra Orthopaedics Limited is to be held at: Level 8 18-20 Orion Road Lane Cove West, NSW 2066 on Wednesday 23 November at 10:00 am (AEST)
Registered office	Level 8 18-20 Orion Road Lane Cove West, NSW 2066 Head office telephone: 02 9439 4448
Share register	Link Market Services Limited Level 12 680 George Street Sydney, NSW 2000 Shareholders enquiries: 1300 554 474
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street Sydney, NSW 2000
Bankers	Commonwealth Bank of Australia PO Box 327 Silverwater, NSW 2128
Stock exchange listing	Allegra Orthopaedics Limited shares are listed on the Australian Securities Exchange (ASX code: AMT)
Website	www.allegraorthopaedics.com
Corporate Governance Statement	The Corporate Governance Statement which was approved at the same time as the Annual Report can be found at http://www.allegraorthopaedics.com/corporate-governance

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Allegra Orthopaedics Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

The following persons were directors of Allegra Orthopaedics Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter Kazacos
Anthony Hartnell
Sean Mulhearn (appointed on 17 November 2015)
Peter Welsh (resigned on 28 October 2015)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of the sale and design of surgical implants.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to $2,035,788 (30 June 2015: $855,056).

During the financial year the Company took the decision to outsource manufacturing of its key product range, that being the Total Active Knee, to Signature Orthopaedics Pty Ltd ('Signature') (announced on ASX on 4th November 2015).

The decision to outsource manufacturing of the Total Active Knee will result in improving margins for that product range and allow the company to increase investment in sales and marketing to accelerate revenue growth.

The decision to outsource manufacturing resulted in the company incurring one off, non-recurring costs of $810,992. These costs consisted of the following; a write down of raw materials and inventory totalling $380,715, plant and machinery write downs and loss on disposals totalling $321,986 and severance costs of $108,291 in relation to severance payments of manufacturing employees who ceased employment with the company.

Other initiatives to improve margins during the year included an increased focus on sales of orthopaedic products where the consolidated entity derives a commission via an agency agreement with the manufacturer of these products. This increased focus resulted in a significant increase in agency commissions revenue which totalled $653,545 for FY16.

Revenue

Total revenue for the year ended 30 June 2016 (‘FY 16’) was $5,018,556, representing a decrease of 32% from the 2015 financial year (‘FY 15’).

The decrease directly related to key surgeons participating in a Multi Centre Total Knee Study with a separate Orthopaedic company. Allegra is also still experiencing the adverse effects of the acquisition of Small Bone Innovations by Stryker in FY15.

Net profit from ordinary activities

The consolidated entity’s earnings before interest, tax and depreciation and amortisation ('EBITDA') in FY16 was a loss of $1,474,094 compared to profit of $69,610 in FY15.

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards (‘AAS’) and represents the profit under AAS adjusted for non-specific non-cash and significant items.

The following table summarises key reconciling items between statutory loss after tax attributable to the shareholders of the company and EBITDA.

	Consolidated	
	2016	2015
	$	$
Loss after income tax	(2,035,788)	(855,056)
Add: Depreciation and amortisation	514,780	776,223
Add: Finance cost	68,269	158,706
Less: Interest income	(21,355)	(10,263)
EBITDA	(1,474,094)	69,610

Corporate and administration expenses decreased by $408,774 to $2,020,418. This decrease is represented by an $114,410 reversal of employee benefit provisions resulting from employees that have ceased employment in the current period, a reduction in consulting fees of $203,652 and reduced costs for electricity, gas and water of $72,848.

Quality and research and development expenses have decreased by $236,685 to $1,343,133. This decrease is attributable to lower salary and on costs, as a result of employees that have ceased employment in the current period.

Sales and marketing expense decreased by $176,339 to $1,725,418 in FY16 .

Finance Costs decreased by $90,437 to $68,269. This reduction was the result of a $1.6m bank loan being repaid in August 2015 and lower interest paid on the debtor finance facility.

Net loss after tax was $2,035,788 (2015: $855,056) which includes the restructuring cost of $810,992 related to the decision to outsource manufacturing, as mentioned above.

Cash position
The cash balance as at 30 June 2016 was $1,154,590 which is an increase of $71,445 when compared with the cash balance as at 30 June 2015 of $1,083,145.

Significant changes in the state of affairs
On 4 November 2015, the company announced that it had entered into agreement with Signature Orthopaedics Pty Ltd ('Signature') which is an Australian based company, for the outsourcing of its activities associated with the manufacture of the consolidated entity's highly acclaimed Active Knee product range. To facilitate the outsourcing, relevant equipment was sold to Signature and some personnel have been transferred.

The Board of Directors decided to outsource its manufacturing activities as part of the restructure, in line with the consolidated entity's strategic plan. This will enable the consolidated entity to scale its production of Active Knee more effectively as the company focuses on new growth opportunities.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year
No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
Since outsourcing manufacturing (ASX announcement 4 November 2015) the consolidated entity has experienced some shortages in supply of certain product lines with various product suppliers. These shortages were due to the combination of new procurement processes, initial product lead times and navigating certain required regulatory requirements. This issue is believed to be short term and therefore is not expected to have a material impact on the consolidated entity's financial performance.

Furthermore, the consolidated entity is reviewing its manufacturing of certain products including the Peripheral Access Device ('PAD').

The consolidated entity has an increased focus on growing its revenue channels and will continue to focus on its relationships with surgeons via the provision of high quality orthopaedic products, ongoing surgeon training and the provision of highly trained theatre support personnel.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Peter Kazacos
Title:	Non-Executive Director and Chairman
Qualifications:	B.E, B.Sc.
Experience and expertise:	Peter has over 40 years' experience in the IT industry. He founded KAZ in 1988, guided it from a small IT services company in NSW to one of Asia Pacific's leading IT services and business process outsourcing service providers with over 4,000 employees, as a fully owned subsidiary of Telstra. He also founded Anittel Ltd, building it into one of Australia's leading IT&C service providers operating outside the major metropolitan areas, leading to its acquisition in 2010 by Anittel Group Limited (since renamed Axxis Technology Group Ltd.), representing a major strategic milestone in the transformation and convergence of the IT&T industry. Prior to founding KAZ and Anittel, Peter held a number of senior technical positions in the Australian IT industry with leading Australian organisations. Peter was the recipient of the inaugural Australian Entrepreneur of the Year 2001 award in the Technology, Communications, E-Commerce and Biotechnology category.
Other current directorships:	Executive Chairman of Axxis Technology Group Limited (ASX: AYG)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee
Interests in shares:	1,045,084 ordinary shares
Interests in options:	None

Name:	Anthony Hartnell
Title:	Non-Executive Director
Qualifications:	BEc LLB (Hons) (ANU), LLM (Highest Hons) (George Washington University)
Experience and expertise:	Anthony who has been honoured as an Officer in the Order of Australia has had a distinguished legal career in both government and private practice. He is the founding partner of Atanaskovic Hartnell, a legal firm specialising in corporate and commercial law, particularly covering corporate financing, takeovers and regulatory issues. He was the inaugural Chairman of the Australian Securities Commission. He has chaired a number of ASX-listed companies.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee
Interests in shares:	22,565,878 ordinary shares
Interests in options:	None

Name:	Sean Mulhearn (appointed on 17 November 2015)
Title:	Non-Executive Director
Qualifications:	BEc (University of Sydney)
Experience and expertise:	Sean has been involved in the financial markets for over 30 years' with experience in Asia, Europe and the Americas. Sean has particular expertise in risk management. He founded Jacaranda Capital Partners, a boutique advisory and markets training business with offices in Singapore and Australia.
Other current directorships:	Non-Executive Director of Greka Drilling Limited.
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Committee and member of the Nomination and Remuneration Committee.
Interests in shares:	None
Interests in options:	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary

Richard Ulrick (BA, LLB, Dip Fin Mgt, FGIA, CPA) is engaged by way of a services agreement between the company and Company Secretarial & Legal Services Pty Ltd which he established. Richard is a solicitor of the Supreme Court of NSW and has more than 30 years' experience in company secretarial and general counsel roles.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Peter Kazacos	12	12	2	2	4	4
Anthony Hartnell	11	12	1	2	4	4
Sean Mulhearn	8	8	1	1	3	3
Peter Welsh	4	4	1	1	1	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the director and other key management personnel ('KMP') arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

As a medical device sales, design and distribution business competing against global multi-nationals, the consolidated entity requires a board and senior management team that have both the technical capability and relevant experience to execute the consolidated entity's business plan.

The consolidated entity's KMP remuneration framework develops as economic conditions and the financial performance of the consolidated entity permits. The objective continues to be to ensure reward for performance is competitive and appropriate for the results delivered.

The remuneration structures explained below are designed to attract suitably qualified candidates, retain key employees, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

The remuneration structures take into account:

- Key criteria for good reward governance practices, namely: competitiveness and reasonableness, alignment to shareholders' interests, alignment of KMP remuneration with performance, transparency and capital management;
- The capability and experience of the KMP;
- The ability of KMP to control performance; and
- The consolidated entity's earnings and company share price performance.

Allegra ORTHOPAEDICS

Remuneration committee
The Nomination and Remuneration Committee ('NRC') is responsible for ensuring that there is gender parity in the remuneration levels of employees and believes this to be the case.

The remuneration structures are intended to motivate employees for quality short and long term performance. The mix between short term and long term variable components is to maintain a focus on the sustainable short term performance of the consolidated entity, whilst ensuring its positioning for its longer term success.

Remuneration structure
In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

Non-executive directors' remuneration
The aggregate remuneration that may be paid to non-executive directors is a maximum of $500,000 per annum. This remuneration may be divided among the non-executive directors in such a manner as the Board may determine. The maximum may not be increased without prior approval from shareholders at a general meeting. Directors will seek approval from time to time as deemed appropriate.

Fees and payments to non-executive directors are intended to reflect the demands which are made on, and the responsibilities of, the directors.

Payments to non-executive directors are reviewed annually by the Board. The base remuneration has not changed since 1 July 2008. The Board has regard to information from external remuneration sources to ensure non-executive directors' fees and payments are appropriate within the fiscal constraints of a growing company and in line with the market. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration.

As non-executive directors assess individual and the consolidated entity performance, their remuneration does not have a variable performance related component.

Non-executive directors do not receive share options.

Executive remuneration
The consolidated entity aims to reward KMP with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The KMP remuneration and reward framework has four components:
- Base pay and non-monetary benefits;
- Short-term performance incentives;
- Share-based payments; and
- Other remuneration such as superannuation and long service leave.

The combination of these comprises the KMP's total remuneration.

Fixed remuneration
Fixed remuneration consists of base remuneration (which is calculated on a total cost basis including Government Statutory employer contributions to superannuation funds, except for the Chief Executive Officer ('CEO') whose base remuneration excludes superannuation). This base remuneration is structured to be reasonable and fair relative to the scale of the consolidated entity's business. It assumes the fulfilment of core performance requirements and expectations.

Remuneration levels are reviewed annually by the NRC through a process that considers individual and overall performance of the consolidated entity. In addition, regard is had to information from publically available external remuneration sources to ensure senior KMP remuneration is competitive in the market place having regard to the size of the consolidated entity and the fiscal constraints of a growing company.

Consolidated entity performance and link to remuneration
Performance linked remuneration is designed to reward KMP for meeting or exceeding their financial and personal objectives. Refer to the 'Additional information' section of the remuneration report for details of the earnings and total shareholders return, from 1 July 2012.

Short-term incentive ('STI')
At this stage in the consolidated entity's development, shareholder wealth is enhanced by the achievement of objectives in the development of the consolidated entity's products, within a framework of prudent financial management and consistent with the consolidated entity's annual business plan.

If the consolidated entity exceeds a pre-determined Net Profit After Tax ('NPAT') performance hurdles set by the NRC, a short-term incentive ('STI') pool also set by the NRC is available to KMP during the annual review. This performance hurdles ensures variable reward is only available when value has been created for shareholders and when earnings are consistent with the business plan.

The CEO has a target STI opportunity depending on the accountabilities of the role and impact on the consolidated entity's performance. The maximum target bonus opportunity approximates 20% of total remuneration.

The NRC determines whether objectives have been met. The STI bonus payments may be adjusted up or down in line with under or over achievement against the performance hurdles levels. This is at the discretion of the NRC.

Long-term incentives ('LTI')
The long-term incentive is intended to be provided to KMP other than non-executive directors as ordinary shares of the company and to align with shareholders' interests.

The ability to obtain the shares will generally be conditional on the individual achieving certain performance hurdles, such as service conditions and the achievement of key performance indicators ('KPIs'). However, shares may be granted on whatever terms are required and appropriate to secure the services of KMP. The NRC is required to approve the number of shares that ultimately vest.

There were no outstanding share plans.

The basis of a long-term incentives plan is currently under review.

The consolidated entity's Securities Dealing Policy prohibits transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

Use of remuneration consultants
During the financial year ended 30 June 2016, the consolidated entity did not engage the use of remuneration consultants.

Voting and comments made at the company's 2015 Annual General Meeting ('AGM')
At the 2015 AGM less than 0.05% of the votes received were against the adoption of the remuneration report for the year ended 30 June 2015. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration
The KMP of the consolidated entity consisted of the directors of the Company and the following persons:
- Richard Ulrick - Company Secretary
- Jenny Swain - Chief Executive Officer (appointed on 2 May 2016)
- Chris Calamos - Former Chief Executive Officer (appointed on 23 December 2015 and resigned on 30 April 2016)
- Tom Milicevic - Former Chief Executive Officer (resigned on 9 October 2015)

Details of the remuneration of the directors and other KMP of the Company are set out in the following tables.

2016	Short-term benefits: Cash salary and fees $	Short-term benefits: Bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Equity-settled shares $	Total $
Non-Executive Directors:							
Peter Kazacos (Chairman)	62,520	-	-	-	-	-	62,520
Anthony Hartnell	20,000	-	-	-	-	-	20,000
Sean Mulhearn *	13,333	-	-	-	-	-	13,333
Executive Directors:							
Peter Welsh **	6,500	-	-	-	-	-	6,500
Other Key Management Personnel:							
Richard Ulrick	52,800	-	-	-	-	-	52,800
Jenny Swain *	29,071	10,000	-	3,383	649	-	43,103
Chris Calamos **	117,654	-	-	11,177	-	-	128,831
Tom Milicevic ***	118,355	-	-	11,908	-	-	130,263
	420,233	10,000	-	26,468	649	-	457,350

* Includes remuneration from date of appointment as KMP within the consolidated entity. Jenny Swain bonus was discretionary.
** Includes remuneration from appointment as KMP to cessation as KMP within consolidated entity.
*** Includes remuneration from beginning of the year to date of cessation as KMP within the consolidated entity.

2015	Short-term benefits: Cash salary and fees $	Short-term benefits: Bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Equity-settled shares $	Total $
Non-Executive Directors:							
Peter Kazacos (Chairman)	62,520	-	-	-	-	-	62,520
Anthony Hartnell	11,836	-	-	-	-	-	11,836
John O'Meara	8,500	-	-	-	-	-	8,500
Executive Directors:							
Peter Welsh	20,000	-	-	-	-	-	20,000
Other Key Management Personnel:							
Richard Ulrick	62,187	-	-	-	-	-	62,187
Tom Milicevic	284,269	65,000	-	26,932	14,613	24,000	414,814
	449,312	65,000	-	26,932	14,613	24,000	579,857

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2016	2015	2016	2015	2016	2015
Non-Executive Directors:						
Peter Kazacos	100%	100%	-	-	-	-
Anthony Hartnell	100%	100%	-	-	-	-
Sean Mulhearn	100%	-	-	-	-	-
John O'Meara	-	100%	-	-	-	-
Executive Directors:						
Peter Welsh	100%	100%	-	-	-	-
Other Key Management Personnel:						
Richard Ulrick	100%	100%	-	-	-	-
Jenny Swain	77%	-	23%	-	-	-
Tom Milicevic	100%	76%	-	17%	-	7%

	Cash bonus paid/payable		Cash bonus forfeited	
Name	2016	2015	2016	2015
Other Key Management Personnel:				
Tom Milicevic	-	100%	100%	-
Jenny Swain	100%	-	-	-
Chris Calamos	-	-	100%	-

Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of director.

Remuneration and other terms of employment for KMP (other than directors and company secretary) are formalised in service agreements. Details of these agreements are as follows:

Name:	Jenny Swain
Title:	Chief Executive Officer
Agreement commenced:	2 May 2016
Details:	The contract of employment as CEO provides for a base salary at the rate of $230,000 per annum (plus superannuation). The base salary is subject to annual review as at 30 June each year with the first review being on 30 June 2017. An annual performance bonus may be payable upon the achievement of relevant KPIs. For the 12 months period to 30 June 2017 the bonus amounts to a maximum $60,000. The manner of payment of bonuses to executives in the form of long term incentives related to long-term performance is under review and Jenny will be potentially eligible to the extent that they become payable. Either party may terminate the agreement on the giving of 3 months' notice.

Name:	Chris Calamos
Title:	Chief Executive Officer
Agreement commenced:	1 December 2015 (resigned on 20 April 2016)
Details:	The contract of employment as CEO provided for a base salary at the rate of $285,000 per annum (plus superannuation). The base salary was subject to annual review as at 30 June each year with the first review to be on 30 June 2016. An annual performance bonus may have been payable upon the achievement of relevant KPIs. For the 6 months period to 30 June 2016 the bonus amounts to a maximum of $27,500. Either party was able to terminate the agreement on the giving of 6 months' notice for the first 18 months of the term and thereafter 3 months.

Name:	Tom Milicevic
Title:	Chief Executive Officer
Agreement commenced:	1 July 2014 based on a contract approved on 25 February 2015 (resigned on 9 October 2015)
Details:	The contract of employment as CEO was for 2 years and provided for a base salary for the year commencing 1 July 2014 of $257,500 per annum (plus superannuation) increasing to $283,250 per annum from 1 November 2014. The base salary was subject to annual review. An annual performance bonus initially totalling a maximum $55,000 may have been payable upon the achievement of relevant KPIs. A grant of 100,000 shares in the company was to be issued at the expiration of each year of the contract. Either party was able to terminate the contract on the giving of 3 months' notice.

KMP have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares
Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Grant Date *	Shares	Fair Value	$
Tom Milicevic	31 July 2015	100,000	$0.00	-

* The shares were approved by the board on 25 February 2015 dependent on continuing employment until 30 June 2015, and the board issued these shares on 31 July 2015.

Options
There were no options over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2016.

There were no options over ordinary shares granted to or vested by directors and other KMP as part of compensation during the year ended 30 June 2016.

Additional information
The Board considers that the above performance-linked remuneration structures will generate the desired outcome based on the experience of other companies. STI's are determined by NPAT.

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2012 $	2013 $	2014 $	2015 $	2016 $
Sales revenue	7,954,000	7,156,000	7,965,762	7,316,662	4,997,201
Net (loss)/profit after income tax	(173,000)	(571,000)	(64,000)	(855,056)	(2,035,788)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2012	2013	2014	2015	2016
Share price at financial year end ($)	0.15	0.11	0.06	0.25	0.15

Additional disclosures relating to key management personnel

Shareholding
The number of shares in the company held during the financial year by each director and other members of KMP of the consolidated entity, including their closely related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other ***	Balance at the end of the year
Ordinary shares					
Peter Kazacos	1,045,084	-	-	-	1,045,084
Peter Welsh	7,123,132	-	-	(7,123,132)	-
Anthony Hartnell	22,565,878	-	-	-	22,565,878
Richard Ulrick	288,282	-	-	-	288,282
Jenny Swain *	-	-	200,000	-	200,000
Tom Milicevic **	371,335	-	100,000	(471,335)	-
	31,393,711	-	300,000	(7,594,467)	24,099,244

* Additions - represents the holding at the time of appointment as KMP within the consolidated entity.
** Additions - represents the granting of 100,000 as notified to the ASX on 31 July 2015.
*** Disposals/other - represents the holding at the time of ceasing to be a KMP within the consolidated entity and not necessarily actual disposed.

This concludes the remuneration report, which has been audited.

Shares under option
There were no unissued ordinary shares of Allegra Orthopaedics Limited under option outstanding at the date of this report.

Shares issued on the exercise of options
There were no ordinary shares of Allegra Orthopaedics Limited issued on the exercise of options during the year ended 30 June 2016 and up to the date of this report.

Indemnity and insurance of officers
The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of PricewaterhouseCoopers

There are no officers of the company who are former partners of PricewaterhouseCoopers.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

Reporting currency and rounding

The financial report is presented in Australian dollars and all amounts have been rounded to the nearest dollar unless otherwise stated under the option available to the company under ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which the instrument applies.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Kazacos
Director

30 August 2016
Sydney

Auditor's Independence Declaration

As lead auditor for the audit of Allegra Orthopaedics Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Allegra Orthopaedics Limited and the entities it controlled during the period.

Sumanth Prakash
Partner
PricewaterhouseCoopers

Sydney
30 August 2016

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General information

The financial statements cover Allegra Orthopaedics Limited as a consolidated entity consisting of Allegra Orthopaedics Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Allegra Orthopaedics Limited's functional and presentation currency.

Allegra Orthopaedics Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 8
18-20 Orion Road
Lane Cove West, NSW 2066

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2016. The directors have the power to amend and reissue the financial statements.

	Note	Consolidated 2016 $	Consolidated 2015 $
Revenue	4	5,018,556	7,326,925
Other income	5	975,549	1,502,922
Expenses			
Cost of sales and purchases of consumables		(2,061,663)	(3,556,839)
Corporate and administration expenses		(2,831,410)	(2,487,783)
Quality and research and development expenses		(1,343,133)	(1,579,818)
Sales and marketing expenses		(1,725,418)	(1,901,757)
Finance costs	7	(68,269)	(158,706)
Loss before income tax expense		(2,035,788)	(855,056)
Income tax expense	8	-	-
Loss after income tax expense for the year attributable to the owners of Allegra Orthopaedics Limited		(2,035,788)	(855,056)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Allegra Orthopaedics Limited		(2,035,788)	(855,056)
		Cents	**Cents**
Basic earnings per share	31	(3.20)	(1.49)
Diluted earnings per share	31	(3.20)	(1.49)

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

Allegra Orthopaedics Limited
Statement of financial position
As at 30 June 2016

	Note	Consolidated 2016 $	Consolidated 2015 $
Assets			
Current assets			
Cash and cash equivalents		1,154,590	1,083,145
Trade and other receivables	9	1,723,634	2,071,597
Inventories	10	1,511,486	2,359,519
Total current assets		4,389,710	5,514,261
Non-current assets			
Property, plant and equipment	11	477,219	1,526,974
Intangibles	12	158,868	238,303
Total non-current assets		636,087	1,765,277
Total assets		5,025,797	7,279,538
Liabilities			
Current liabilities			
Trade and other payables	13	1,809,140	2,366,799
Borrowings	14	945,950	218,587
Provisions	15	41,371	379,096
Total current liabilities		2,796,461	2,964,482
Non-current liabilities			
Borrowings	16	39,469	98,454
Provisions	17	39,181	30,128
Total non-current liabilities		78,650	128,582
Total liabilities		2,875,111	3,093,064
Net assets		2,150,686	4,186,474
Equity			
Issued capital	18	10,459,629	10,459,629
Reserves	19	565,280	565,280
Accumulated losses		(8,874,223)	(6,838,435)
Total equity		2,150,686	4,186,474

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

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2014	9,602,217	550,780	(5,983,379)	4,169,618
Loss after income tax expense for the year	-	-	(855,056)	(855,056)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(855,056)	(855,056)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 18)	857,412	-	-	857,412
Share-based payments	-	14,500	-	14,500
Balance at 30 June 2015	10,459,629	565,280	(6,838,435)	4,186,474

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2015	10,459,629	565,280	(6,838,435)	4,186,474
Loss after income tax expense for the year	-	-	(2,035,788)	(2,035,788)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,035,788)	(2,035,788)
Balance at 30 June 2016	10,459,629	565,280	(8,874,223)	2,150,686

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	Note	Consolidated 2016 $	Consolidated 2015 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		5,460,997	8,441,194
Payments to suppliers and employees (inclusive of GST)		(7,104,629)	(9,245,400)
		(1,643,632)	(804,206)
Grants received		-	1,705,000
Other revenue		25,889	29,004
Interest received		21,355	10,263
Interest and other finance costs paid		(68,269)	(158,706)
Income taxes refunded relating to research and development		868,535	817,000
Net cash from/(used in) operating activities	30	(796,122)	1,598,355
Cash flows from investing activities			
Payments for property, plant and equipment	11	(71,537)	(286,745)
Payments for intangibles	12	(15,274)	(106,048)
Proceeds from disposal of property, plant and equipment		286,000	476,332
Net cash from investing activities		199,189	83,539
Cash flows from financing activities			
Proceeds from issue of shares	18	-	1,000,000
Proceeds/(repayment) from debtor finance facility		178,634	(686,342)
Share issue transaction costs	18	-	(142,588)
Repayment of lease liabilities		(210,256)	(525,816)
Proceeds/(repayments) of borrowings - related party		700,000	(270,020)
Net cash from/(used in) financing activities		668,378	(624,766)
Net increase in cash and cash equivalents		71,445	1,057,128
Cash and cash equivalents at the beginning of the financial year		1,083,145	26,017
Cash and cash equivalents at the end of the financial year		1,154,590	1,083,145

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 28.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Allegra Orthopaedics Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Allegra Orthopaedics Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity 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 consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Note 1. Significant accounting policies (continued)

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition
The consolidated entity recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the consolidated entity and specific criteria have been met for each of the consolidated entity's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The consolidated entity bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods
A sale is recorded when goods have been used by the customer and collectability of the related receivables is probable.

Commissions revenue
Commission revenue derives via an agency agreement with the manufacturer of the products after outsourcing the manufacturing operation. Commission revenue is recognised at the end of each month based on commissions earned.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue, such as the research and development tax offset, is recognised when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

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Note 1. Significant accounting policies (continued)

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost consists of expenditure on direct materials and delivery, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment	2-20 years
Fixtures and fittings	2-13 years
Leasehold improvements	3-5 years
Instrument sets	5-20 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Note 1. Significant accounting policies (continued)

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

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

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 1 and 20 years.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Costs included in research and development are external direct costs and direct payroll and related costs based on employee's time spent on the project.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

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Note 1. Significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries and other employee benefits expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Long-term employee benefits
Employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred

Share-based payments
Share-based compensation benefits are provided to employees via the consolidated entity's Employee Option Plan and an employee share scheme.

The fair value of options granted under the above schemes are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Note 1. Significant accounting policies (continued)

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the consolidated entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Allegra Orthopaedics Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

Reclassifications

Certain reclassifications have been made to the prior year to enhance comparability.

Note 1. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). Debt instruments which are solely payments of principal and interest and held in business model whose objective is to collect and sell contractual cash flows are held at fair value, with gains and losses presented in OCI. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

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Note 1. Significant accounting policies (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A right of use asset corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Going concern
The directors have determined that the consolidated entity is a going concern, and these financial statements have been prepared on this basis. The directors acknowledge the net loss generated of $2,035,788 (2015: loss of $855,056) and net operating cash flows outflows generated during the financial year of $796,122 (2015: net cash inflow of $1,598,355).

Underpinning this determination are the following:
- The consolidated entity has a cash balance of $1,154,590 (2015: $1,083,145) and net current assets of $1,583,249 (2015: $2,549,779);

- The loss before tax for the financial year ended 30 June 2016 was largely due to one-off restructuring charges of $810,992. In addition, the restructure has resulted in the outsourcing of manufacturing leading to business disruption that is not reflected in the cost of restructuring and that is not expected recur in future;

- The consolidated entity's on-going operating expenditure is now significantly lower than prior to the restructure;

- Cash flow forecasts have been prepared and show the business returning to positive cash flows from operations in FY17, with sufficient working capital to repay borrowings that become due and payable in December 2016 (Note 14) and for at least 12 months from the date of this financial report. Included in this forecast is the receipt of R&D tax refund, which based on past history is expected to be received in full (Note 9); and

- The consolidated entity continues to have access to additional funding through its debtor finance facility (Note 16).

- The consolidated entity was successful in obtaining a loan of up to $1,000,000 as announced to the market on 30 June 2016. The related party loan was made at arm's length on normal commercial terms to Robinwood Investments Pty Limited. At reporting date, $700,000 had been drawn down. This is due to be repaid by 30 December 2016.

As a result of the above the Directors have concluded that there is no material uncertainty in relation to going concern.

Note 3. Operating segments

Identification of reportable operating segments
The consolidated entity operates in one segment being the sale and design of surgical implants. This is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The consolidated entity operates predominantly in one geographical region being Australia.

Major customers
During the year ended 30 June 2016 approximately 53.3% ($2,693,117) (2015: 49.8% ($3,640,349) of the consolidated entity's external revenue was derived from sales to two major hospital groups.

Segment results

Management reviews EBITDA to make decisions. The following table summarises key reconciling items between statutory loss after tax attributable to the shareholders of the consolidated entity and EBITDA.

Consolidated - 2016	Total $
EBITDA	(1,474,094)
Depreciation and amortisation	(514,780)
Interest revenue	21,355
Finance costs	(68,269)
Loss before income tax expense	(2,035,788)
Income tax expense	-
Loss after income tax expense	(2,035,788)

Note 3. Operating segments (continued)

Consolidated - 2015	Total $
EBITDA	69,610
Depreciation and amortisation	(776,223)
Interest revenue	10,263
Finance costs	(158,706)
Loss before income tax expense	(855,056)
Income tax expense	-
Loss after income tax expense	(855,056)

Segment assets and liabilities
For segment assets and liabilities, refer to the statement of financial position.

Note 4. Revenue

	Consolidated	
	2016 $	**2015 $**
Sales revenue		
Sale of goods	4,343,656	7,100,046
Commissions revenue	653,545	216,616
	4,997,201	7,316,662
Other revenue		
Interest	21,355	10,263
Revenue	5,018,556	7,326,925

Note 5. Other income

	Consolidated	
	2016 $	**2015 $**
Net gain on disposal of property, plant and equipment	-	296,332
Government grants	470,439	309,065
Other income	25,889	29,004
Research and development tax offset	479,221	868,521
Other income	975,549	1,502,922

Note 6. Restructuring costs

During the financial year the consolidated entity outsourced its activities associated with the manufacture of its highly acclaimed Active Knee product range to Signature Orthopaedics Pty Ltd ('Signature') which is an Australian based company. To facilitate the outsourcing, relevant equipment was sold to Signature and some personnel have been transferred.

As a result of outsourcing the manufacturing operations, the consolidated entity has incurred the following restructuring costs:

Note 6. Restructuring costs (continued)

	Consolidated 2016 $	Consolidated 2015 $
Redundancy costs	108,291	-
Net loss on inventory write-down	149,654	-
Cost of sales and purchases of consumables - materials	231,061	-
Cost of sales and purchases of consumables - repairs and maintenance	19,373	-
Net loss on sale of plant and equipment	302,613	-
Total restructuring costs	810,992	-

Note 7. Expenses

	Consolidated 2016 $	Consolidated 2015 $
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	75,700	160,225
Fixtures and fittings	160,490	187,923
Leasehold improvements	42,096	63,339
Instrument sets	212,060	283,855
Total depreciation	490,346	695,342
Amortisation		
Website	4,609	2,465
Patents and trademarks	19,825	78,416
Total amortisation	24,434	80,881
Total depreciation and amortisation	514,780	776,223
Impairment		
Inventories	244,348	52,500
Finance costs		
Interest and finance charges paid/payable	68,269	158,706
Minimum lease payments - operating lease expense	308,037	434,659
Net foreign exchange loss	36,207	169,222
Share-based payments expense	-	14,500
Defined contribution superannuation expense	177,902	209,265
Employee benefits expense excluding superannuation	2,130,404	2,328,962

Note 8. Income tax expense

	Consolidated	
	2016	2015
	$	$
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(2,035,788)	(855,056)
Tax at the statutory tax rate of 30%	(610,736)	(256,517)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	66	3,282
Share-based payments	-	4,350
Concessional research and development expenditure treatment	345,839	579,014
Research and development tax incentive	(141,624)	(260,556)
	(406,455)	69,573
Current year temporary differences and tax losses not recognised	427,139	55,164
Carried forward income tax losses utilised	-	(104,124)
Share raising cost recognised directly in equity	(20,684)	(20,613)
Income tax expense	-	-

	Consolidated	
	2016	2015
	$	$
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	3,677,289	3,230,286
Potential tax benefit @ 30%	1,103,187	969,086

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised against future taxable income if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 9. Current assets - trade and other receivables

	Consolidated	
	2016	2015
	$	$
Trade receivables	896,988	844,036
Other receivables	177,661	150,311
Research and development tax receivable	487,963	868,521
	665,624	1,018,832
Prepayments	161,022	208,729
	1,723,634	2,071,597

Impairment of receivables
The consolidated entity has recognised a provision $nil (2015: $nil) in corporate and administration expenses in profit or loss, in respect of impairment of receivables for the year ended 30 June 2016.

Note 9. Current assets - trade and other receivables (continued)

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $622,385 as at 30 June 2016 ($240,166 as at 30 June 2015).

These relate to a number of independent customers for whom there is no recent history of default.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2016	2015
	$	$
1 to 2 months	412,275	190,960
3 to 4 months	210,110	49,206
	622,385	240,166

Note 10. Current assets - inventories

	Consolidated	
	2016	2015
	$	$
Raw materials - at cost	9,450	439,229
Work in progress - at cost	-	87,391
Finished goods - at lower of cost or net realisable value	1,502,036	1,832,899
	1,511,486	2,359,519

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2016 amounted to $244,348 (2015: $52,500). The expense has been included in cost of sales and purchase of consumables in profit or loss.

Note 11. Non-current assets - property, plant and equipment

	Consolidated	
	2016	2015
	$	$
Plant and equipment - at cost	427,676	4,626,021
Less: Accumulated depreciation	(417,716)	(3,914,305)
	9,960	711,716
Fixtures and fittings - at cost	1,194,951	1,917,256
Less: Accumulated depreciation	(1,089,888)	(1,642,618)
	105,063	274,638
Leasehold improvements - at cost	444,217	469,820
Less: Accumulated depreciation	(434,217)	(427,724)
	10,000	42,096
Instrument sets - at cost *	2,515,149	2,449,416
Less: Accumulated depreciation	(2,162,953)	(1,950,892)
	352,196	498,524
	477,219	1,526,974

Note 11. Non-current assets - property, plant and equipment (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and equipment $	Fixtures and fittings $	Leasehold improvements $	Instrument sets * $	Total $
Balance at 1 July 2014	865,304	415,023	105,435	729,809	2,115,571
Additions	8,637	47,538	-	230,570	286,745
Disposals	(2,000)	-	-	(178,000)	(180,000)
Depreciation expense	(160,225)	(187,923)	(63,339)	(283,855)	(695,342)
Balance at 30 June 2015	711,716	274,638	42,096	498,524	1,526,974
Additions	2,219	3,586	10,000	65,732	81,537
Disposals	(628,275)	(12,671)	-	-	(640,946)
Depreciation expense	(75,700)	(160,490)	(42,096)	(212,060)	(490,346)
Balance at 30 June 2016	9,960	105,063	10,000	352,196	477,219

* Includes net book value of finance leased assets of $128,021 (2015: $192,031) (cost: $205,033 (2015:$205,033), accumulated depreciation: $77,012 (2015: $13,002)).

To facilitate the outsourcing, certain plant and equipment has been sold to Signature, which has resulted in a net loss on disposal of $302,613 . Refer to note 6.

The remaining balance of $9,960 corresponds to office equipment still held by the consolidated entity.

Property, plant and equipment secured under finance leases
Refer to note 26 for further information on property, plant and equipment secured under finance leases.

Note 12. Non-current assets - intangibles

	Consolidated 2016 $	Consolidated 2015 $
Website - at cost	-	141,845
Less: Accumulated amortisation	-	(123,094)
	-	18,751
Patents and trademarks - at cost	665,464	653,427
Less: Accumulated amortisation	(506,596)	(433,875)
	158,868	219,552
	158,868	238,303

Note 12. Non-current assets - intangibles (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Website $	Patents and trademarks $	Total $
Balance at 1 July 2014	-	213,136	213,136
Additions	21,216	84,832	106,048
Amortisation expense	(2,465)	(78,416)	(80,881)
Balance at 30 June 2015	18,751	219,552	238,303
Additions	3,237	12,037	15,274
Write off of assets	(17,379)	(52,896)	(70,275)
Amortisation expense	(4,609)	(19,825)	(24,434)
Balance at 30 June 2016	-	158,868	158,868

Note 13. Current liabilities - trade and other payables

	Consolidated 2016 $	Consolidated 2015 $
Trade payables	598,912	540,950
Accrued expenses	278,999	343,709
Deferred income	770,495	1,280,935
Other payables	160,734	201,205
	1,809,140	2,366,799

Refer to note 21 for further information on financial instruments.

Note 14. Current liabilities - borrowings

	Consolidated 2016 $	Consolidated 2015 $
Related party loans	700,000	-
Debtor facility	178,634	-
Lease liability	67,316	218,587
	945,950	218,587

Refer to note 16 for further information on assets pledged as security and financing arrangements.

Refer to note 21 for further information on financial instruments.

Note 15. Current liabilities - provisions

	Consolidated 2016 $	Consolidated 2015 $
Employee benefits	41,371	169,770
Lease make good	-	209,326
	41,371	379,096

Lease make good
The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2016	Lease make good $
Carrying amount at the start of the year	209,326
Amounts used	(209,326)
Carrying amount at the end of the year	-

Note 16. Non-current liabilities - borrowings

	Consolidated 2016 $	Consolidated 2015 $
Lease liability	39,469	98,454

Refer to note 21 for further information on financial instruments.

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated 2016 $	Consolidated 2015 $
Lease liability	106,785	317,041
Related party loans	700,000	-
Debtor finance facility	178,634	-
	985,419	317,041

Assets pledged as security
The assets pledged relates to the loan with the related party which is secured against a floating charge over the net assets of the business.

Note 16. Non-current liabilities - borrowings (continued)

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2016 $	2015 $
Plant and equipment	128,021	328,159

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2016 $	2015 $
Total facilities		
Related party loans	1,000,000	-
Lease liability	106,785	317,041
Business card facility	15,000	15,000
Debtor finance facility	1,500,000	1,500,000
	2,621,785	1,832,041
Used at the reporting date		
Related party loans	700,000	-
Lease liability	106,785	317,041
Business card facility	-	-
Debtor finance facility	178,634	-
	985,419	317,041
Unused at the reporting date		
Related party loans	300,000	-
Lease liability	-	-
Business card facility	15,000	15,000
Debtor finance facility	1,321,366	1,500,000
	1,636,366	1,515,000

The consolidated entity has a related party loan facility up to $1,000,000 and had drawn down $700,000. The security and guarantee placed on Robinwood loan for this facility is that Allegra grants to the Lender the following:
a) a PPSA security interest over all of Allegra's personal property; and
b) a charge over all of Allegra's other property.

The debtor finance facility allow the consolidated entity to draw down up to 80% of the value of sales invoices raised, up to a maximum of $1,500,000.

Note 17. Non-current liabilities - provisions

	Consolidated	
	2016 $	2015 $
Employee benefits	29,181	30,128
Lease make good	10,000	-
	39,181	30,128

Note 18. Equity - issued capital

	Consolidated			
	2016 Shares	2015 Shares	2016 $	2015 $
Ordinary shares - fully paid	63,601,248	63,501,248	10,459,629	10,459,629

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2014	43,751,248		9,602,217
Shares issued	26 September 2014	1,590,060	$0.05	80,000
Shares issued	28 October 2014	18,409,940	$0.05	920,000
Transaction costs		-	$0.00	(142,588)
Employee shares cancelled	16 March 2015	(250,000)	$0.00	-
Balance	30 June 2015	63,501,248		10,459,629
Shares issued	31 July 2015	100,000	$0.00	-
Balance	30 June 2016	63,601,248		10,459,629

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

Note 19. Equity - reserves

	Consolidated	
	2016 $	2015 $
Share-based payments reserve	565,280	565,280

Note 19. Equity - reserves (continued)

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Share-based payments $	Total $
Balance at 1 July 2014	550,780	550,780
Share-based payments	14,500	14,500
Balance at 30 June 2015	565,280	565,280
Balance at 30 June 2016	565,280	565,280

Note 20. Equity - dividends

Dividends
There were no dividends paid, recommended or declared during the current or previous financial year.

Franking credits

	Consolidated	
	2016 $	**2015 $**
Franking credits available for subsequent financial years based on a tax rate of 30%	320,477	320,477

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 21. Financial instruments

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity 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, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk
The consolidated entity is not exposed to any significant foreign exchange risk.

Price risk
The consolidated entity is not exposed to any significant price risk.

Note 21. Financial instruments (continued)

Interest rate risk
The consolidated entity's main interest rate risk arises from long-term borrowings and finance leases. Those issued at variable rates expose the consolidated entity to interest rate risk. Those issued at fixed rates expose the consolidated entity to fair value interest rate risk.

For the consolidated entity the bank, finance leases and other loans outstanding, totalling $985,419 (2015: $317,041), are principal and interest payment loans. Minimum principal repayments of $67,316 (2015: $218,587) are due during the year ending 30 June 2017.

The consolidated entity is not exposed to any significant interest rate risk.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated	
	2016 $	2015 $
Related party loans	300,000	-
Business card facility	15,000	15,000
Debtor finance facility	1,321,366	1,500,000
	1,636,366	1,515,000

Note 21. Financial instruments (continued)

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2016	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	598,912	-	-	-	598,912
Other payables	-	160,734	-	-	-	160,734
Interest-bearing - fixed rate						
Debtor finance facility	8.50%	186,226	-	-	-	186,226
Related party loans	13.00%	745,500	-	-	-	745,500
Lease liability	13.03%	77,418	42,273	-	-	119,691
Total non-derivatives		1,768,790	42,273	-	-	1,811,063

Consolidated - 2015	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	540,950	-	-	-	540,950
Other payables	-	201,205	-	-	-	201,205
Interest-bearing - fixed rate						
Lease liability	13.03%	238,470	119,692	-	-	358,162
Total non-derivatives		980,625	119,692	-	-	1,100,317

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 22. Fair value measurement

Fair value hierarchy
There are no amounts either measured or disclosed at fair value in these financial statements.

The carrying values of financial assets and financial liabilities within the statement of financial position represent a reasonable approximation of fair value.

Note 23. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2016 $	2015 $
Short-term employee benefits	430,233	514,312
Post-employment benefits	26,468	26,932
Long-term benefits	649	14,613
Share-based payments	-	24,000
	457,350	579,857

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company:

	Consolidated	
	2016 $	2015 $
Audit services - PricewaterhouseCoopers		
Audit or review of the financial statements	108,740	105,575
Other services - PricewaterhouseCoopers		
Tax compliance services	12,500	12,500
Tax consulting and advice - R&D	30,000	30,000
	42,500	42,500
	151,240	148,075

Note 25. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2016 and 30 June 2015.

The consolidated entity has performance guarantee totalling $95,586 at 30 June 2016 (2015: $115,441) in relation to rental commitments.

Note 26. Commitments

	Consolidated	
	2016 $	2015 $
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	31,384	243,159
One to five years	36,615	-
	67,999	243,159
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	77,418	238,470
One to five years	42,273	119,692
Total commitment	119,691	358,162
Less: Future finance charges	(12,906)	(41,121)
Net commitment recognised as liabilities	106,785	317,041
Representing:		
Lease liability - current (note 14)	67,316	218,587
Lease liability - non-current (note 16)	39,469	98,454
	106,785	317,041

Operating lease commitments includes contracted amounts for office and plant and equipment under non-cancellable operating leases expiring within three to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment with a carrying value of $128,021 (2015: $328,519) under finance leases expiring within one to five years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 27. Related party transactions

Parent entity
Allegra Orthopaedics Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 29.

Key management personnel
Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Note 27. Related party transactions (continued)

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	2016	2015
	$	$
Payment for goods and services:		
Fee for maintenance and support services from Anittel Group Limited (shareholder and director related entity of Peter Kazacos)	-	60,789
Fees paid to Law Corporation (director related entity of Peter Kazacos)	14,750	39,000
Fees paid and payable to Atanaskovic Hartnell (a legal firm in which Anthony Hartnell is a partner)	52,111	-
Payment for other expenses:		
Interest paid to parties related to Tom Milicevic	-	13,648

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2016	2015
	$	$
Current borrowings:		
Loan from related party	700,000	-

The related party loan is with Robinwood Investments Pty Ltd (major shareholder) and the facility available is $1,000,000. The loan is due and payable by 30 December 2016 and is at 13% interest rate.

Terms and conditions
All transactions were made on normal commercial terms and conditions.

Note 28. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2016	2015
	$	$
Loss after income tax	(2,035,788)	(796,465)
Total comprehensive income	(2,035,788)	(796,465)

Note 28. Parent entity information (continued)

Statement of financial position

	Parent	
	2016	2015
	$	$
Total current assets	4,511,808	5,636,359
Total assets	5,101,405	7,354,925
Total current liabilities	2,792,871	2,960,671
Total liabilities	2,871,521	3,089,253
Equity		
Issued capital	10,459,629	10,459,629
Share-based payments reserve	565,280	565,280
Accumulated losses	(8,795,025)	(6,759,237)
Total equity	2,229,884	4,265,672

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2016 and 30 June 2015.

The parent has performance guarantee totalling $95,586 at 30 June 2016 (2015: $115,441) in relation to rental commitments.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 30 June 2016 and 30 June 2015.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 29. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Ownership interest	
Name	Principal place of business / Country of incorporation	2016 %	2015 %
Allegra Orthopaedics Holdings Pty Limited	Australia	100.00%	100.00%
Advanced Surgical Design & Manufacture (UK) Limited *	United Kingdom	100.00%	100.00%

* This entity is dormant.

Note 30. Reconciliation of loss after income tax to net cash from/(used in) operating activities

	Consolidated	
	2016 $	2015 $
Loss after income tax expense for the year	(2,035,788)	(855,056)
Adjustments for:		
Depreciation and amortisation	514,780	776,223
Net loss/(gain) on disposal of property, plant and equipment	302,613	(296,332)
Share-based payments	-	14,500
Other expenses - non-cash	-	55,000
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(80,302)	381,906
Decrease in inventories	848,033	907,445
Decrease/(increase) in income tax refund due	380,558	(51,521)
Decrease in prepayments	47,707	10,961
Increase/(decrease) in trade and other payables	(445,051)	763,253
Decrease in other provisions	(328,672)	(108,024)
Net cash from/(used in) operating activities	(796,122)	1,598,355

Note 31. Earnings per share

	Consolidated	
	2016 $	2015 $
Loss after income tax attributable to the owners of Allegra Orthopaedics Limited	(2,035,788)	(855,056)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	63,593,051	57,296,815
Weighted average number of ordinary shares used in calculating diluted earnings per share	63,593,051	57,296,815
	Cents	Cents
Basic earnings per share	(3.20)	(1.49)
Diluted earnings per share	(3.20)	(1.49)

Options granted to employees under the Employee Option Plan for prior years were not included in the determination of diluted earnings per share because they are anti-dilutive for the year. These options could potentially dilute basic earnings per share in the future.

Note 32. Events after the reporting period

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Kazacos
Director

30 August 2016
Sydney

Independent auditor's report to the members of Allegra Orthopaedics Limited

Report on the financial report

We have audited the accompanying financial report of Allegra Orthopaedics Limited (the company), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Allegra Orthopaedics Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Auditor's opinion

In our opinion:

(a) the financial report of Allegra Orthopaedics Limited is in accordance with the *Corporations Act 2001,* including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 5 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Allegra Orthopaedics Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Sumanth Prakash
Partner

Sydney
30 August 2016

The shareholder information set out below was applicable as at 12 August 2016.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	9
1,001 to 5,000	133
5,001 to 10,000	71
10,001 to 100,000	98
100,001 and over	34
	345
Holding less than a marketable parcel	112

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	21,391,879	33.63
CRYPTYCH PTY LTD	7,067,856	11.11
WELSH SUPERANNUATION PTY LIMITED	6,600,000	10.38
MARIE CAROLL & DAWSON CAROLL	5,636,285	8.86
NETWEALTH INVESTMENTS LIMITED	5,517,036	8.67
MERGIN INVESTMENTS PTY LTD	2,332,857	3.67
MR KENNETH CAMPBELL	1,000,000	1.57
MR THOMAS JAMES CARROLL	1,000,000	1.57
MR NICHOLAS HARTNELL	970,667	1.53
MISTY HILLS NOMINEES PTY LTD	892,857	1.40
DESTIN PTY LIMITED	835,120	1.31
SANPEREZ PTY LTD	700,000	1.10
PETER WELSH	473,685	0.74
DESMON J BOKER PTY LIMITED	450,000	0.71
MS NICOLE FAITH ROGER	403,334	0.63
CRYPTYCH PTY LTD	355,000	0.56
DR ANDREW WILLIAM LEICESTER & MRS SKYE CHRISTINE LEICESTER	316,804	0.50
SIMON ROBERTS	309,358	0.49
LESLIE HARRY CROSS	300,000	0.47
JOHN O'MEARA & MARGARET O'MEARA	300,000	0.47
	56,852,738	89.37

Unquoted equity securities
There are no unquoted equity securities.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	22,557,364	35.47
CRYPTYCH PTY LTD and GREGORY JAMES ROGER	7,946,190	12.49
WELSH SUPERANNUATION PTY LIMITED and PETER WELSH	7,073,285	11.12
MARIE CAROLL & DAWSON CAROLL	5,636,285	8.86
CLJE INVESTMENTS PTY LTD	4,600,000	7.23

The above is the information disclosed in the most recent substantial holding notices given to the company.

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.