

# 2020

## 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.**



## Chairman's Letter

On behalf of the Allegra Orthopaedics' Board, I am pleased to present our Annual Report for the year ended 30 June 2020.

Allegra has performed well in FY2020, despite the significant global impact caused by the COVID-19 pandemic. Allegra's management have taken all the necessary steps and precautions to ensure its staff are safe and that its office remains fully operational in a Covid compliant environment.

We are very pleased with the progress achieved by our Innovation Division. We continue to invest extensively in the commercialisation of the cervical spinal cage, bone void filler granules and ACL screws, using our unique synthetic material, Sr-HT Gahnite.

Our Orthopaedic Division experienced strong sales revenue growth in FY2020, of 25%, compared with the FY2019 result. This was aided in part by the introduction of Personal Protection Equipment ('PPE') to its product portfolio and continued growth of its orthopaedic product range. The Orthopaedic Division's operating profit also increased by a significant 349%, compared with FY2019 result.

Below are further insights on each division:

### Innovation Division

We have continued to invest confidently in the division and are pleased with the results achieved.

However, final implantation has been delayed due to travel restrictions and the ongoing COVID-19 situation, observation during in-vivo results, and developments in bioceramic processing technologies. Despite the positive results from the pilot study, implant fracture was observed during GLP implantation at the 26-week scans. As the design of the device was based on forces in the human spine, the main root cause of the fractures was associated with the animal model. Allegra has made the decision to utilise the time provided by this delay as an opportunity to implement recent advancements in 3D printing technology to enhance the implant design and improve the material in order to progress the device approval.

Our FDA regulatory pathway continues, in parallel with Allegra exploring the path to the Australian market with a direct submission to The Therapeutic Goods Administration (TGA). Pre submission with TGA has been scheduled to determine the path forward.

We have initiated a granule project from the Sr-HT Gahnite material, as a bone void filler for traumatic defects. Based on the positive early results, Allegra plans to submit to the FDA in 2021.

The ACL screw project has also progressed, with the final design due towards the calendar year end of 2020.



## Orthopaedics Division

By incorporating the Waldemar LINK GmbH & Co ('Link') comprehensive product range in 2017 to our orthopaedic product portfolio, we have been able to deliver the range and complexity of total joint replacement and tumour devices to meet the current and future demand from our customers.

The Link product range offers a comprehensive solution to lower limb surgeons and their patients. The adoption of the Link products enables Allegra to make substantial penetration into the orthopaedic market and increase our target population with both "off the shelf" Link implants and also products from Link's custom implant division.

Allegra's orthopaedic team works in close collaboration with both our customers and Link to design and produce custom-made implants for tumour surgery and large bone defects.

We also continue to see success with our long-standing suppliers, such as Arthrosurface, and are confident that we will receive regulatory approval in the near future for Arthrosurface's new revolutionary Stemless Total Shoulder Replacement.

We have also expanded our trauma range with the recent sub-distribution agreement with Newclip Australia, supplying products manufactured in France. The company designs, manufactures and markets various ranges of osteosynthesis implants for elective surgery or traumatology.

The Personal Protection Equipment ('PPE') is a new area of focus that we will continue to grow and expand as further product opportunities are explored.

Given the above, we continue to be excited about the future prospects of Allegra.

The Board of Directors wishes to extend a thank you to all employees for their contribution and commitment. We also thank all shareholders, customers and business partners for the confidence and support they have given us.

Sincerely

A handwritten signature in black ink, appearing to read 'Peter Kazacos', written over a light blue horizontal line.

Peter Kazacos

Non-Executive Chairman



## Corporate Directory 30 June 2020

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 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	<p>The directors and management are committed to conducting the business of Allegra Orthopaedics Limited in an ethical manner and in accordance with the highest standards of corporate governance. Allegra Orthopaedics Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of the consolidated entity's operations.</p> <p>The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report can be found at:  <a href="http://www.allegraorthopaedics.com/corporate-governance">www.allegraorthopaedics.com/corporate-governance</a></p>



## Directors' report 30 June 2020

### 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

### Principal activities

During the financial year the principal continuing activities of the consolidated entity are as follows:

- 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.

### 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 \$1,165,382 (30 June 2019: \$835,508).

#### Revenues

Total revenue from ordinary activities for the year ended 30 June 2020 was \$5,013,659 (30 June 2019: \$3,992,859).

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

	2020 \$	2019 \$	Change \$	Change %
Sales of goods	4,933,910	3,759,388	1,174,522	31%
Commission revenue	79,749	233,471	(153,722)	(66%)

#### Other income

	2020 \$	2019 \$	Change \$	Change %
Other income	1,187,499	1,126,787	60,712	5%

#### Expenses

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

	2020 \$	2019 \$	Change \$	Change %
Cost of sales and purchases of consumables	(2,113,160)	(1,566,699)	(546,461)	35%
Corporate and administration expenses	(1,770,932)	(1,671,939)	(98,993)	6%
Quality and research and development expenses	(2,551,003)	(1,717,204)	(833,799)	49%
Sales and marketing expenses	(923,492)	(1,004,557)	81,065	(8%)
Finance costs	(10,147)	-	(10,147)	-

'Cost of sales and purchases of consumables' are \$546,461 higher compared with the previous financial year ending 30 June 2019. This is mainly due to the higher sales revenue achieved in the current financial year.





## Directors' report 30 June 2020

'Corporate and administration expenses' are slightly higher compared with the previous financial year ending 30 June 2019, with an increase of only 6%.

'Quality and research and development expenses' are higher by \$833,799. The increase reflects the consolidated entity's continuous investments in product development, particularly in the laboratory testing and preclinical large animal study (refer ASX announcement released on 15 November 2019). The increased expenditure is supported by funding from the MTP Grant awarded to the consolidated entity (refer ASX announcement released on 18 April 2018), as well as funding from the NHMRC Grant (refer ASX announcement released on 23 December 2019).

'Sales and marketing expenses' are lower by 8%, mainly as a result of reduced costs associated with travelling activities due to COVID-19 border restrictions and closures.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') was a loss of \$692,800 (30 June 2019: \$551,820). This is mainly a result of the continuous investments and increased spending in the consolidated entity's Innovation Division in the financial year end 30 June 2020.

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

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax	(1,165,382)	(835,508)
Add: Depreciation and amortisation	464,629	288,933
Add: Finance cost	10,147	-
Less: Interest income	(2,194)	(5,245)
<b>EBITDA</b>	<b>(692,800)</b>	<b>(551,820)</b>

### Significant changes in the state of affairs

On 15 November 2019, the company announced that its development of the Sr-HT-Gahnite Spinal Fusion Cage Device has reached a significant milestone, namely, the commencement of the preclinical large animal study. The study will help to evaluate the safety, efficacy and performance of the device in the sheep model.

On 23 December 2019, the company announced that it is to receive \$786,000 from the University of Sydney through the National Health and Medical Research Council (NHMRC) Development Grants funding. The funding will be allocated specifically towards the pre-clinical study, hence allowing the company to mobilise other funds into areas associated with the continued development of this bio-ceramic material.

On 26 March 2020, the company announced that the Federal Government's decision on suspending all elective surgeries as a response to the COVID-19 pandemic will have material impact on the consolidated entity's Orthopaedics Division; however, the company is in a strong position to support trauma and oncology procedures that fall under the category of urgent and essential surgery.

On 15 April 2020, the company announced that in order to respond to the mounting disruption to the supply of Personal Protective Equipment ('PPE') amid the COVID-19 pandemic, the consolidated entity has commenced distribution of Therapeutic Goods Administration ('TGA') approved face shields which are Australian designed and manufactured.

On 1 June 2020, the company announced that due to strong performance of the consolidated entity's LINK orthopaedic implant product range, as well as a strong market demand for the newly introduced PPE products, sales revenue from its Orthopaedic Division for the full year is expected to increase by 20% to 25% compared with the previous year's sales revenue. The consolidated entity also mentioned that the impact of the Federal Government's directive on suspending all elective surgeries has resulted in limited adverse impact on the company's sales revenue due to the short-lived suspension.

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





## Directors' report 30 June 2020

### Matters subsequent to the end of the financial year

The impact of the COVID-19 pandemic is ongoing. Consequently, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 6 July 2020, the company announced that it has successfully acquired all the registered patents and application for patents held by the University of Sydney in relation to a unique bio ceramic material known as Sr-HT-Gahnite which can be utilised in a variety of applications including its use as a synthetic bone substitute. Consequently, the company has issued to the University of Sydney 4,806,000 ordinary shares in the consolidated entity.

On 7 August 2020, the company announced that due to the global impact of the COVID-19 pandemic and the restrictions on international travel, the Innovation division has had to delay the last stage of the preclinical large animal study for the cervical fusion device in Lyon France (refer to ASX announcement 15 November 2019). The consolidated entity has utilized the time provided by the delay as an opportunity to implement recent advancements in 3D printing technology in order to enhance the implant design. Fractures of the implants were observed during the 6-months study, and the main root cause of the fractures was associated with the animal model as the design of the device is based on forces in the human spine. The revised design will improve the strength of the implant significantly and allow for the physiological differences in the animal mode.

No other matter or circumstance has arisen since 30 June 2020 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 continuing improvement of sales and distribution of its medical device product range contained within its Orthopaedic division. It is expected this division will continue to trade profitably for FY2021.

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-Gahnite 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-Gahnite, and kangaroo tendons as a parallel project. Concurrently, the Innovation Division has also commenced a pilot study for a new application of the Sr-HT-Gahnite material as granules. Granules are a bone cavity filler, intended for the resolution of bone infections, and for the use in orthopaedic, trauma and spinal surgery. They study will examine the critical size defect model in New Zealand white rabbits using the Sr-HT-Gahnite in the form of granules. 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 FY2021.

The consolidation of the consolidated entity's two operating divisions is expected to be a trading loss in FY2021 due to the on-going investment required by the Innovation division which is 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 2020

### 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:	1,195,764 ordinary shares
Interests in options:	82,452 options over ordinary shares
Name:	Anthony Hartnell
Title:	Non-Executive Director
Qualifications:	BEC LLB (Hons) (ANU), LLM (Highest Hons) (George Washington University)
Experience and expertise:	Anthony who has been honoured as an Officer in the Order of Australia has had a distinguished legal career in both government and private practice. He is a 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 Nicholas Hartnell which is detailed below.
Interests in options:	82,452 options over ordinary shares
Name:	Sean Mulhearn
Title:	Non-Executive Director
Qualifications:	BEC (University of Sydney)
Experience and expertise:	Sean has been involved in the financial markets for over 30 years' with experience in Asia, Europe and the Americas. Sean has particular expertise in risk management. He founded Jacaranda Capital Partners, a boutique advisory and markets training business with offices in Singapore and Australia.
Other current directorships:	None
Former directorships (last 3 years):	Non-Executive Director of Greka Drilling Limited
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 2020

Name:	Nicholas Hartnell
Title:	Non-Executive Director
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:	1,224,090 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') held during the year ended 30 June 2020, 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	-	-	2	2
Anthony Hartnell	10	11	-	-	2	2
Sean Mulhearn	11	11	-	-	2	2
Nicholas Hartnell	10	11	-	-	-	-

Held: represents the number of meetings held during the time the director held office.

### 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 2020

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 KMP

### **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 longservice leave.

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



## Directors' report 30 June 2020

### *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 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 in the form of 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 invested entitlements under any equity based remuneration schemes.

### *Use of remuneration consultants*

During the financial year ended 30 June 2020, the consolidated entity did not engage remuneration consultants to review its STI and LTI remuneration framework.

### *Voting and comments made at the company's 2019 Annual General Meeting ('AGM')*

At the 30 October 2019 AGM, 99.95% of the votes received were for the adoption of the remuneration report for the year ended 30 June 2019. 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 2020

	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 options	Total
	\$	\$	\$	\$	\$	\$	\$
<b>2020</b>							
<i>Non-Executive Directors:</i>							
Peter Kazacos (Chairman)	62,520	-	-	-	-	1,073	63,593
Anthony Hartnell	45,000	-	-	-	-	1,073	46,073
Sean Mulhearn	45,000	-	-	-	-	1,073	46,073
Nicholas Hartnell	45,000	-	-	-	-	-	45,000
<i>Other KMP:</i>							
Jenny Swain	300,000	165,289	-	21,003	7,572	16,682	510,546
	497,520	165,289	-	21,003	7,572	19,901	711,285

	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 options	Total
	\$	\$	\$	\$	\$	\$	\$
<b>2019</b>							
<i>Non-Executive Directors:</i>							
Peter Kazacos (Chairman)	62,520	-	-	-	-	1,073	63,593
Anthony Hartnell	45,000	-	-	-	-	1,073	46,073
Sean Mulhearn	45,000	-	-	-	-	1,073	46,073
Nicholas Hartnell	45,000	-	-	-	-	-	45,000
<i>Other KMP:</i>							
Jenny Swain *	282,000	18,000	-	16,147	4,696	12,141	332,984
	479,520	18,000	-	16,147	4,696	15,360	533,723

\* Bonus paid was discretionary.

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

Name	Fixed remuneration		At risk- STI		At risk- LTI	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Peter Kazacos	98%	98%	-	-	2%	2%
Anthony Hartnell	98%	98%	-	-	2%	2%
Sean Mulhearn	98%	98%	-	-	2%	2%
Nicholas Hartnell	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Jenny Swain	65%	91%	32%	5%	3%	4%

### Service agreements





## Directors' report 30 June 2020

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. 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 2020.

#### Options

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

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expirydate	Exercise price at grant date	Fair value per option
Peter Kazacos	82,452	9 November 2017	Variable*	9 November 2023	\$0.125	\$0.0521
Anthony Hartnell	82,452	9 November 2017	Variable*	9 November 2023	\$0.125	\$0.0521
Sean Mulhern	82,452	9 November 2017	Variable*	9 November 2023	\$0.125	\$0.0521
Jenny Swain	932,538	8 December 2017	Variable*	8 December 2023	\$0.125	\$0.0521
Jenny Swain	1,000,000	31 January 2020	Variable**	31 January 2026	\$0.160	\$0.0436

\* Vesting dates for the options granted are variable:

- Tranche 1 options: from date of grant to 31 July 2019
- Tranche 2 options: from date of grant to 31 July 2020
- Tranche 3 options: from date of grant to 31 July 2021

\*\* Vesting dates for the options granted are variable:

- Tranche 1 options: from date of grant to 31 January 2021
- Tranche 2 options: from date of grant to 31 January 2022
- Tranche 3 options: from date of grant to 31 January 2023

Options granted carry no dividend or voting rights.

### Additional information

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





## Directors' report 30 June 2020

### Additional disclosures relating to KMP

#### 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
<i>Ordinary shares</i>					
Peter Kazacos	1,184,430	-	149,778	(138,444)	1,195,764
Anthony Hartnell*	535,578	-	-	-	535,578
Sean Mulhern	728,079	-	-	-	728,079
Nicholas Hartnell**	39,489,038	-	10,000	-	39,499,038
Jenny Swain	267,027	-	-	-	267,027
	42,204,152	-	159,778	(138,444)	42,225,486

\* 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 Nicholas Hartnell which is detailed in its own line in the table.

\*\* 1,224,090 held directly and 38,274,948 held indirectly through Robinwood Investments Pty Ltd.

#### Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of KMP 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	1,000,000	-	-	1,932,538
	1,179,894	1,000,000	-	-	2,179,894

On 31 January 2020, the company announced that subject to shareholder approval at the 2020 AGM, the company will issue 90,000 Options to each Company director on the same term of the options issued to eligible employees in January 2020 pursuant to the Company's ESOP.

**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
31 January 2020	31 January 2026	\$0.160	1,900,000
			3,619,894

#### 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 2020 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.



## Directors' report 30 June 2020

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 Sydney

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

### 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 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

27 August 2020  
Sydney

27 August 2020

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 2020, 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 Sydney**



**John Haydon**  
Senior Partner

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

Findex (Aust) Pty Ltd, trading as Crowe Australasia is a member of Crowe Global, a Swiss Verein. Each member firm of Crowe Global is a separate and independent legal entity. Findex (Aust) Pty Ltd and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Findex (Aust) Pty Ltd. Services are provided by Crowe Sydney, an affiliate of Findex (Aust) Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation. Liability limited other than for acts or omissions of financial services licensees.



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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 27 August 2020. 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 2020

		Consolidated	
	Note	2020 \$	2019 \$
<b>Revenue from contracts with customers</b>	4	5,013,659	3,992,859
Other income	5	1,187,499	1,126,787
Interest revenue calculated using the effective interest method		2,194	5,245
<b>Expenses</b>			
Cost of sales and purchases of consumables		(2,113,160)	(1,566,699)
Corporate and administration expenses		(1,770,932)	(1,671,939)
Quality and research and development expenses		(2,551,003)	(1,717,204)
Sales and marketing expenses		(923,492)	(1,004,557)
Finance costs	6	(10,147)	-
<b>Loss before income tax expense</b>		(1,165,382)	(835,508)
Income tax expense	7	-	-
<b>Loss after income tax expense for the year attributable to the owners of Allegra Orthopaedics Limited</b>		(1,165,382)	(835,508)
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>		(1,165,382)	(835,508)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	31	(1.17)	(0.84)
Diluted earnings per share	31	(1.17)	(0.84)

*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 2020

		<b>Consolidated</b>	
	<b>Note</b>	<b>2020</b>	<b>2019</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		755,592	1,076,425
Trade and other receivables	8	1,433,363	1,163,575
Inventories	9	3,232,224	3,125,923
Prepayments		83,105	139,796
<b>Total current assets</b>		<b>5,504,284</b>	<b>5,505,719</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	903,467	974,195
Right-of-use assets	11	152,596	-
Intangibles	12	179,653	211,022
Security deposits		105,071	102,120
<b>Total non-current assets</b>		<b>1,340,787</b>	<b>1,287,337</b>
<b>Total assets</b>		<b>6,845,071</b>	<b>6,793,056</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	1,635,537	822,855
Contract liabilities - deferred income	14	332,122	105,143
Borrowings	15	7,943	84,399
Lease liabilities	16	158,595	-
Employee benefits		92,394	51,901
<b>Total current liabilities</b>		<b>2,226,591</b>	<b>1,064,298</b>
<b>Non-current liabilities</b>			
Employee benefits		64,600	51,142
Provisions	17	10,000	10,000
<b>Total non-current liabilities</b>		<b>74,600</b>	<b>61,142</b>
<b>Total liabilities</b>		<b>2,301,191</b>	<b>1,125,440</b>
<b>Net assets</b>		<b>4,543,880</b>	<b>5,667,616</b>
<b>Equity</b>			
Issued capital	18	14,875,788	14,865,163
Share-based payments reserve	19	646,301	615,280
Accumulated losses		(10,978,209)	(9,812,827)
<b>Total equity</b>		<b>4,543,880</b>	<b>5,667,616</b>

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 2020

	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
<b>Consolidated</b>				
Balance at 1 July 2018	14,865,163	592,888	(8,977,319)	6,480,732
Loss after income tax expense for the year	-	-	(835,508)	(835,508)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(835,508)	(835,508)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	22,392	-	22,392
Balance at 30 June 2019	14,865,163	615,280	(9,812,827)	5,667,616
	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
<b>Consolidated</b>				
Balance at 1 July 2019	14,865,163	615,280	(9,812,827)	5,667,616
Loss after income tax expense for the year	-	-	(1,165,382)	(1,165,382)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(1,165,382)	(1,165,382)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	10,625	-	-	10,625
Share-based payments	-	31,021	-	31,021
Balance at 30 June 2020	14,875,788	646,301	(10,978,209)	4,543,880

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 2020

		Consolidated	
	Note	2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		5,953,798	4,435,919
Payments to suppliers and employees (inclusive of GST)		(6,678,694)	(6,034,864)
		(724,896)	(1,598,945)
Other revenue		13,925	148
Interest received		313	3,754
Interest and other finance costs paid		(9,525)	(8,044)
Income taxes refunded relating to research and development		541,685	545,209
Net cash used in operating activities	30	(178,498)	(1,057,878)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(140,558)	(34,672)
Payments for intangibles		-	(14,791)
Net cash used in investing activities		(140,558)	(49,463)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	18	10,625	-
Repayment of insurance loan		(76,456)	(36,171)
Repayment of lease liabilities		(146,596)	-
Grant received		210,650	605,000
Net cash from/(used in) financing activities		(1,777)	568,829
Net decrease in cash and cash equivalents		(320,833)	(538,512)
Cash and cash equivalents at the beginning of the financial year		1,076,425	1,614,937
Cash and cash equivalents at the end of the financial year		755,592	1,076,425

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



## Notes to the financial statements - 30 June 2020

### 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.

The following Accounting Standards and Interpretations adopted during the year are most relevant to the consolidated entity:

#### *AASB 2020-4 Amendment to Australian Accounting Standards - Covid-19-Related Rent Concessions*

The consolidated entity has early adopted the amendment to AASB 16 from 1 July 2019. The amendment provides a practical expedient for lessees to account for COVID-19-related rent concessions that: result in lease payments that are substantially the same as, or less than, the consideration for the lease immediately prior to the change; where any reduction in the lease payments affects only payments originally due on or before 30 June 2021; and where there is no substantive change to other terms and conditions of the lease. The practical expedient allows an entity not to assess rent concessions meeting the criteria as a lease modification. As a result, to the extent that lease concessions represent a forgiveness or waiver of lease payments, such concessions are treated as variable lease payments recognised in profit or loss with a corresponding adjustment to the lease liability. To the extent that the lease concession in substance represents a delay in lease repayments such that lease consideration is not changed, the lease liability is not extinguished. Interest continues to accrue for that period. The consolidated entity has applied the practical expedient to all rent concessions that meet the abovementioned criteria.

#### *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 adoption of the new accounting standard AASB 16 starting 1 July 2019 resulted in the inclusion of a lease liability and a right of use asset on its balance sheet for future reporting periods. This change gives a more accurate representation of the consolidated entity's financial position by fully reflecting all its liability commitments and provides more useful information in financial reporting for investors and shareholders. The consolidated entity will have a lease liability of \$158,595 at 30 June 2020 and \$nil lease liability for the year ending 30 June 2021. The lease liabilities will be higher in future years as the company is expected to enter into new leases when the current leases expire with likely terms of five years. The total value of the expected right-of-use asset recognised in the reporting period is \$305,191. The new accounting standard AASB 16 also requires the consolidated entity to reflect its lease payments as depreciation expenses and interest expenses, rather than an operating rental expense. The consolidated entity will have \$152,594 right-of-use asset depreciation for both 30 June 2020 and 30 June 2021 financial years, in addition interest expense of \$10,147 and \$3,285 respectively. This change will not have material effect to the consolidated entity's future financials. The change will cause an increase in one of the management metrics such as EBITDA. The transition from the current accounting standard to the new accounting standard AASB 16 requires the consolidated entity to make new estimates and judgements based on current lease agreements and lease data. Therefore, ongoing monitoring of the changes to future lease terms and regular review of the current lease terms will also be required.



## Notes to the financial statements - 30 June 2020

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

#### Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	<b>1 July 2019 \$</b>
Operating lease commitments as at 1 July 2019 (AASB 117)	318,623
Operating lease commitments discount based on the weighted average incremental borrowing rate of 4.5% (AASB 16)	(13,432)
Right-of-use assets (AASB 16)	305,191
Lease liabilities - current (AASB 16)	(146,596)
Lease liabilities - non-current (AASB 16)	(158,595)
Reduction in opening retained profits as at 1 July 2019	-

#### Practical expedients applied

In adopting AASB 16, the consolidated entity has used the following practical expedients permitted by the standard:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounted for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

#### Basis of preparation

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

#### Historical cost convention

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

#### Critical accounting estimates

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

#### Parent entity information

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

#### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Allegra Orthopaedics Limited ('company' or 'parent entity') as at 30 June 2020 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.



## Notes to the financial statements - 30 June 2020

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

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.

### 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 the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation 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 as follows:

#### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.



## Notes to the financial statements - 30 June 2020

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

#### *Sale of goods*

This comprises revenues earned from sale of orthopaedics products to customers which are generally hospitals and healthcare organisations. Revenue from orthopaedic implant products (for example knees and hips) are recognised by Allegra when such implants have been implanted into patients by orthopaedic surgeons working at customer locations, which is when the consolidated entity's performance obligation is satisfied. Revenues from consumable items (for example K-wires, Saw Blades, Screws and PPE) are recognised when the consumable products have been delivered to the customer based on a purchase order received from the customer.

#### *Commissions revenue*

This comprises of commission revenues earned by Allegra for facilitating the sales of orthopaedics products of other vendors. Commission revenue is recognised in the month when the sales of such orthopaedics products have been delivered and invoiced by the product vendor to the end user customer.

#### *Grant income*

Grant monies received by Allegra are initially recognised as a contract liability owing to the Grant provider. Grant income is then recognised in the month that Allegra incurs allowable expenditures in accordance with the conditions and terms set out in the approved Grant Agreement with the Grant provider.

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.

#### *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. The research and development tax offset is recognised in profit or loss on a systematic basis over the periods in which eligible expenses are incurred.

### **Income tax**

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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





## Notes to the financial statements - 30 June 2020

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

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 allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

#### 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.

#### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.



## Notes to the financial statements - 30 June 2020

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

#### *Financial assets at amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

#### *Impairment of financial assets*

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

#### **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 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 (to 30 June 2019)**

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.





## Notes to the financial statements - 30 June 2020

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

#### Right-of-use assets (from 1 July 2019)

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

#### 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.

##### *Website*

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of between 10 and 20 years.

##### *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.



## Notes to the financial statements - 30 June 2020

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

#### Trade and other payables

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

#### Contract liabilities - deferred income

Contract liabilities represent the consolidated entity's obligations to another party resulting from an executed agreement. In this financial report, the contract liability balance relates to grant funds actually received from a grant provider which, upon receipt, are treated as unearned income. This contract liability is transferred and recognised as grant income in the Statement of profit and loss when the consolidated entity incurs allowable expenditure as defined under the terms and conditions of the grant agreement between the consolidated entity and the grant provider.

#### 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.

#### Lease liabilities (from 1 July 2019)

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Variable lease payments include rent concessions in the form of rent forgiveness or a waiver as a direct consequence of the Coronavirus (COVID-19) pandemic and which relate to payments originally due on or before 30 June 2021.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

#### Finance costs

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

#### Provisions

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

#### Employee benefits

##### *Short-term employee benefits*

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



## Notes to the financial statements - 30 June 2020

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

#### *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 high-quality 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.

#### **Issued capital**

Ordinary shares are classified as equity.

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

#### **Earnings per share**

##### *Basic earnings per share*

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

##### *Diluted earnings per share*

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

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

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

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

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

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

#### **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 2020. 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.



## Notes to the financial statements - 30 June 2020

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

#### *New Conceptual Framework for Financial Reporting*

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

### 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.

#### *Coronavirus (COVID-19) pandemic*

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

#### *Provision for impairment of inventories*

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

#### *Estimation of useful lives of assets*

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

#### *Lease term*

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

#### *Incremental borrowing rate*

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.



## Notes to the financial statements - 30 June 2020

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

#### *Going concern*

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

### Note 3. Operating segments

#### *Identification of reportable operating segments*

The consolidated entity is organised in two main operating segments namely the orthopaedics and the innovation division. Corporate costs which cannot be allocated to a segment are listed separately. 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 earnings before interest, tax, depreciation and amortisation ('EBITDA'). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

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 tumour 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 consolidated entity 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) Granules to be used as a bone cavity filler for the resolution of bone infections, and for use in orthopaedic, trauma and spinal surgery and (2) fixation anchors and screws that secure ligaments to bone and (3) 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, antimicrobial properties, the capacity to be reabsorbed and the ability to be 3D printed.

##### Corporate costs (unallocated)

Relates to the corporate running costs of the consolidated entity such as Director and Company Secretary fees, Audit fees, Tax fees, Annual Reports, ASIC and ASX fees, as well as AGM costs and Director Insurance costs.

#### *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 2020 approximately 64.5% (\$3,233,714) (2019: 59.0% (\$2,355,990)) of the consolidated entity's external revenue was derived from sales to two major hospital groups.





## Notes to the financial statements - 30 June 2020

### Note 3. Operating segments (continued)

#### Operating segment information

	Orthopaedics division \$	Innovation division \$	Corporate costs (unallocated) \$	Total \$
<b>Consolidated - 2020</b>				
<b>Revenue</b>				
Sale of goods	4,933,910	-	-	4,933,910
Commissions revenue	79,749	-	-	79,749
Total sales revenue	5,013,659	-	-	5,013,659
Government grants	-	292,021	-	292,021
Sundry income	83,535	458,500	-	542,035
Research and development tax offset	-	353,443	-	353,443
<b>Total revenue</b>	<b>5,097,194</b>	<b>1,103,964</b>	<b>-</b>	<b>6,201,158</b>
<b>EBITDA</b>	<b>1,085,991</b>	<b>(1,383,908)</b>	<b>(394,883)</b>	<b>(692,800)</b>
Depreciation and amortisation	(399,615)	(65,014)	-	(464,629)
Interest revenue	2,194	-	-	2,194
Finance costs	(10,147)	-	-	(10,147)
<b>Profit/(loss) before income tax expense</b>	<b>678,423</b>	<b>(1,448,922)</b>	<b>(394,883)</b>	<b>(1,165,382)</b>
Income tax expense	-	-	-	-
<b>Loss after income tax expense</b>				<b>(1,165,382)</b>
<b>Consolidated - 2019</b>				
<b>Revenue</b>				
Sale of goods	3,759,388	-	-	3,759,388
Commissions revenue	233,471	-	-	233,471
Total sales revenue	3,992,859	-	-	3,992,859
Government grants	-	594,857	-	594,857
Sundry income	7,427	-	-	7,427
Research and development tax offset	-	524,503	-	524,503
<b>Total revenue</b>	<b>4,000,286</b>	<b>1,119,360</b>	<b>-</b>	<b>5,119,646</b>
<b>EBITDA</b>	<b>432,390</b>	<b>(587,699)</b>	<b>(396,511)</b>	<b>(551,820)</b>
Depreciation and amortisation	(243,419)	(45,514)	-	(288,933)
Interest revenue	5,156	89	-	5,245
<b>Profit/(loss) before income tax expense</b>	<b>194,127</b>	<b>(633,124)</b>	<b>(396,511)</b>	<b>(835,508)</b>
Income tax expense	-	-	-	-
<b>Loss after income tax expense</b>				<b>(835,508)</b>

### Note 4. Revenue from contracts with customers

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Sale of goods	4,933,910	3,759,388
Commissions revenue	79,749	233,471
<b>Revenue from contracts with customers</b>	<b>5,013,659</b>	<b>3,992,859</b>



## Notes to the financial statements - 30 June 2020

### Note 4. Revenue from contracts with customers (continued)

#### Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2020	2019
	\$	\$
<i>Major customer group</i>		
Government	1,357,268	1,349,288
Non-government	3,656,391	2,643,571
	5,013,659	3,992,859
<i>Geographical regions</i>		
Australia	4,978,493	3,992,859
New Zealand	35,166	-
	5,013,659	3,992,859

### Note 5. Other income

	Consolidated	
	2020	2019
	\$	\$
Government grants	292,021	594,857
Subsidies and grants	458,500	-
Sundry income	83,535	7,427
Research and development tax offset	353,443	524,503
Other income	1,187,499	1,126,787





## Notes to the financial statements - 30 June 2020

### Note 6. Expenses

	Consolidated	
	2020	2019
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	62,945	26,517
Fixtures and fittings	11,067	13,278
Leasehold improvements	8,906	28,531
Instrument sets	197,747	189,571
Land and buildings - right-of-use assets	152,595	-
Total depreciation	433,260	257,897
<i>Amortisation</i>		
Website	3,640	3,331
Patents and trademarks	8,171	8,147
New product line set-up costs	19,558	19,558
Total amortisation	31,369	31,036
Total depreciation and amortisation	464,629	288,933
<i>Impairment</i>		
Inventory - expense	164,711	225,448
<i>Finance costs</i>		
Interest and finance charges paid/payable on lease liabilities	10,147	-
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	29,938	9,380
<i>Leases</i>		
Minimum lease payments	-	185,825
Short-term lease payments	42,074	-
Total leases	42,074	185,825
<i>Superannuation expense</i>		
Defined contribution superannuation expense	119,949	110,183
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	1,919,356	1,632,609



## Notes to the financial statements - 30 June 2020

### Note 7. Income tax expense

	Consolidated	
	2020 \$	2019 \$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(1,165,382)	(835,508)
Tax at the statutory tax rate of 27.5%	(320,480)	(229,765)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Concessional research and development expenditure treatment	405,706	385,522
Research and development tax incentive	(144,989)	(151,344)
Share based payment	8,531	6,158
	(51,232)	10,571
Prior year tax losses not recognised now recouped	(154,509)	(49,498)
Current year temporary differences and tax losses not recognised	157,948	48,154
Adjustment recognised for prior year clawback on R&D Grants expended	47,793	-
Adjustment recognised for prior year	-	(9,227)
Income tax expense	-	-

	Consolidated	
	2020 \$	2019 \$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	1,685,338	2,287,190
Potential tax benefit @ 27.5%	463,468	628,977

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

	Consolidated	
	2020 \$	2019 \$
Trade receivables	914,538	566,469
Other receivables	165,382	72,603
Research and development tax receivable	353,443	524,503
	1,433,363	1,163,575

#### *Allowance for expected credit losses*

The consolidated entity has recognised a provision \$nil in impairment of assets (2019: \$nil) in profit or loss, in respect of impairment of receivables for the year ended 30 June 2020.



## Notes to the financial statements - 30 June 2019

### Note 9. Current assets - inventories

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Finished goods	3,328,175	3,160,567
Less: Provision for impairment	(95,951)	(34,644)
	<b>3,232,224</b>	<b>3,125,923</b>

Impairment of inventory from prior periods to net realisable value recognised as a expense during the year ended 30 June 2020 amounted to \$164,711 (2019: \$225,448). The 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>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Plant and equipment - at cost	325,922	617,415
Less: Accumulated depreciation	(107,747)	(468,061)
	<b>218,175</b>	<b>149,354</b>
Fixtures and fittings - at cost	106,741	1,182,373
Less: Accumulated depreciation	(84,858)	(1,160,119)
	<b>21,883</b>	<b>22,254</b>
Leasehold improvements - at cost	65,561	65,561
Less: Accumulated depreciation	(63,516)	(54,610)
	<b>2,045</b>	<b>10,951</b>
Instrument sets - at cost	1,575,467	3,603,023
Less: Accumulated depreciation	(914,103)	(2,811,387)
	<b>661,364</b>	<b>791,636</b>
	<b>903,467</b>	<b>974,195</b>

#### 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>	<b>Plant and equipment</b>	<b>Fixtures and fittings</b>	<b>Leasehold improvement</b>	<b>Instrument sets</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 July 2018	125,849	28,060	33,791	960,089	1,147,789
Additions	50,022	7,472	5,691	21,118	84,303
Depreciation expense	(26,517)	(13,278)	(28,531)	(189,571)	(257,897)
Balance at 30 June 2019	149,354	22,254	10,951	791,636	974,195
Additions	131,766	10,696	-	67,475	209,937
Depreciation expense	(62,945)	(11,067)	(8,906)	(197,747)	(280,665)
Balance at 30 June 2020	218,175	21,883	2,045	661,364	903,467



## Notes to the financial statements - 30 June 2020

### Note 11. Non-current assets - right-of-use assets

	Consolidated	
	2020 \$	2019 \$
Land and buildings - right-of-use	305,191	-
Less: Accumulated depreciation	(152,595)	-
	152,596	-

Additions to the right-of-use assets during the year were \$nil.

The consolidated entity leases land and buildings for its offices under agreements of between 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.

#### Reconciliations

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

Consolidated	Land and buildings - right-of-use \$
Balance at 1 July 2018	-
Balance at 30 June 2019	-
Transfers in on adoption of AASB 16 (note 1)	305,191
Depreciation expense	(152,595)
Balance at 30 June 2020	152,596

### Note 12. Non-current assets - intangibles

	Consolidated	
	2020 \$	2019 \$
Website - at cost	18,200	18,200
Less: Accumulated amortisation	(6,971)	(3,331)
	11,229	14,869
Patents and trademarks - at cost	669,220	669,220
Less: Accumulated amortisation	(539,209)	(531,038)
	130,011	138,182
New product line set-up costs - at cost	97,792	102,695
Less: Accumulated amortisation	(59,379)	(44,724)
	38,413	57,971
	179,653	211,022



## Notes to the financial statements - 30 June 2020

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

#### Reconciliations

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

<b>Consolidated</b>	<b>Website \$</b>	<b>Patents and trademarks \$</b>	<b>New product line set-up costs \$</b>	<b>Total \$</b>
Balance at 1 July 2018	-	146,329	95,729	242,058
Transfers in/(out)	18,200	-	(18,200)	-
Amortisation expense	(3,331)	(8,147)	(19,558)	(31,036)
Balance at 30 June 2019	14,869	138,182	57,971	211,022
Amortisation expense	(3,640)	(8,171)	(19,558)	(31,369)
Balance at 30 June 2020	11,229	130,011	38,413	179,653

### Note 13. Current liabilities - trade and other payables

	<b>Consolidated</b>	
	<b>2020 \$</b>	<b>2019 \$</b>
Trade payables	1,062,592	550,428
Accrued expenses	572,945	272,427
	<b>1,635,537</b>	<b>822,855</b>

Refer to note 21 for further information on financial instruments.

### Note 14. Current liabilities - contract liabilities - deferred income

	<b>Consolidated</b>	
	<b>2020 \$</b>	<b>2019 \$</b>
Contract liabilities - deferred income	332,122	105,143

#### Reconciliation

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

Opening balance	105,143	-
Transfer from deferred income on adoption of AASB 15	-	150,000
Service agreement contract	786,000	-
Payments received in advance	191,500	550,000
Transfer to revenue - other balances	(750,521)	(594,857)
Closing balance	<b>332,122</b>	<b>105,143</b>



## Notes to the financial statements - 30 June 2020

### Note 14. Current liabilities - contract liabilities - deferred income (continued)

#### Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$332,122 as at 30 June 2020 (\$105,143 as at 30 June 2019) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	2020	2019
	\$	\$
Within 6 months	332,122	105,143

### Note 15. Current liabilities - borrowings

	Consolidated	
	2020	2019
	\$	\$
Insurance loans	7,943	84,399

Refer to note 21 for further information on financial instruments.

#### Financing arrangements

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

	Consolidated	
	2020	2019
	\$	\$
Total facilities		
Bank overdraft	500,000	500,000
Business card facility	15,000	15,000
Insurance loans	39,777	84,399
Business loans	1,750,000	-
	2,304,777	599,399
Used at the reporting date		
Bank overdraft	-	-
Business card facility	-	-
Insurance loans	31,834	84,399
Business loans	-	-
	31,834	84,399
Unused at the reporting date		
Bank overdraft	500,000	500,000
Business card facility	15,000	15,000
Insurance loans	7,943	-
Business loans	1,750,000	-
	2,272,943	515,000





## Notes to the financial statements - 30 June 2020

### Note 16. Current liabilities - lease liabilities

	Consolidated	
	2020 \$	2019 \$
Lease liability	158,595	-

Refer to note 21 for further information on financial instruments.

### Note 17. Non-current liabilities - provisions

	Consolidated	
	2020 \$	2019 \$
Lease make-good	10,000	10,000

#### *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.

### Note 18. Equity - issued capital

	Consolidated			
	2020 Shares	2019 Shares	2020 \$	2019 \$
Ordinary shares - fully paid	99,559,052	99,559,052	14,875,788	14,865,163

#### *Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	99,559,052		14,865,163
Balance	30 June 2019	99,559,052		14,865,163
Monies received from sale of previously issued shares to foreign investors deemed ineligible to hold shares (sale at a premium)	31 July 2019	-	\$0.000	10,625
Balance	30 June 2020	99,559,052		14,875,788

#### *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.



## Notes to the financial statements - 30 June 2020

### Note 18. Equity - issued capital (continued)

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 2019 Annual Report.

### Note 19. Equity - share-based payments reserve

	Consolidated	
	2020	2019
	\$	\$
Share-based payments reserve	646,301	615,280

#### 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 20. Equity - dividends

#### Dividends

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

#### Franking credits

	Consolidated	
	2020	2019
	\$	\$
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 21. Financial instruments

#### Financial risk management objectives

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

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



## Notes to the financial statements - 30 June 2020

### Note 21. Financial instruments (continued)

#### 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.

For the consolidated entity, the insurance loan, totalling \$39,717 (2019: \$120,570), relate to principal and interest payment loans. As of 30 June 2020, the total repayment made was \$31,774. The loan balance, and interest of \$7,943, is due for repayment in full during the year end 30 June 2021.

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.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

#### 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	
	2020 \$	2019 \$
Bank overdraft	500,000	500,000
Business card facility	15,000	15,000
Insurance loans	7,943	-
Business loans	1,750,000	-
	2,272,943	515,000



## Notes to the financial statements - 30 June 2020

### Note 21. Financial instruments (continued)

#### Remaining contractual maturities

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

Consolidated - 2020	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	-	1,062,592	-	-	-	1,062,592
<i>Interest-bearing - variable</i>						
Lease liability	4.50%	158,595	-	-	-	158,595
<i>Interest-bearing - fixed rate</i>						
Insurance funding agreement	4.48%	7,943	-	-	-	7,943
Total non-derivatives		1,229,130	-	-	-	1,229,130

Consolidated - 2019	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	-	550,428	-	-	-	550,428
<i>Interest-bearing - fixed rate</i>						
Insurance funding agreement	3.80%	84,399	-	-	-	84,399
Total non-derivatives		634,827	-	-	-	634,827

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

### Note 22. Fair value measurement

#### Fair value hierarchy

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

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



## Notes to the financial statements - 30 June 2020

### Note 23. Key management personnel disclosures

#### Compensation

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

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	662,809	497,520
Post-employment benefits	21,003	16,147
Long-term benefits	7,572	4,696
Share-based payments	19,901	15,360
	711,285	533,723

### Note 24. Remuneration of auditors

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

	Consolidated	
	2020	2019
	\$	\$
<i>Audit services - Crowe Sydney</i>		
Audit or review of the financial statements	64,900	66,450

There were no other services provided by Crowe Sydney.

### Note 25. Contingent liabilities

The consolidated entity has a bank guarantee totalling \$105,071 at 30 June 2020 (2019: \$99,024) in relation to support office rental commitments.

### Note 26. Commitments

	Consolidated	
	2020	2019
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	149,878
One to five years	-	151,748
	-	301,626

AASB 16 was adopted using the modified retrospective approach meaning comparatives have not been restated. Current year leases are included on the face of the statement of financial position. Comparative lease commitments are included above.

### Note 27. Related party transactions

#### Parent entity

Allegra Orthopaedics Limited is the parent entity.



## Notes to the financial statements - 30 June 2020

### Note 27. Related party transactions (continued)

#### *Subsidiaries*

Interests in subsidiaries are set out in note 29.

#### *Key management personnel*

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

#### *Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Payment for goods and services:		
Surgeon advisory fees paid and payable to Dr Nicholas Hartnell, a director	80,000	80,000

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

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

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Current payables:		
Surgeon advisory fees payable to Dr Nicholas Hartnell, a director	20,000	20,000

On 21 May 2020, the company announced that, subject to shareholder approval at the 2020 AGM, and also subject to annual performance review, the Company Director, Nicholas Hartnell, is to be issued with 1,500,000 share options for calendar year 2020 and a further 1,500,000 share options for calendar year 2021, as compensation for the services he has provided and will provide to the consolidated entity (refer to ASX announcement on 21 May 2020).

#### *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 28. Parent entity information

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

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

	<b>Parent</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax	(1,165,382)	(835,508)
Total comprehensive income	(1,165,382)	(835,508)





## Notes to the financial statements - 30 June 2020

### Note 28. Parent entity information (continued)

#### Statement of financial position

	Parent	
	2020	2019
	\$	\$
Total current assets	5,626,382	5,627,817
Total assets	6,920,679	6,868,665
Total current liabilities	2,227,001	1,064,709
Total liabilities	2,301,601	1,125,851
Equity		
Issued capital	14,875,788	14,865,163
Share-based payments reserve	646,301	615,280
Accumulated losses	(10,903,011)	(9,737,629)
Total equity	4,619,078	5,742,814

#### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

The parent entity has a bank guarantee totalling \$105,071 at 30 June 2020 (30 June 2019: \$99,024) 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 2020 and 30 June 2019.

#### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

### Note 29. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020	2019
		%	%
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 2020

### Note 30. Cash flow information

#### Reconciliation of loss after income tax to net cash used in operating activities

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax expense for the year	(1,165,382)	(835,508)
Adjustments for:		
Depreciation and amortisation	464,629	288,933
Share-based payments	31,021	22,392
Foreign exchange differences	(29,939)	(1,982)
Government grants - non-operating	(641,752)	(524,503)
Write off of inventory	164,711	225,448
Other accruals - non-cash	141,862	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(269,789)	(133,728)
Increase in inventories	(106,301)	(97,578)
Decrease in prepayments	56,691	9,589
Increase/(decrease) in trade and other payables	812,682	(5,898)
Increase in contract liabilities - deferred income	309,118	-
Increase/(decrease) in employee benefits	53,951	(5,043)
Net cash used in operating activities	(178,498)	(1,057,878)

#### Changes in liabilities arising from financing activities

	<b>Insurance loans \$</b>	<b>Lease liability \$</b>	<b>Grant received \$</b>	<b>Total \$</b>
<b>Consolidated</b>				
Balance at 1 July 2018	-	-	165,000	165,000
Net cash used in financing activities	(36,171)	-	(59,857)	(96,028)
Loans received	120,570	-	-	120,570
Balance at 30 June 2019	84,399	-	105,143	189,542
Net cash from/(used in) financing activities	(76,456)	(146,596)	226,979	3,927
Initial recognition of lease liabilities on adoption of AASB 16	-	305,191	-	305,191
Balance at 30 June 2020	7,943	158,595	332,122	498,660

### Note 31. Earnings per share

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax attributable to the owners of Allegra Orthopaedics Limited	(1,165,382)	(835,508)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	99,559,052	99,559,052
Weighted average number of ordinary shares used in calculating diluted earnings per share	99,559,052	99,559,052



## Notes to the financial statements - 30 June 2020

### Note 31. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(1.17)	(0.84)
Diluted earnings per share	(1.17)	(0.84)

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 32. 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:

#### 2020

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
31/01/2020	31/01/2026	\$0.160	-	1,900,000	-	-	1,900,000
			1,719,894	1,900,000	-	-	3,619,894
Weighted average exercise price			\$0.125	\$0.160	\$0.000	\$0.000	\$0.143



## Notes to the financial statements 30 June 2020

### Note 32. Share-based payments (continued)

2019

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			\$0.125	\$0.000	\$0.000	\$0.000	\$0.125

The weighted average share price during the financial year was \$0.133 (2019: \$0.128).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.56 (2019: 4.40) years.

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
31/01/2020	31/01/2026	\$0.195	\$0.160	8.66%	-	0.65%	\$0.0436

### Note 33. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing. Consequently, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 6 July 2020, the company announced that it has successfully acquired all the registered patents and application for patents held by the University of Sydney in relation to a unique bio ceramic material known as Sr-HT-Gahnite which can be utilised in a variety of applications including its use as a synthetic bone substitute. Consequently, the company has issued to the University of Sydney 4,806,000 ordinary shares in the consolidated entity.

On 7 August 2020, the company announced that due to the global impact of the COVID-19 pandemic and the restrictions on international travel, the Innovation division has had to delay the last stage of the preclinical large animal study for the cervical fusion device in Lyon France (refer to ASX announcement 15 November 2019). The consolidated entity has utilized the time provided by the delay as an opportunity to implement recent advancements in 3D printing technology in order to enhance the implant design. Fractures of the implants were observed during the 6-months study, and the main root cause of the fractures was associated with the animal model as the design of the device is based on forces in the human spine. The revised design will improve the strength of the implant significantly and allow for the physiological differences in the animal model.

No other matter or circumstance has arisen since 30 June 2020 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 2020

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 2020 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

27 August 2020  
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 2020, the statement of profit or loss and other 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 the 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 2020 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 (including Independence Standards)* (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.

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

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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> Refer to Note 1 and Note 4</p> <p>The sale of goods are recognised as revenue when the goods have been utilised by, or delivered to, 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 2020 and July 2020 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> 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, and 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 2020, the Consolidated entity had an estimated claim of \$353,443 for the year.</p> <p>The R&amp;D tax incentive is a key audit matter due to the size of the balance and because judgement and interpretation of the R&amp;D tax legislation is required by the Consolidated entity to assess the eligibility of the R&amp;D expenditure under the scheme.</p>	<p>We performed the following key procedures:</p> <ul style="list-style-type: none"> <li>• Agreed the estimate made in the previous year to the amount of cash received after lodgement of the R&amp;D tax claim.</li> <li>• Compared the nature of R&amp;D expenditure included in the current year estimate to the prior year estimate.</li> <li>• Tested a sample of R&amp;D expenses for eligibility under the R&amp;D Tax Incentive scheme.</li> <li>• Compared the amount of eligible expenditures used to calculate the estimate to the expenditure recorded in the general ledger.</li> <li>• Inspected copies of relevant documents lodged with the ATO related to historic claims.</li> <li>• Reviewed 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 2020 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 11 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Allegra Orthopaedics Limited, for the year ended 30 June 2020, 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 Sydney****John Haydon**

Senior Partner

27 August 2020  
Sydney



## Shareholder information 30 June 2020

The shareholder information set out below was applicable as at 20 August 2020.

### 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	48
1,001 to 5,000	183
5,001 to 10,000	94
10,001 to 100,000	149
100,001 and over	49
	523
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	% of total shares issued
	Number held	
ROBINWOOD INVESTMENTS PTY LTD	38,274,948	38.44
NETWEALTH INVESTMENTS LIMITED (WRAP SERVICES A/C)	9,169,579	9.21
WELSH SUPERANNUATION PTY LIMITED	6,600,000	6.63
MARIE CAROLL & DAWSON CAROLL	5,636,285	5.66
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	4,959,813	4.98
THE UNIVERSITY OF SYDNEY	4,806,000	4.83
DR ANDREW WILLIAM LEICESTER & MRS SKYE CHRISTINE LEICESTER (LEICESTER SUPER FUND A/C)	3,353,123	3.37
DUGAL DIAGNOSTICS PTY LTD (THE DUGAL FAMILY)	3,000,000	3.01
4 HOLES-IN-ONE PTY LTD (NUMBER 5)	3,000,000	3.01
DR ANDREW WILLIAM LEICESTER & MRS SKYE CHRISTINE LEICESTER	2,272,270	2.28
CHEW INVESTMENTS PTY LTD (CHEW INVESTMENTS)	1,333,333	1.34
MR NICHOLAS HARTNELL	1,224,090	1.23
MERGIN INVESTMENTS PTY LTD (M & V CROSS SUPER FUND A/C)	1,198,000	1.20
MR THOMAS JAMES CARROLL	1,000,000	1.00
MR KENNETH CAMPBELL	1,000,000	1.00
SANPEREZ PTY LTD (P CHALMERS PARTNERSHIP A/C)	971,000	0.98
DESTIN PTY LIMITED	946,470	0.95
MISTY HILLS NOMINEES PTY LTD	892,857	0.90
MR FENTON PAUL HEALY (CHEEKY MONKEY A/C)	550,000	0.55
DESMOND J BOKOR PTY LIMITED (KOORINGA SUPER FUND A/C)	510,000	0.51
	90,697,768	91.08



## Shareholder information 30 June 2020

### Unquoted equity securities

	Number on issue	Number of holders
Options exercisable at \$0.125 each expiring 9 November 2023	219,872	3
Options exercisable at \$0.125 each expiring 8 December 2023	1,472,538	5
Options exercisable at \$0.160 each expiring 31 January 2026	1,900,000	6

The following person holds 20% or more of unquoted equity securities:

Name	Class	Number held
JENNY SWAIN	Options over ordinary shares	1,932,538

### Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	38,274,948	38.44
NETWEALTH INVESTMENTS LIMITED (WRAP SERVICES A/C)	9,169,579	9.21
WELSH SUPERANNUATION PTY LIMITED	6,600,000	6.63
MARIE CAROLL & DAWSON CAROLL	5,636,285	5.66

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

### Voting rights

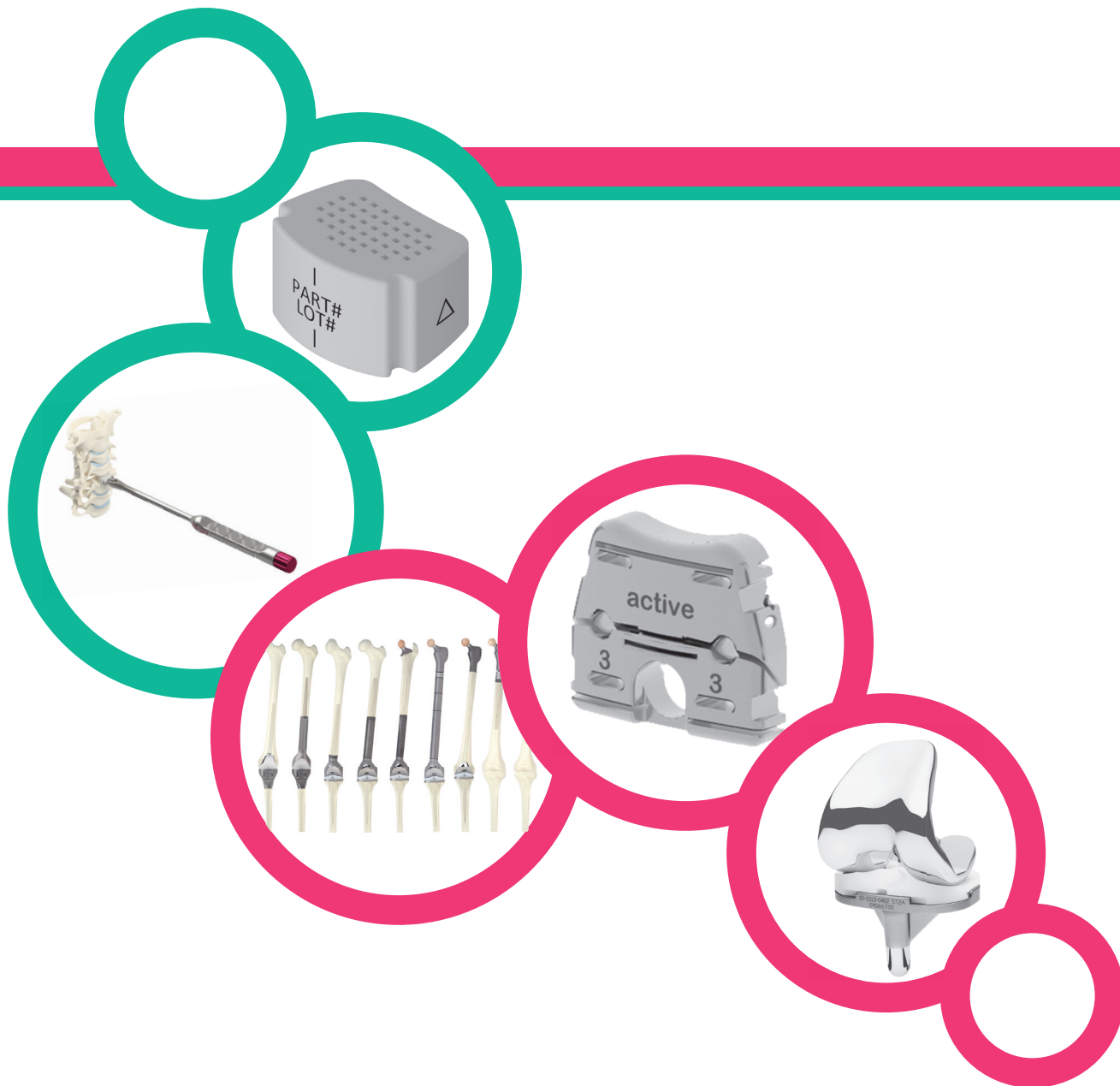
The voting rights attached to ordinary shares are set out below:

#### Ordinary shares

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

There are no other classes of equity securities.





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

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