

# 2018

## Annual Report



**Allegra**   
**ORTHOPAEDICS**  
Human Movement Technology



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**Exclusive distributors of Waldemar Link  
GmbH & Co. KG products in Australia.**



**Range of complex lower limb, hip and  
knee replacements, including  
oncology solutions.**



23 August 2018

## Financial Report 30 June 2018

Dear Shareholder

I am pleased to present Allegra Orthopaedics Limited's ('Allegra') Annual Report for the year ended 30 June 2018.

FY2018 has proven to be a year of progress and solid achievements at Allegra. Overall the company continues to execute on its strategic objectives for both its Innovation Division and its Orthopaedic Division, which I will outline below.

### Innovation Division

We have continued to invest in this division with an expanded workforce of highly skilled Biomedical Engineers, establishment of a pilot manufacturing site in Sydney and collaboration with speciality organisations and universities, all of which are underpinning our objective to commercialise our first product, being an inter body cervical spinal cage, using our unique world leading Sr-HT-Gahnite bone substitute material.

This objective was further enhanced after the company successfully secured an MTPConnect Grant of \$891,500 (refer ASX announcement April 18th 2018) to support this project. The first instalment of funds from this grant was received in June 2018.

In addition, the Innovation Division is also proud to be among three industry partners, being University of Sydney, Bone Ligament Tendon Pty Ltd ('BLT') and the Innovative Manufacturing CRC Limited (IMCRC), who as a collaborative group will be funding a \$2.4 million project to enable the manufacture of kangaroo-derived ligaments and Sr-HT-Gahnite fixation anchors and screws. (refer ASX announcement 3rd August 2018). This project could have the ability to disrupt the billion-dollar orthopaedic ligament-replacement market with new and uniquely Australian bone and ligament materials.

Our investment in expenditure within this division resulted in an EBITDA Loss of \$681k (net of R&D tax offset) for the 12 months to 30 June 2018. As this division is a product development group, this EBITDA result is in line with our expectations. While we have been very pleased with the level of activity and progress of this division, we are still several years away from bringing a final product to market.

### Orthopaedics Division

This division continues to perform well, achieving revenues and other income in FY2018 of \$4.698M (FY2017: \$4.990M) and an EBITDA result of \$434k (FY2017: \$633k)

In December 2017, Allegra signed an exclusive agreement with German based manufacturer, Waldemar LINK GmbH & Co (refer ASX announcement December 14th 2017), to distribute their complete portfolio of medical device implants in Australia.



Allegra competed with other potential distributors all seeking this distribution opportunity, but in the end Allegra prevailed. The LINK product range not only complements Allegra's current product offerings but allows us to also distribute an extensive portfolio of revision and tumour implant systems on a national level. As a result, the last six (6) month period from January 2018 to June 2018, has seen a renewed focus on our core business with the ability to offer a much more extensive portfolio of products. Having these additional products will enable our business to continue to grow our market share. The LINK product range has already enabled new surgeons to become users of Allegra products. It has been a busy period for this division as it incorporates the LINK products range into its current offering.

### **Consolidated Position**

A summary of Allegra's results on a consolidated basis for FY2018 are as follows;

- Revenues of \$4.690M (FY2017: \$4.943M)
- EBITDA loss of \$247k (previous year profit of \$895k).
- Cash balances at 30 June 2018 \$1.615M compared to \$1,848M at 30 June 2017
- Continued expansion of our customer surgeon base which will pave the way to improved revenues.

Continued to maintain strong shareholder support as indicated by the successful private share placements in September and November 2017 (refer ASX announcements: 8 September 2017 and 9 November 2017) raising a combined \$2.5M in new capital for the company to continue investing in the commercialisation of its Sr-HT Garnite bone substitute project.

Lastly, I would like to thank my fellow directors, Allegra management and staff for their dedication and support, which has continued to underpin Allegra's performance over the last 12 months and into the future.

Sincerely

Peter Kazacos

Non-Executive Chairman



## Corporate Directory 30 June 2018

Directors	Peter Kazacos Anthony Hartnell Sean Mulhearn Nicholas Hartnell
Company secretary	Justyn Stedwell
Registered office	Level 8 18-20 Orion Road Lane Cove West, NSW 2066 Head office telephone: 02 9119 9200
Share register	Link Market Services Limited Level 12 680 George Street Sydney, NSW 2000 Shareholders enquiries: 1300 554 474
Auditor	Crowe Horwath Sydney Level 15 1 O'Connell 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	<a href="http://www.allegraorthopaedics.com">www.allegraorthopaedics.com</a>
Corporate Governance Statement	The Corporate Governance Statement can be found at: <a href="http://www.allegraorthopaedics.com/corporate-governance">www.allegraorthopaedics.com/corporate-governance</a>



## Directors' report 30 June 2018

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 2018.

### 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  
 Nicholas Hartnell (appointed 7 March 2018)

### Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of two distinct areas:

- The sale, design and distribution of its medical device product range within its Orthopaedic Division; and
- Within the Innovation Division, advancing the development and commercialisation of innovative technologies into products which can be taken to market. The current major project being a ceramic bone substitute which is both load bearing and biocompatible under an exclusive global license from the University of Sydney.

### 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 \$604,144 (30 June 2017: profit of \$501,048).

### Revenues

Total revenue from ordinary activities for the year ended 30 June 2018 was \$4,690,342 (30 June 2017: \$4,943,216).

A comparison of full year revenue compared with previous year is as follows:

	2018 \$	2017 \$	Change \$	Change %
Sales of goods	4,222,868	4,262,476	(39,608)	(1%)
Commission revenue	455,819	672,698	(216,879)	(32%)
Interest received	11,655	8,042	3,613	45%

Revenues from 'sales of goods' remained flat year on year, despite the full year impact on product revenues from the Federal Governments mandated 'benefits reduction' of 7.5% on prosthesis rebates from private health insurers which took effect in February 2017 plus a further reduction of 3% taking effect in March 2018. These reductions directly impacted product sales and commission revenues of hip and knee implants plus other related products.

'Commission revenues' earned by the company were lower year on year due to a reduction of the sales commission percentage earned by the company plus the impact of the Federal Governments mandated 'benefits reduction' referred to above. In addition, sales units were lower year on year.

	2018 \$	2017 \$	Change \$	Change %
Other income	552,503	1,078,864	(526,361)	(49%)

'Other Income' has reduced materially year on year. The primary reason for this reduction is the Government grant income of \$770,495 recognised in the previous year, ending 30 June 2017, which represented the remaining unused balance of this grant. There was no Government grant income recognised in the current year ending 30 June 2018.



## Directors' report 30 June 2018

### Expenses

A comparison of full year expenses compared with previous year is as follows:

	2018 \$	2017 \$	Change \$	Change %
Cost of sales and purchases of consumables	(1,409,457)	(1,567,896)	158,439	(10%)
Corporate and administration expenses	(1,882,140)	(1,737,046)	(145,094)	8%
Quality and research and development expenses	(1,227,678)	(898,298)	(329,380)	37%
Sales and marketing expenses	(1,319,754)	(1,206,500)	(113,254)	9%
Finance costs	(7,960)	(111,292)	103,332	(93%)

'Cost of sales and purchases of consumables' is lower year on year due to slightly improved sales margin on products sold and a reduction in inventory provision expense in the current year compared with the previous year ending 30 June 2017.

'Corporate and administration expenses' is higher by \$145,094. This increase is primary driven by an increase in depreciation compared with the previous financial year plus overall cost increases in facilities and support services and salaries.

'Quality and research and development expenses' are \$329,380 higher year on year and reflects the increased investment in highly qualified engineering staff, consultants and service providers who are supporting the on-going commercialisation of the synthetic bone substitute project known as SrHT Gahnite. In addition there is a new facility cost.

'Sales and marketing expenses' has increased \$113,254 primarily due to expansion of direct sales and support headcount and their associated costs of travel. In addition there was increased expenditure on sales conferences.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') was a loss of \$247,450 (2017: profit of \$894,965). A significant factor causing the year on year reduction in EBITDA is the Government grant income of \$770,495 recognised in the previous year, ending 30 June 2017. This Government grant was in support of the company's on-going development activities to commercialise its synthetic bone substitute project. As the Government grant income had been fully utilised as at 30 June 2017, the amount recognised in the current year ending 30 June 2018 was nil, yet the company has continued to increase expenditure in 'Quality, Research & Development' to support this project. Another factor negatively impacting EBITDA was the full year impact of the Federal Governments mandated 'benefit reduction' of 7.5% on prosthesis rebates from private health insurers which took effect in February 2017 and a further reduction of 3% in March 2018. These reductions directly impacted product sales and commission revenues of hip and knee implant and other related products.

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-specific and significant items. The directors consider EBITDA to reflect the core earnings of the consolidated entity.

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

	Consolidated	
	2018 \$	2017 \$
Profit/(loss) after income tax	(604,144)	501,048
Add: Depreciation and amortisation	360,389	290,667
Add: Finance cost	7,960	111,292
Less: Interest income	(11,655)	(8,042)
EBITDA	(247,450)	894,965

### Significant changes in the state of affairs

On 8 September 2017, the company announced that it has secured commitments from individuals for a placement of 8,666,667 ordinary shares at an issue price of \$0.15 (15 cents) per share to raise \$1.3 million. The funds raised will be used for ongoing working capital required to continue investment in the commercialisation of the Sr-HT Garnite bone substitute project.





## Directors' report 30 June 2018

On 25 October 2017, the company's Employee Share Option Plan ('ESOP') was approved at the Annual General Meeting.

On 9 November 2017, the company announced that it has secured commitments from individuals for a placement of 8,000,000 ordinary shares at an issue price of \$0.15 (15 cents) per share to raise \$1.2 million. The funds raised will be used for ongoing working capital required to continue investment in the commercialisation of the Sr-HT Garnite bone substitute project.

On 14 December 2017, the company entered into an agreement with German based Waldemar LINK GmbH & Co ('LINK') to exclusively distribute their complete range of medical device implant products within Australia. The term of the agreement is three years with an option to extend to five years.

On 18 April 2018, the company announced it had been awarded a grant of \$891,500 by the BioMedTech Horizons program for the company's successful application of its interbody cervical spinal cage device project which is being developed by the company's Innovation Division.

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

On 3 August 2018, the company announced that, in collaboration with three industry partners, being University of Sydney, Bone Ligament Tendon (BLT) Pty Ltd and the Innovative Manufacturing CRC Limited (IMCRC), the collaborative group would be funding a \$2.4 million project to enable the manufacture of kangaroo-derived ligaments and Sr-HT-Garnite fixation anchors and screws. (refer ASX announcement 3rd August 2018). This project could have the ability to disrupt the billion-dollar orthopaedic ligament-replacement market with new and uniquely Australian bone and ligament materials.

No other matter or circumstance has arisen since 30 June 2018 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

The consolidated entity continues to execute on its two primary objectives.

The first objective being the improvement of sales and distribution of its medical device product range contained within its Orthopaedic division. This objective was further enhanced by the addition of the LINK product range in December 2017 (refer ASX announcement 14 December 2017). The addition of the LINK product range complements the consolidated entity's existing orthopaedic offering by adding excellent opportunities for increased market penetration in complex lower limbs and tumor arthroplasty. This division continues to expand its distribution capabilities with the addition of new sales agents throughout Australia. It is expected this division will continue to trade profitably for FY2019.

The second objective relates to the consolidated entity's Innovation division where investment continues in its key strategic project, which is to develop and commercialise its Sr-HT-Garnite bone substitute material into a market ready product. The first product currently under development is an inter body cervical spinal cage. In addition to the spinal cage project the consolidated entity has collaborated with universities and industry partners to manufacture new and uniquely Australian bone and ligament materials using the biodegradable ceramic material, Sr-HT-Garnite, and kangaroo tendons as a parallel project. This division has no product revenues with all costs related to product development being expensed as incurred, hence this division is expected to operate at a loss in FY2019.

The consolidation of the consolidated entity's two operating divisions is expected to be a trading loss in FY2019 due to the on-going investment in the Innovation division expected to exceed the continuing profits from the Orthopaedic division.

### Environmental regulation

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



## Directors' report report 30 June 2018

### Information on directors

Name:	Peter Kazacos
Title:	Non-Executive Director and Chairman
Qualifications:	B.E, B.Sc., OAM
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:	None
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:	1,184,430 ordinary shares
Interests in options:	82,452 options over ordinary shares
Name:	Anthony Hartnell
Title:	Non-Executive Director
Qualifications:	B.Ec LLB (Hons) (ANU), LL.M (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:	Parnell Pharmaceuticals Holdings Limited, Molopo Energy Limited and Aurora Funds Management Limited
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:	220,000 shares held directly, 9,310 held indirectly through Hartnell Retirement Fund and 306,268 held indirectly through close related party. Excludes holding by son, Nicholas Hartnell which is detailed below.
Interests in options:	82,452 options over ordinary shares
Name:	Sean Mulhearn
Title:	Non-Executive Director
Qualifications:	B.Ec (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:	728,079 ordinary shares
Interests in options:	82,452 options over ordinary shares



## Directors' report 30 June 2018

Name:	Nicholas Hartnell
Title:	Non-Executive Director (appointed 7 March 2018)
Qualifications:	MBBS (University of Sydney)
Experience and expertise:	As an orthopaedic surgeon, Nicholas brings to Allegra a wealth of orthopaedic industry experience. He completed a Bachelor of Medicine and Bachelor of Surgery at the University of Sydney in 1995. Since then he has been focused on orthopaedic training and specialisation and hence has many years of experience in all facets of Orthopaedic care. Nicholas set up his practice in Bowral in the Southern Highlands, NSW and has since expanded his surgical practice into the Goulburn, and Camden/Campbelltown areas. As a result of Nicholas' extensive experience as an orthopaedic surgeon, he will continue in his role as a member of Allegra's Panel of Surgeon Advisers.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	1,214,090 held directly and 38,274,948 held indirectly through Robinwood Investments Pty Ltd
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

Justyn Stedwell is a professional Company Secretary consultant, with over 10 years' experience as a Company Secretary of ASX-listed companies in various industries including biotechnology, agriculture, mining and exploration, information technology and telecommunications. Justyn's qualifications include a Bachelor of Commerce (Economics and Management) from Monash University, a Graduate Diploma of Accounting at Deakin University and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. He is currently the Company Secretary of several ASX listed companies.

### 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 2018, 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	11	11	1	1	1	1
Anthony Hartnell	10	11	1	1	1	1
Sean Mulhearn	11	11	1	1	1	1
Nicholas Hartnell	3	4	-	-	-	-

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.



## Directors' report 30 June 2018

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 with an innovation division, 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.

### ***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***

The structure of non-executive directors and executive remunerations are determined separately.

### ***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.

### ***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.



## Directors' report 30 June 2018

### *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 publicly 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.

### *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 meets/or exceeds pre-determined performance hurdles set by the NRC, a short-term incentive ('STI') is available to KMP during the annual review. These performance hurdles ensure variable reward is only available when value has been created for shareholders.

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 22% 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 and directors, ordinary shares or options over ordinary shares in the company so to align KMP and directors interests with shareholders' interests.

The ability to obtain the ordinary shares or options over ordinary 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, ordinary shares or options over ordinary 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 ordinary shares or options over ordinary shares that ultimately vest.

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 2018, the consolidated entity did not engage remuneration consultants to review its STI and LTI remuneration framework.

### *Voting and comments made at the company's 2017 Annual General Meeting ('AGM')*

At the 2017 AGM, 99.88% of the votes received were for the adoption of the remuneration report for the year ended 30 June 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

### **Details of remuneration**

The KMP of the consolidated entity consisted of the directors of the company and the following person:

- Jenny Swain - Chief Executive Officer

### *Amounts of remuneration*

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



## Directors' report 30 June 2018

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Leave benefits \$	Equity-settled shares \$	Total \$
<b>2018</b>							
<i>Non-Executive Directors:</i>							
Peter Kazacos (Chairman)	62,520	-	-	-	-	604	63,124
Anthony Hartnell	32,500	-	-	-	-	604	33,104
Sean Mulhearn	32,500	-	-	-	-	604	33,104
Nicholas Hartnell *	15,000	-	-	-	-	-	15,000
<i>Other Key Management Personnel:</i>							
Jenny Swain **/**	286,526	34,140	-	25,998	10,359	6,836	363,859
	429,046	34,140	-	25,998	10,359	8,648	508,191

\* Includes remuneration from date of appointment to 30 June 2018.

\*\* Bonus paid was discretionary.

\*\*\* Base salary of \$282,000 plus \$4,526 being refund related to novated car lease.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Leave benefits \$	Equity-settled shares \$	Total \$
<b>2017</b>							
<i>Non-Executive Directors:</i>							
Peter Kazacos (Chairman)	62,520	-	-	-	-	-	62,520
Anthony Hartnell	20,000	-	-	-	-	-	20,000
Sean Mulhearn	20,000	-	-	-	-	-	20,000
<i>Other Key Management Personnel:</i>							
Jenny Swain **	210,843	-	30,812	23,081	3,869	-	268,605
Richard Ulrick *	35,838	-	-	-	-	-	35,838
	349,201	-	30,812	23,081	3,869	-	406,963

\* Includes remuneration from beginning of the year to date of cessation as KMP within the consolidated entity.

\*\* No bonus was paid during the year.





## Directors' report 30 June 2018

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
Peter Kazacos	99%	100%	-	-	1%	-
Anthony Hartnell	97%	100%	-	-	3%	-
Sean Mulhearn	97%	100%	-	-	3%	-
Nicholas Hartnell	100%	-	-	-	-	-
<i>Other Key Management Personnel:</i>						
Jenny Swain	89%	100%	9%	-	2%	-
Richard Ulrick	-	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 with the CEO provides for a base salary plus statutory superannuation. The NRC reviews this amount annually. For the year commencing 1 July 2017, the NRC increased the CEO's base salary to \$282,000 per annum (plus statutory superannuation). An annual performance bonus maybe payable upon the achievement of relevant KPI's. In addition employee share options maybe offered as part of a long term incentive ('LTI') at the discretion of the NRC. Either party may terminate this agreement 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

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2018.

#### Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Peter Kazacos	82,452	9 November 2017	9 November 2021	9 November 2023	\$0.125	\$0.0521
Anthony Hartnell	82,452	9 November 2017	9 November 2021	9 November 2023	\$0.125	\$0.0521
Sean Mulhern	82,452	9 November 2017	9 November 2021	9 November 2023	\$0.125	\$0.0521
Jenny Swain	932,538	8 December 2017	8 December 2021	8 December 2023	\$0.125	\$0.0521

Options granted carry no dividend or voting rights.



## Directors' report 30 June 2018

The number of options over ordinary shares granted to and vested in directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Number of options granted during the year 2018	Number of options vested during the year 2018
Peter Kazacos	82,452	-
Anthony Hartnell	82,452	-
Sean Mulhern	82,452	-
Jenny Swain	932,538	-

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options vesting during the year \$	Remuneration consisting of options for the year %
Peter Kazacos	4,296	-	-	1%
Anthony Hartnell	4,296	-	-	3%
Sean Mulhern	4,296	-	-	3%
Jenny Swain	48,585	-	-	3%

### Additional information

The Board considers that the above performance-linked remuneration structures will generate the desired outcome based on the experience of other companies.

### 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
<b>Ordinary shares</b>					
Peter Kazacos	1,184,430	-	-	-	1,184,430
Anthony Hartnell*	232,206	-	303,372	-	535,578
Sean Mulhern	873	-	727,206	-	728,079
Nicholas Hartnell**	36,075,705	-	3,413,333	-	39,489,038
Jenny Swain	267,027	-	-	-	267,027
	37,760,241	-	4,443,911	-	42,204,152

\* 220,000 shares held directly, 9,310 held indirectly through Hartnell Retirement Fund and 306,268 held indirectly through close related party. Excludes holding by son, Nicholas Hartnell which is detailed in its own line in the table.

\*\* 1,214,090 held directly and 38,274,948 held indirectly through Robinwood Investments Pty Ltd.





## Directors' report 30 June 2018

### Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Peter Kazacos	-	82,452	-	-	82,452
Anthony Hartnell	-	82,452	-	-	82,452
Sean Mulhern	-	82,452	-	-	82,452
Jenny Swain	-	932,538	-	-	932,538
	-	1,179,894	-	-	1,179,894

*This concludes the remuneration report, which has been audited.*

### Shares under option

Unissued ordinary shares of Allegra Orthopaedics Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
9 November 2017	9 November 2023	\$0.125	247,356
8 December 2017	8 December 2023	\$0.125	1,472,538
			1,719,894

### 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 2018 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

There were no non-audit services provided during the financial year by the auditor.

### Officers of the company who are former partners of Crowe Horwath Sydney

There are no officers of the company who are former partners of Crowe Horwath Sydney.



## Directors' report 30 June 2018

### 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

Crowe Horwath Sydney continues in office in accordance with section 327 of the Corporations Act 2001.

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

23 August 2018  
Sydney

23 August 2018

The Board of Directors  
Allegra Orthopaedics Limited  
Level 8, 18-20 Orion Road  
Lane Cove West NSW 2066

Dear Board Members

## Allegra Orthopaedics Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Allegra Orthopaedics Limited.

As lead audit partner for the audit of the financial report of Allegra Orthopaedics Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) 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 year.

Yours sincerely



**Crowe Horwath Sydney**



**John Haydon**  
Senior Partner



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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 23 August 2018. The directors have the power to amend and reissue the financial statements.



## Statement of profit or loss and other comprehensive income for the year ended 30 June 2018

		<b>Consolidated</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>	4	4,690,342	4,943,216
Other income	5	552,503	1,078,864
<b>Expenses</b>			
Cost of sales and purchases of consumables		(1,409,457)	(1,567,896)
Corporate and administration expenses		(1,882,140)	(1,737,046)
Quality and research and development expenses		(1,227,678)	(898,298)
Sales and marketing expenses		(1,319,754)	(1,206,500)
Finance costs	6	(7,960)	(111,292)
<b>Profit/(loss) before income tax expense</b>		(604,144)	501,048
Income tax expense	7	-	-
<b>Profit/(loss) after income tax expense for the year attributable to the owners of Allegra Orthopaedics Limited</b>		(604,144)	501,048
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the owners of Allegra Orthopaedics Limited</b>		(604,144)	501,048
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	30	(0.64)	0.71
Diluted earnings per share	30	(0.64)	0.71

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



## Statement of financial position as at 30 June 2018

		Consolidated	
	Note	2018 \$	2017 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,614,937	1,847,647
Trade and other receivables	8	1,149,025	876,158
Inventories	9	3,028,345	1,776,560
Prepayments		149,385	155,174
Total current assets		5,941,692	4,655,539
<b>Non-current assets</b>			
Property, plant and equipment	10	1,147,789	513,421
Intangibles	11	242,058	208,099
Security deposits		96,032	98,123
Total non-current assets		1,485,879	819,643
<b>Total assets</b>		7,427,571	5,475,182
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	828,753	679,325
Borrowings	13	-	149,987
Provisions	14	62,669	45,816
Total current liabilities		891,422	875,128
<b>Non-current liabilities</b>			
Provisions	15	55,417	44,494
Total non-current liabilities		55,417	44,494
<b>Total liabilities</b>		946,839	919,622
<b>Net assets</b>		6,480,732	4,555,560
<b>Equity</b>			
Issued capital	16	14,865,163	12,348,455
Share-based payments reserve	17	592,888	580,280
Accumulated losses		(8,977,319)	(8,373,175)
<b>Total equity</b>		6,480,732	4,555,560

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



## Statement of changes in equity for the year ended 30 June 2018

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Share-based payments reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
Balance at 1 July 2016	10,459,629	565,280	(8,874,223)	2,150,686
Profit after income tax expense for the year	-	-	501,048	501,048
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	501,048	501,048
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 16)	1,888,826	-	-	1,888,826
Share-based payments (note 31)	-	15,000	-	15,000
Balance at 30 June 2017	12,348,455	580,280	(8,373,175)	4,555,560

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Share-based payments reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
Balance at 1 July 2017	12,348,455	580,280	(8,373,175)	4,555,560
Loss after income tax expense for the year	-	-	(604,144)	(604,144)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(604,144)	(604,144)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 16)	2,516,708	-	-	2,516,708
Share-based payments	-	12,608	-	12,608
Balance at 30 June 2018	14,865,163	592,888	(8,977,319)	6,480,732

The above statement of changes in equity should be read in conjunction with the accompanying notes



## Statement of cash flows For the year ended 30 June 2018

		<b>Consolidated</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		5,158,268	5,745,165
Payments to suppliers and employees (inclusive of GST)		(7,172,679)	(6,008,649)
		(2,014,411)	(263,484)
Other revenue		7,294	46,417
Interest received		9,163	4,896
Interest and other finance costs paid		(8,427)	(111,292)
Income taxes refunded relating to research and development		277,834	472,080
<b>Net cash from/(used in) operating activities</b>	<b>28</b>	<b>(1,728,547)</b>	<b>148,617</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(961,472)	(372,344)
Payments for intangibles		(54,872)	(3,756)
Proceeds from disposal of property, plant and equipment		8,250	-
<b>Net cash used in investing activities</b>		<b>(1,008,094)</b>	<b>(376,100)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	16	2,509,750	1,928,150
Share issue transaction costs		(13,795)	(39,825)
Repayment of debtor finance facility		-	(178,634)
Repayment of insurance loans		(110,520)	(21,833)
Repayment of lease liabilities		(46,504)	(67,318)
Repayments of borrowings - related party		-	(700,000)
Grant received		165,000	-
<b>Net cash from financing activities</b>		<b>2,503,931</b>	<b>920,540</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(232,710)</b>	<b>693,057</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>1,847,647</b>	<b>1,154,590</b>
<b>Cash and cash equivalents at the end of the financial year</b>		<b>1,614,937</b>	<b>1,847,647</b>

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





## Notes to the financial statements - 30 June 2018

### 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 or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new or amended 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 or amended 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 26.

#### **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 2018 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.



## Notes to the financial statements - 30 June 2018

### 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.

#### Foreign currency translation

The financial statements are presented in Australian dollars, which is Allegra Orthopaedics Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

#### 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. 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 income*

Other income, 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.



## Notes to the financial statements - 30 June 2018

### Note 1. Significant accounting policies (continued)

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.

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.



## Notes to the financial statements - 30 June 2018

### Note 1. Significant accounting policies (continued)

#### Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of 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.

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.



## Notes to the financial statements - 30 June 2018

### Note 1. Significant accounting policies (continued)

#### *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.

#### *Set-up costs of new products*

Initial set-up costs associated with the manufacture of new products are capitalised as intangible assets and amortised over the expected life cycle of the product.

#### **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.

#### **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.

Loans and borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount and any consideration paid is recognised in profit or loss.

#### **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.





## Notes to the financial statements - 30 June 2018

### Note 1. Significant accounting policies (continued)

#### 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.

##### *Other long-term employee benefits*

Employee benefits not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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. Liabilities for employee entitlements which have vested in the employee at reporting date are recognised as current liabilities notwithstanding that they are not expected to be settled within 12 months of reporting date as the consolidated entity does not have an unconditional right to defer settlement.

##### *Defined contribution superannuation expense*

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

#### 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.



## Notes to the financial statements - 30 June 2018

### Note 1. Significant accounting policies (continued)

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.

### Comparative information

Certain reclassifications have been made to the comparative information to enhance comparability with current year disclosure.

### 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 2018. 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. It is not expected to significantly impact the financial statements on the basis that the main financial assets recognised represent cash and cash equivalent and trade receivables that do not carry a significant financing component and involve a single cash flow representing the repayment of principal, which in the case of trade receivables is the transaction price. Both asset classes will continue to be measured at face value. Other financial asset classes are not material to the consolidated entity. Financial liabilities of the consolidated entity are not impacted as the consolidated entity does not carry them at fair value.

#### *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.



## Notes to the financial statements - 30 June 2018

### Note 1. Significant accounting policies (continued)

The consolidated entity will adopt this standard from 1 July 2018. The consolidated entity has reviewed its revenue transactions performed with its customers, which include the transfer of promised goods or the provision of services as described by a written contract with each customer. The consolidated entity has determined the adoption of this standard will not impact the financial statements, as the entity's revenue is recognised at (a) the time of product transfer of title/use, and/or (b) at the time a service is provided, both of which represents the satisfaction of the primary performance obligation with the customer.

#### *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.

#### *IASB revised Conceptual Framework for Financial Reporting*

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian Equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies.

The consolidated entity will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

### 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.





## Notes to the financial statements - 30 June 2018

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

#### *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.

#### *Going concern*

The directors have determined that the consolidated entity is a going concern, and these financial statements have been prepared on this basis.

### Note 3. Operating segments

#### *Identification of reportable operating segments*

The consolidated entity is organised in two operating segments based on an orthopaedics division and an innovation division. These operating segments are 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 CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. For the innovation division, net cash flow information are reported to the CODM as a measure of EBITDA.

The information reported to the CODM is on a monthly basis.

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

#### *Types of products and services*

The principal products and services of each of these operating segments are as follows:

Orthopaedics division	This division has an extensive and well established range of orthopaedic implant products and surgical instrumentation from Australian and international suppliers covering all specialities from foot, ankle, primary knee to complex lower limb arthroplasty and tumor solutions. The division is constantly seeking out leading edge products to include in its product offering for its customers and their patients.
Innovation division	The company has an Innovation Division containing a dedicated engineering team with a mandate to explore and develop innovative early stage technologies into commercially viable products available for manufacture by the company. Currently, the major project underway is the development and commercialisation of a cervical spinal fusion cage developed from the biodegradable ceramic material, Sr-HT Gahnite. Further applications for the Sr-HT-Gahnite include (1) fixation anchors and screws that secure ligaments to bone and (2) a coating material for existing and new implants. The Sr-HT-Gahnite is a highly porous and biocompatible calcium silicate, it has many advantages over existing synthetic bone materials, including strength, being antimicrobial, having the capacity to be reabsorbed into bone and the ability to be 3D printed.

#### *Intersegment transactions*

Intersegment transactions were made at market rates. The orthopaedics division allocates a percentage of its overhead salaries to the innovation division. Intersegment transactions are eliminated on consolidation.

#### *Major customers*

During the year ended 30 June 2018 approximately 48.4% (\$2,268,432) (2017: 51.4% (\$2,541,037)) of the consolidated entity's external revenue was derived from sales to two major hospital groups.



## Notes to the financial statements - 30 June 2018

### Note 3. Operating segments (continued)

#### Operating segment information

	Orthopaedics division \$	Innovation division \$	Total \$
<b>Consolidated - 2018</b>			
<b>Revenue</b>			
Sale of goods	4,222,868	-	4,222,868
Commissions revenue	455,819	-	455,819
Total sales revenue	4,678,687	-	4,678,687
Other revenue	7,294	-	7,294
Research and development tax offset	-	545,209	545,209
Interest revenue	11,655	-	11,655
<b>Total revenue</b>	<b>4,697,636</b>	<b>545,209</b>	<b>5,242,845</b>
<b>EBITDA</b>	<b>433,756</b>	<b>(681,206)</b>	<b>(247,450)</b>
Depreciation and amortisation	(331,334)	(29,055)	(360,389)
Interest revenue	11,655	-	11,655
Finance costs	(7,960)	-	(7,960)
<b>Profit/(loss) before income tax expense</b>	<b>106,117</b>	<b>(710,261)</b>	<b>(604,144)</b>
Income tax expense			-
<b>Loss after income tax expense</b>			<b>(604,144)</b>

	Orthopaedics division \$	Innovation division \$	Total \$
<b>Consolidated - 2017</b>			
<b>Revenue</b>			
Sale of goods	4,262,476	-	4,262,476
Commissions revenue	672,698	-	672,698
Total sales revenue	4,935,174	-	4,935,174
Government grants	-	770,495	770,495
Other income	46,417	-	46,417
Research and development tax offset	-	261,952	261,952
Interest revenue	8,042	-	8,042
<b>Total revenue</b>	<b>4,989,633</b>	<b>1,032,447</b>	<b>6,022,080</b>
<b>EBITDA</b>	<b>633,013</b>	<b>261,952</b>	<b>894,965</b>
Depreciation and amortisation	(290,667)	-	(290,667)
Interest revenue	8,042	-	8,042
Finance costs	(111,292)	-	(111,292)
<b>Profit before income tax expense</b>	<b>239,096</b>	<b>261,952</b>	<b>501,048</b>
Income tax expense			-
<b>Profit after income tax expense</b>			<b>501,048</b>



## Notes to the financial statements - 30 June 2018

### Note 4. Revenue

	Consolidated	
	2018 \$	2017 \$
<i>Sales revenue</i>		
Sale of goods	4,222,868	4,262,476
Commissions revenue	455,819	672,698
	4,678,687	4,935,174
<i>Other revenue</i>		
Interest	11,655	8,042
Revenue	4,690,342	4,943,216

### Note 5. Other income

	Consolidated	
	2018 \$	2017 \$
Government grants	-	770,495
Other income	7,294	46,417
Research and development tax offset	545,209	261,952
Other income	552,503	1,078,864



## Notes to the financial statements - 30 June 2018

### Note 6. Expenses

	Consolidated	
	2018 \$	2017 \$
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	16,061	7,767
Fixtures and fittings	35,696	65,128
Leasehold improvements	21,852	4,227
Instrument sets	255,906	202,958
Total depreciation	329,515	280,080
<i>Amortisation</i>		
Patents and trademarks	8,147	8,148
New product line set-up costs	22,727	2,439
Total amortisation	30,874	10,587
Total depreciation and amortisation	360,389	290,667
<i>Impairment</i>		
Inventories	-	74,811
Inventory - recovery of over-provision from prior years	(50,917)	-
Total impairment	(50,917)	74,811
<i>Finance costs</i>		
Interest and finance charges paid/payable	7,960	111,292
<i>Net foreign exchange (gain)/loss</i>		
Net foreign exchange (gain)/loss	(2,880)	18,708
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	169,192	141,675
<i>Superannuation expense</i>		
Defined contribution superannuation expense	150,349	117,621
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	1,886,281	1,586,622



## Notes to the financial statements - 30 June 2018

### Note 7. Income tax expense

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit/(loss) before income tax expense	(604,144)	501,048
Tax at the statutory tax rate of 27.5%	(166,140)	137,788
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Concessional research and development expenditure treatment	344,672	224,351
Research and development tax incentive	(149,932)	(76,404)
Share based payment	3,467	4,125
	32,067	289,860
Prior year tax losses not recognised now recouped	(43,197)	-
Current year temporary differences and tax losses not recognised	11,130	(268,695)
Share raising cost recognised directly in equity	-	(21,165)
Income tax expense	-	-

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	2,396,086	2,553,167
Potential tax benefit @ 27.5%	658,924	702,121

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 8. Current assets - trade and other receivables

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	596,337	562,368
Other receivables	7,479	35,955
Research and development tax receivable	545,209	277,835
	1,149,025	876,158

#### *Impairment of receivables*

The consolidated entity has recognised a provision \$nil (2017: \$nil) in corporate and administration expenses in profit or loss, in respect of impairment of receivables for the year ended 30 June 2018.

#### *Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$234,747 as at 30 June 2018 (\$268,888 as at 30 June 2017).

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



## Notes to the financial statements - 30 June 2018

### Note 8. Current assets - trade and other receivables (continued)

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
1 to 2 months	222,551	247,657
3 to 4 months	12,196	21,231
	<b>234,747</b>	<b>268,888</b>

### Note 9. Current assets - inventories

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Finished goods - at lower of cost or net realisable value	3,028,345	1,776,560

Reversal of inventory impairment from prior periods to net realisable value recognised as a recovery during the year ended 30 June 2018 amounted to \$50,917 (2017: expense of \$74,811). The recovery (2017: expense) has been included in cost of sales and purchase of consumables in profit or loss.

### Note 10. Non-current assets - property, plant and equipment

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Plant and equipment - at cost	567,393	442,930
Less: Accumulated depreciation	(441,544)	(425,483)
	<b>125,849</b>	<b>17,447</b>
Fixtures and fittings - at cost	1,174,901	1,202,887
Less: Accumulated depreciation	(1,146,841)	(1,155,017)
	<b>28,060</b>	<b>47,870</b>
Leasehold improvements - at cost	59,870	13,230
Less: Accumulated depreciation	(26,079)	(4,227)
	<b>33,791</b>	<b>9,003</b>
Instrument sets - at cost	3,581,905	2,805,011
Less: Accumulated depreciation	(2,621,816)	(2,365,910)
	<b>960,089</b>	<b>439,101</b>
	<b>1,147,789</b>	<b>513,421</b>



## Notes to the financial statements - 30 June 2018

### Note 10. 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:

<b>Consolidated</b>	Plant and equipment \$	Fixtures and fittings \$	Leasehold improvements \$	Instrument sets \$	Total \$
Balance at 1 July 2016	9,960	105,063	10,000	352,196	477,219
Additions	15,254	7,935	3,230	289,863	316,282
Depreciation expense	(7,767)	(65,128)	(4,227)	(202,958)	(280,080)
Balance at 30 June 2017	17,447	47,870	9,003	439,101	513,421
Additions	124,463	19,842	46,640	776,894	967,839
Disposals	-	(3,956)	-	-	(3,956)
Depreciation expense	(16,061)	(35,696)	(21,852)	(255,906)	(329,515)
Balance at 30 June 2018	125,849	28,060	33,791	960,089	1,147,789

### Note 11. Non-current assets - intangibles

	<b>Consolidated</b>	
	<b>2018 \$</b>	<b>2017 \$</b>
Patents and trademarks - at cost	669,220	669,220
Less: Accumulated amortisation	(522,891)	(514,744)
	146,329	154,476
New product line set-up costs - at cost	120,895	56,062
Less: Accumulated amortisation	(25,166)	(2,439)
	95,729	53,623
	242,058	208,099

#### Reconciliations

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

<b>Consolidated</b>	Patents and trademarks \$	New product line set-up costs \$	Total \$
Balance at 1 July 2016	158,868	-	158,868
Additions	3,756	56,062	59,818
Amortisation expense	(8,148)	(2,439)	(10,587)
Balance at 30 June 2017	154,476	53,623	208,099
Additions	-	64,833	64,833
Amortisation expense	(8,147)	(22,727)	(30,874)
Balance at 30 June 2018	146,329	95,729	242,058



## Notes to the financial statements - 30 June 2018

### Note 12. Current liabilities - trade and other payables

	Consolidated	
	2018 \$	2017 \$
Trade payables	432,572	399,124
Accrued expenses	246,181	280,201
Deferred income (MTPconnect government grant)	150,000	-
	828,753	679,325

Refer to note 19 for further information on financial instruments.

### Note 13. Current liabilities - borrowings

	Consolidated	
	2018 \$	2017 \$
Insurance loans	-	110,520
Lease liability	-	39,467
	-	149,987

Refer to note 19 for further information on financial instruments.

#### Total secured liabilities

The total secured current liabilities are as follows:

	Consolidated	
	2018 \$	2017 \$
Lease liability	-	39,467

#### Assets pledged as security

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

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

	Consolidated	
	2018 \$	2017 \$
Plant and equipment	-	34,382





## Notes to the financial statements - 30 June 2018

### Note 13. Current liabilities - borrowings (continued)

#### Financing arrangements

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

	Consolidated	
	2018	2017
	\$	\$
Total facilities		
Bank overdraft	500,000	500,000
Lease liability	-	39,467
Business card facility	15,000	15,000
Insurance loans	-	110,520
	515,000	664,987
Used at the reporting date		
Bank overdraft	-	-
Lease liability	-	39,467
Business card facility	1,510	-
Insurance loans	-	110,520
	1,510	149,987
Unused at the reporting date		
Bank overdraft	500,000	500,000
Lease liability	-	-
Business card facility	13,490	15,000
Insurance loans	-	-
	513,490	515,000

### Note 14. Current liabilities - provisions

	Consolidated	
	2018	2017
	\$	\$
Employee benefits	62,669	45,816

### Note 15. Non-current liabilities - provisions

	Consolidated	
	2018	2017
	\$	\$
Employee benefits	45,417	34,494
Lease make-good	10,000	10,000
	55,417	44,494

#### 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.



## Notes to the financial statements - 30 June 2018

### Note 16. Equity - issued capital

	Consolidated			
	2018 Shares	2017 Shares	2018 \$	2017 \$
Ordinary shares - fully paid	99,559,052	82,528,474	14,865,163	12,348,455
<i>Movements in ordinary share capital</i>				
Details	Date	Shares	Issue price	\$
Balance	1 July 2016	63,601,248		10,459,629
Shares issued to employees	20 September 2016	100,000	\$0.000	-
Shares issued	13 December 2016	9,438,957	\$0.080	755,117
Shares issued	13 April 2017	9,388,269	\$0.130	1,173,534
Share issue transaction costs		-	\$0.000	(39,825)
Balance	30 June 2017	82,528,474		12,348,455
Shares issued	13 September 2017	5,333,334	\$0.150	800,000
Shares issued	9 November 2017	11,333,332	\$0.150	1,700,000
Shares issued	9 November 2017	363,912	\$0.125	45,489
Share issue transaction costs		-	\$0.000	(28,781)
Balance	30 June 2018	99,559,052		14,865,163

#### 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 2017 Annual Report.



## Notes to the financial statements - 30 June 2018

### Note 17. Equity - share-based payments reserve

	Consolidated	
	2018 \$	2017 \$
Share-based payments reserve	592,888	580,280

#### *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.

### Note 18. Equity - dividends

#### *Dividends*

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

#### *Franking credits*

	Consolidated	
	2018 \$	2017 \$
Franking credits available for subsequent financial years based on a tax rate of 27.5%	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 19. 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, except for the Federal Governments decisions relating to reductions in prosthesis rebates which impact the sale price of hip, knee and other related products.

##### *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.



## Notes to the financial statements - 30 June 2018

### Note 19. Financial instruments (continued)

For the consolidated entity the bank, finance lease and other loans outstanding, totalling \$nil (2017: \$149,987), are principal and interest payment loans. Minimum principal repayments of \$nil (2017: \$149,987) are due during the year ending 30 June 2018.

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	
	2018 \$	2017 \$
Bank overdraft	500,000	500,000
Business card facility	13,490	15,000
	513,490	515,000

#### 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 and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Consolidated - 2018</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	432,572	-	-	-	432,572
Total non-derivatives		432,572	-	-	-	432,572



## Notes to the financial statements - 30 June 2018

### Note 19. Financial instruments (continued)

<b>Consolidated - 2017</b>	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	399,124	-	-	-	399,124
<i>Interest-bearing - fixed rate</i>						
Lease liability	13.03%	42,273	-	-	-	42,273
Insurance funding agreement	3.80%	110,520	-	-	-	110,520
<b>Total non-derivatives</b>		<b>551,917</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>551,917</b>

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

### Note 20. 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 21. 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:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	463,186	380,013
Post-employment benefits	25,998	23,081
Long-term benefits	10,359	3,869
Share-based payments	8,648	-
	<b>508,191</b>	<b>406,963</b>

### Note 22. Remuneration of auditors

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Crowe Horwath Sydney</i>		
Audit or review of the financial statements	68,890	55,000

There were no other services provided by Crowe Horwath Sydney.



## Notes to the financial statements - 30 June 2018

### Note 23. Contingent liabilities

The consolidated entity has a bank guarantee totalling \$96,032 at 30 June 2018 (2017: \$98,123) in relation to support office rental commitments.

In the December 2017 Interim Financial Statements, the consolidated entity advised in Note 8 'Contingent Liabilities' of a possible fee that may become payable to Waldemar LINK GmbH & Co. ('LINK') for assistance received from LINK to transition the existing Australian LINK customer base. The fee payable has been determined and the amount payable to LINK is nil and so no further contingent liability exists in relation to this matter.

### Note 24. Commitments

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	161,640	33,517
One to five years	-	5,586
	<b>161,640</b>	<b>39,103</b>
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	-	42,271
Total commitment	-	42,271
Less: Future finance charges	-	(2,804)
Net commitment recognised as liabilities	-	39,467
Representing:		
Lease liability - current (note 13)	-	39,467

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.

### Note 25. Related party transactions

#### *Parent entity*

Allegra Orthopaedics Limited is the parent entity.

#### *Subsidiaries*

Interests in subsidiaries are set out in note 27.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.



## Notes to the financial statements - 30 June 2018

### Note 25. Related party transactions (continued)

#### *Transactions with related parties*

The following transactions occurred with related parties:

	Consolidated	
	2018	2017
	\$	\$
Payment for goods and services:		
Fees paid and payable to Atanaskovic Hartnell (a legal firm in which Anthony Hartnell is a partner)	-	13,152
Surgeon advisory fees paid to Dr Nicholas Hartnell, a director	56,667	5,000
Payment for other expenses:		
Interest and fees paid on loan to Robinwood Investments Pty Ltd (a company in which Dr Nicholas Hartnell is a director)	-	96,903

#### *Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2018	2017
	\$	\$
Current payables:		
Surgeon advisory fees payable to Dr Nicholas Hartnell, a director	18,333	5,000

#### *Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

#### *Terms and conditions*

All transactions were made on normal commercial terms and conditions.

### Note 26. Parent entity information

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

#### *Statement of profit or loss and other comprehensive income*

	Parent	
	2018	2017
	\$	\$
Profit/(loss) after income tax	(604,144)	497,048
Total comprehensive income	(604,144)	497,048





## Notes to the financial statements - 30 June 2018

### Note 26. Parent entity information (continued)

#### Statement of financial position

	Parent	
	2018 \$	2017 \$
Total current assets	6,063,790	4,777,637
Total assets	7,503,180	5,550,792
Total current liabilities	891,833	875,540
Total liabilities	947,250	920,034
Equity		
Issued capital	14,865,163	12,348,455
Share-based payments reserve	592,888	580,280
Accumulated losses	(8,902,121)	(8,297,977)
Total equity	6,555,930	4,630,758

#### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

The parent entity has a bank guarantee totalling \$96,032 at 30 June 2018 (2017: \$98,123) in relation to support office rental commitments.

#### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2018 and 30 June 2017.

#### 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 27. 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:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
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.



## Notes to the financial statements - 30 June 2018

### Note 28. Reconciliation of profit/(loss) after income tax to net cash from/(used in) operating activities

	Consolidated	
	2018 \$	2017 \$
Profit/(loss) after income tax expense for the year	(604,144)	501,048
Adjustments for:		
Depreciation and amortisation	360,389	290,667
Net gain on disposal of property, plant and equipment	(4,294)	-
Share-based payments	12,608	15,000
Interest received - non-cash	(2,492)	(3,146)
Government grants - non-cash	-	(770,495)
Other expenses - non-cash	(1,046)	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(3,402)	381,850
Increase in inventories	(1,251,785)	(265,074)
Decrease in prepayments	5,789	5,848
Decrease/(increase) in income taxes refunded relating to research and development	(267,374)	210,128
Decrease in trade and other payables	(572)	(226,967)
Increase in other provisions	27,776	9,758
Net cash from/(used in) operating activities	(1,728,547)	148,617

### Note 29. Changes in liabilities arising from financing activities

Consolidated	Debtor facility \$	Insurance loans \$	Lease liability \$	Related party loans \$	Grant received \$	Total \$
Balance at 1 July 2016	178,634	132,353	106,785	700,000	-	1,117,772
Net cash used in financing activities	(178,634)	(21,833)	(67,318)	(700,000)	-	(967,785)
Balance at 30 June 2017	-	110,520	39,467	-	-	149,987
Net cash from/(used in) financing activities	-	(110,520)	(46,504)	-	165,000	7,976
Other changes	-	-	7,037	-	-	7,037
Balance at 30 June 2018	-	-	-	-	165,000	165,000

### Note 30. Earnings per share

	Consolidated	
	2018 \$	2017 \$
Profit/(loss) after income tax attributable to the owners of Allegra Orthopaedics Limited	(604,144)	501,048
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	94,247,478	70,883,069
Weighted average number of ordinary shares used in calculating diluted earnings per share	94,247,478	70,883,069



## Notes to the financial statements - 30 June 2018

### Note 30. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(0.64)	0.71
Diluted earnings per share	(0.64)	0.71

Options issued during the year have been excluded from the above calculation of diluted earnings per share as their inclusion would be anti-dilutive. These options could potentially dilute basic earnings per share in the future.

### Note 31. Share-based payments

#### Unlisted options

An Employee Share Option Plan ('ESOP') was approved at the Annual General Meeting on 25 October 2017. The options are awarded to certain employees ('participant') at the discretion of the Board. The options will not be listed.

The options are governed by the Rules of the Allegra Orthopaedics Limited Option Plan which can be found in detail at [www.allegraorthopaedics.com](http://www.allegraorthopaedics.com). A summary of the terms of issue of the options are below.

#### Exercise

Under the option rules, the options may be exercised for the exercise price specified on grant of the option. The options may be exercised at any time between the date the vest and the last date before their expiry date.

#### Vesting

Vesting conditions will be specified in the letter of invitation to the participant, along with the relationship between various potential levels of performance and levels of vesting that may occur. Performance conditions may vary between different invitations and between different tranches of options described in an invitation.

For each measurement period, the Board will determine, for each tranche of options to which the measurement period applies, the extent to which they vest and the date of vesting. The Board may, at its discretion, also determine that any remaining options will be forfeited and lapse.

#### Lapse

The options lapse automatically:

- if the participant ceases to be employed by the company; or
- at the end of the designated exercise period for the options, unless extended in accordance with the option rules; or
- in the event that the Board forms the opinion that a participant has committed an act of fraud, defalcation or gross misconduct in relation to the company. The company may also recover damages from vested options and restricted shares held by or for the benefit of the participant; or
- if any other incident occurs as disclosed in the Rules of the Allegra Orthopaedics Limited Option Plan.

#### Transfer/Dealing

The participant cannot dispose, encumber or otherwise deal with its options without the prior written approval of the Board.

Set out below are summaries of options granted under the plan:

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercise	Expired/ forfeited/ other	Balance at the end of the year
09/11/2017	09/11/2023	\$0.125	-	247,356	-	-	247,356
08/12/2017	08/12/2023	\$0.125	-	1,472,538	-	-	1,472,538
			-	1,719,894	-	-	1,719,894
Weighted average exercise price			\$0.000	\$0.125	\$0.000	\$0.000	\$0.125

The weighted average share price during the financial year was \$0.139.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 5.40 years.



## Notes to the financial statements - 30 June 2018

### Note 31. Share-based payments (continued)

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
09/11/2017	09/11/2023	\$0.150	\$0.125	24.50%	-	1.50%	\$0.0521
08/12/2017	08/12/2023	\$0.150	\$0.125	24.50%	-	1.50%	\$0.0521

### Note 32. Events after the reporting period

On 3 August 2018, the company announced that, in collaboration with three industry partners, being University of Sydney, Bone Ligament Tendon (BLT) Pty Ltd and the Innovative Manufacturing CRC Limited (IMCRC), the collaborative group would be funding a \$2.4 million project to enable the manufacture of kangaroo-derived ligaments and Sr-HT-Gahnite fixation anchors and screws. (refer ASX announcement 3rd August 2018). This project could have the ability to disrupt the billion-dollar orthopaedic ligament-replacement market with new and uniquely Australian bone and ligament materials.

No other matter or circumstance has arisen since 30 June 2018 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.



## Directors' declaration 30 June 2018

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 2018 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

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Peter Kazacos  
Director

23 August 2018  
Sydney

## Independent Auditor's Report to the Members of Allegra Orthopaedics Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Allegra Orthopaedics Limited (the Company) and its subsidiaries (the Consolidated entity), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Consolidated entity is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Consolidated entity's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

## Key Audit Matters

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

Key Audit Matter	How we addressed the Key Audit Matter
<p><b>Revenue recognition</b></p> <p>Refer to Note 1 and Note 4</p> <p>The sales of goods are recognised as revenue when the goods have been utilised by the customer. As revenue from the sale of goods is a significant balance in the financial report, and impacts the reported loss for the year, we have focused particular audit attention on revenue recognition.</p>	<p>We performed the following key procedures:</p> <ul style="list-style-type: none"> <li>Obtained an understanding of the key controls management has in place to ensure appropriate recognition of revenue for the sale of goods, and tested this process for a sample of sales throughout the year.</li> <li>Tested a sample of invoices raised in the months of June 2018 and July 2018 to ensure that the revenue was recognised in the correct period.</li> <li>Assessed the movement of individual revenue line items to ensure that the movements are reasonable and within our expectations when compared to movements in inventory.</li> </ul>
<p><b>Research and development tax offset</b></p> <p>Refer to Note 5 and Note 8</p> <p>Under the research and development (R&amp;D) Tax Incentive scheme, the Consolidated entity is entitled to receive a 43.5% refundable tax offset of eligible expenditure if its turnover is less than \$20 million per annum provided it is not controlled by income tax exempt entities.</p> <p>The R&amp;D plan is filed with AusIndustry in the following financial year, and based on this filing, the Consolidated entity receives the incentive in cash. The Consolidated entity prepared an estimate of its total R&amp;D expenditure to determine the potential claim under the R&amp;D tax incentive legislation.</p> <p>As at 30 June 2018, the Group had an estimated claim of \$545,209 relating to the period from 1 July 2017 to 30 June 2018.</p>	<p>We performed the following key procedures:</p> <ul style="list-style-type: none"> <li>Agreeing the estimate made in the previous year to the amount of cash received after lodgement of the R&amp;D tax claim.</li> <li>Comparing the nature of R&amp;D expenditure included in the current year estimate to the prior year estimate.</li> <li>Testing a sample of R&amp;D expenses for eligibility under the R&amp;D Tax Incentive scheme.</li> <li>Comparing the amount of eligible expenditures used to calculate the estimate to the expenditure recorded in the general ledger.</li> </ul>



Key Audit Matter	How we addressed the Key Audit Matter
The R&D tax incentive is a key audit matter due to the size of the balance and because judgement and interpretation of the R&D tax legislation is required by the Consolidated entity to assess the eligibility of the R&D expenditure under the scheme.	<ul style="list-style-type: none"> <li>Inspecting copies of relevant documents lodged with the ATO related to historic claims.</li> <li>Reviewing the related financial statement disclosures.</li> </ul>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated entity's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

## Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Consolidated entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated entity to express an opinion on the Consolidated entity financial report. The auditor is responsible for the direction, supervision and performance of the Consolidated entity audit. The auditor remains solely responsible for the audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report***Opinion on the Remuneration Report*

We have audited the remuneration report included in pages 6 to 12 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Allegra Orthopaedics Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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.

**Crowe Horwath Sydney****John Haydon**

Senior Partner

23 August 2018

Sydney



## Shareholder information 30 June 2018

The shareholder information set out below was applicable as at 26 July 2018.

### 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	26
1,001 to 5,000	131
5,001 to 10,000	68
10,001 to 100,000	117
100,001 and over	47
	389
Holding less than a marketable parcel	-

### 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	38,274,948	38.44
NETWEALTH INVESTMENTS LIMITED	9,169,579	9.21
WELSH SUPERANNUATION PTY LIMITED	6,600,000	6.63
MARIE CAROLL & DAWSON CAROLL	5,636,285	5.66
CRYPTYCH PTY LTD	4,622,136	4.64
DR ANDREW WILLIAM LEICESTER & MRS SKYE CHRISTINE LEICESTER	3,353,123	3.37
DUGAL DIAGNOSTICS PTY LTD	3,000,000	3.01
4 HOLES-IN-ONE PTY LTD	3,000,000	3.01
DR ANDREW WILLIAM LEICESTER & MRS SKYE CHRISTINE LEICESTER	2,272,270	2.28
MERGIN INVESTMENTS PTY LTD	1,730,531	1.74
SANPEREZ PTY LTD	1,370,485	1.38
CHEW INVESTMENTS PTY LTD	1,333,333	1.34
MR NICHOLAS HARTNELL	1,214,090	1.22
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,200,150	1.21
MR KENNETH CAMPBELL	1,000,000	1.00
MR THOMAS JAMES CARROLL	1,000,000	1.00
DESTIN PTY LIMITED	946,470	0.95
MISTY HILLS NOMINEES PTY LTD	892,857	0.90
SALISBURY ROAD II PTY LIMITED	580,628	0.58
DESMOND J BOKOR PTY LIMITED	510,000	0.51
	87,706,885	88.08

### Unquoted equity securities

	Number on issue	Number of holders
Options exercisable at \$0.125 each expiring 9/11/2023	247,356	3
Options exercisable at \$0.125 each expiring 8/12/2023	1,472,538	5



## Shareholder information 30 June 2018

### Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	39,489,038	39.66
NETWEALTH INVESTMENTS LIMITED	9,169,579	9.21
WELSH SUPERANNUATION PTY LIMITED and PETER WELSH	7,123,132	7.15
MARIE CAROLL & DAWSON CAROLL	5,636,285	5.66
ANDREW LEICESTER & SKYE LEICESTER	5,625,393	5.65
CRYPTYCH PTY LTD and GREGORY JAMES ROGER	4,998,857	5.02

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 share shall have one vote.

There are no other classes of equity securities.



**Allegra**   
**ORTHOPAEDICS**  
Human Movement Technology

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