



ARO ATM

ANNUAL REPORT 2021

ARO A BIOSURGERY LIMITED | ASX: ARX
NZCN: 1980577 ARBN: 638 867 473



Unlocking regenerative
healing for *everybody*

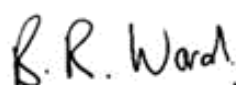
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This Annual Report covers the financial year ended 31 March 2021 and is dated 21 June 2021. The Annual Report has been approved by the Board and is signed on behalf of Aroa Biosurgery Limited by:



Jim McLean
Independent Chair of
the Board of Directors



Brian Ward
Managing Director
and CEO



CHAIRMAN'S REVIEW

Dear Shareholders,

On behalf of the Board, I am pleased to present AROA's Annual Report for the financial year ended 31 March 2021, the first since AROA's successful admission to the ASX's official list in July 2020, following its initial public offering.

AROA has realised several strategic achievements in the last year. These achievements have advanced our founding purpose to develop, manufacture and distribute medical and surgical products to improve healing in complex wounds and soft tissue reconstruction.

IPO AND ADMISSION

AROA's IPO and Admission was a key milestone for the business. It raised A\$45 million, comprising of \$30 million of primary capital through the issue of 40 million shares, with the remaining \$15 million allocated to a limited sell down by early investors in the Company. The IPO received extraordinary support from institutional investors across Australia, New Zealand and other overseas markets. It also reflected a strong vote of confidence from existing shareholders who subscribed for approximately half of the funds raised. AROA was valued at A\$225 million upon Admission, and was added to the S&P/ASX All Ordinaries Index effective from 22 March 2021.

In the Prospectus, AROA stated that the raised funds would be used to facilitate the next steps in executing its growth strategy. The Company has materially advanced that growth strategy in the last year.

SALES

As outlined in the Prospectus AROA's primary growth strategies are focused on the US, being AROA's current principal market. AROA has, in the last year, taken notable steps in line with these strategies. In February 2021, the Company announced a plan to significantly expand its US direct sales capability and capacity, and to dissolve Appulse, the Company's shared sales force joint venture arrangement with Hydrofera, LLC. The shift to a larger dedicated field sales team has been a pivotal move for AROA as it has expanded and simplified AROA's sales structure. This will enable AROA's sales efforts to be increasingly focused on hospital accounts and ambulatory surgical centres, where AROA expects its sales force to drive growth of AROA's Myriad™ products.

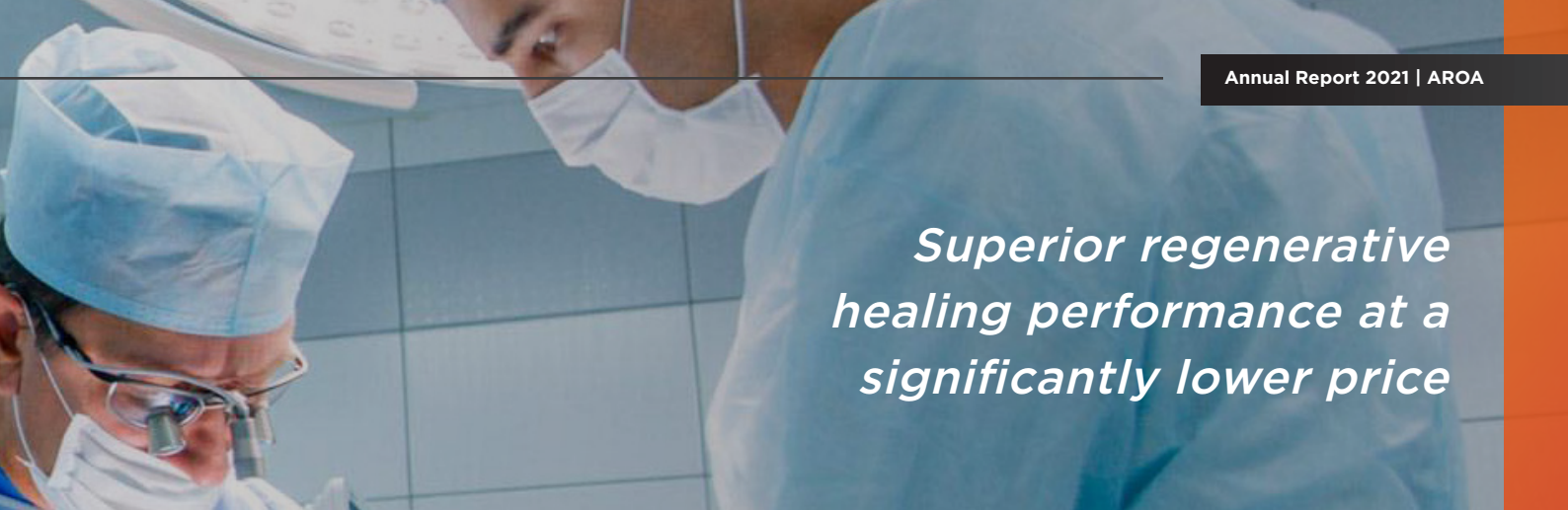
In the last year, AROA has obtained regulatory approval to sell its products in a further six countries. Regulatory approvals received during the year included approval for Myriad Matrix™ in the European Union. At the end of the financial year, AROA had regulatory approval to distribute and sell products in 49 countries globally, including the European Union and the United Kingdom.

CLINICAL VALIDATION

The Company received further clinical validation for its AROA ECM™ platform products during the year. A pre-clinical study published in the leading scientific journal PLOS One demonstrated the ability of components in the AROA ECM platform technology to recruit stem cells. This has significant implications, as stem cells are known to play a critical role during soft tissue regeneration. Myriad Matrix was used across a range of procedures in four peer-reviewed publications during the period, with a fifth manuscript accepted for publication. Finally, the Ovitex™ range was subject to a peer-reviewed retrospective analysis published in the journal "Surgical Endoscopy". As AROA continues to build a database of clinical evidence for its products, common themes are starting to emerge across a wide range of soft tissue repair procedures. These include a rapid rate of well vascularized soft tissue formation, resolution of underlying tissue inflammation and tolerance of contaminated fields that typically exist in these complex cases.

PRODUCTS AND PIPELINE

AROA has continued to expand its product portfolio, both with line extensions to existing products and with new products based on extensions to the use of its proprietary AROA ECM platform technology. In the last year, AROA received FDA clearance for Symphony™, a new AROA product designed to support healing during the proliferative phase to reduce the time to wound closure, particularly in patients where their healing is severely impaired or compromised due to disease.



Superior regenerative healing performance at a significantly lower price

Shortly after the end of this year, AROA also received FDA clearance for Myriad Morcells™ and commercially launched that product in the US. Myriad Morcells is a morcellized (powdered) format of Myriad Matrix for soft tissue repair and complex wounds. The morcellized format increases the AROA ECM surface area to maximise delivery. It also easily conforms, to optimise contact with irregular wound beds.

As outlined in the Prospectus, AROA is developing a new platform technology to address an unmet need within dead space management. Dead space is a cavity that remains within soft tissues following surgical dissection between tissue plains, trauma or after tissue removal. It may result in seroma formation (a collection of fluid) and may be associated with an increased risk of infection and breakdown of the surgical site. Dead space management devices therefore aim to reduce the occurrence of seroma formation and improve healing. During the year, AROA observed positive pre-clinical outcomes with its dead space management platform technology. In view of this, and following further assessment of the potential market opportunities of these product categories, AROA has decided to prioritise and accelerate commercialisation of the dead space management platform technology.

INTELLECTUAL PROPERTY

AROA continued to build out its intellectual property portfolio during the year, with a new provisional patent application in the US for a novel treatment system for the prevention of seroma, and to approximate surgically created tissue planes linked to dead space. This patent complements existing filings for a fluid drainage and delivery device, and for a negative pressure wound dressing. The Company was also granted patents for a laminated tissue graft product in several more jurisdictions including Australia, China, and Europe.

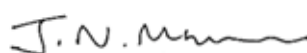
MANUFACTURING

During the year, the Company commenced the expansion of its manufacturing facility as outlined in the Prospectus. AROA intends the expansion to achieve a three-fold increase in capacity to meet the growing demand for its products. It will also provide scaled up capacity for new products and additional laboratory space to support the Company's developmental activities.

CONCLUDING REMARKS

AROA has achieved these outcomes despite the challenges presented by COVID-19. On behalf of the Board, I would like to acknowledge the impact COVID-19 has had on many people around the world, including our shareholders, employees, customers and partners. In particular, we recognise AROA employees' and partners' dedication and initiative through the last year, and their continued commitment to AROA in the face of these challenges. On behalf of the Board, I would also like to thank AROA's Executive team for their exceptional efforts in the Company's IPO and Admission. Finally, I would like to thank my fellow Directors for their valuable and continued counsel.

Looking ahead, the Board considers that AROA is well placed to grow in the emerging post COVID-19 healthcare environment, where clinical performance and value will come under increasing scrutiny. The Board remains committed to investing in AROA's growth, and we would like to extend our sincere gratitude to AROA's shareholders, employees, customers and partners for continuing to support AROA's vision.



Jim McLean
Independent Chair of
the Board of Directors



CEO'S REPORT

Dear Shareholders,

I would like to begin by expressing how heartened I've been to see the pragmatic and solutions-focused manner in which AROA's employees and partners have responded to this unprecedented period of global uncertainty and public health crises. They have worked with AROA to embrace the challenges presented, and in doing so, have showcased their continued support for the Company.

STRATEGIC PROGRESS

As Jim McLean outlined in the Chairman's Review, AROA has, despite the challenges presented by COVID-19, realised several strategic achievements in the last year. The Company believes there is a significant global growth opportunity for its products and has a targeted strategy to increase utilisation of its products in the US and its other markets globally. These strategic achievements have materially advanced that growth strategy.

IMPACT OF COVID-19

COVID-19 significantly impacted procedure volumes in the US during the year, due to the lockdowns and resulting postponement of surgeries. This affected AROA's results for FY21, with product sales for the first half of FY21 down 10% (being 8% in constant currency) compared to the same period in FY20. Despite foreign exchange headwinds and a COVID-19 surge in the US in January 2021, sales recovered strongly in the second half of FY21, resulting in full year product sales of NZ\$21.6 million. This represents a 5% increase over FY20 in constant currency.

OUTLOOK

Over the next two years, AROA is going to focus on building out its US commercial operations to drive revenue growth and take advantage of the opportunities presented from its expanded product portfolio.

AROA expects that its Myriad family of products will help deliver strong growth in FY22 and underpin growth in the medium term. The Company received regulatory clearance for Myriad Matrix in Europe and India during the year, and is targeting commercial launch in the coming financial year. As previously disclosed in AROA's results announcement for the year, AROA has forecasted product sales of between NZ\$30 million to NZ\$33 million in FY22. This represents a 39% to 53% increase on FY21. AROA's expanded dedicated field sales team in the US is a key factor expected to contribute towards that growth. AROA anticipates that its sales team will ramp up Myriad sales and penetrate additional accounts. The growth forecast also reflects AROA's expectation that TELA Bio, the Company's US sales and marketing distributor for hernia and breast reconstruction products, will deliver strong growth. TELA Bio published revenue guidance in March 2021 of 48% to 65% growth in the 2021 calendar year compared to the same period in 2020. Finally, US medical procedure numbers also continue to reflect a positive trend, demonstrating month-on-month improvement. Although these numbers are yet to return to pre-COVID levels, there has been strong improvement over the past two quarters, supporting improved sales momentum. AROA has provided this guidance on the basis of the assumptions outlined above, no resurgence of COVID-19 in the US and an average NZD/USD exchange rate of US\$0.72. Given the demonstrable increase in US medical procedure numbers since the rapid roll-out of COVID-19 vaccinations there, AROA maintains its guidance.

*Growing clinical validation
and products used in over
4 million procedures*

AROA's Symphony product, which received FDA clearance in July 2020, requires a unique re-imbursement code within the US health system. AROA anticipates this to be issued during the 2021 calendar year, and is targeting a limited commercial launch in the 2021 calendar year, with a full launch in the 2022 calendar year following completion of clinical studies. Symphony has an estimated market size in the US of US\$1.15 billion, so dramatically increases the total addressable market in the US for AROA's product portfolio from US\$1.5 billion to more than US\$2.5 billion.

AROA will continue to build a database of clinical evidence for its products in FY22, focusing on Myriad Matrix and Myriad Morcells. In particular, the Company intends to continue undertaking case study series across a range of soft tissue repair procedures. Additional planned clinical activities include a pilot study utilising AROA's Endoform™ and Symphony products in the treatment of diabetic foot ulcers (followed, in due course, by a pivotal clinical study in relation to the same) and commencement of a Phase IV clinical study in India involving Endoform and Myriad. The Company anticipates publication in the current financial year of a large retrospective analysis of Endoform in the treatment of diabetic foot ulcer, and expects the BRAVO multi-centre study on Ovitex to conclude in FY22.

Finally, the Company is targeting completion of its expanded manufacturing facility by the end of FY22. Operating capacity from the expansion will come on-line in phases as necessary, based on demand requirements for AROA's products. AROA anticipates that following completion, it will have sufficient aggregate manufacturing facilities to support approximately NZ\$100 million in sales per annum.

CONCLUDING REMARKS

I want to take this opportunity to acknowledge and thank AROA's employees, who have gone above and beyond to deliver this year in spite of the difficulties presented by COVID-19. The Company appreciates the commitment, passion and resilience they have demonstrated over the year, in executing AROA's strategic goals whilst managing the physical, mental and social challenges of life during a global pandemic.

AROA is pleased with its progress in the last year under challenging conditions and expects to continue into the new year with strong momentum. AROA's products are designed to improve clinical outcomes at a cost that improves patients' access to the benefits of biologics, and to drive better healing. We are focused on unlocking regenerative healing for *everybody*.

B.R. Ward.

Brian Ward
Managing Director
and CEO



ABOUT AROA

AROA is a soft-tissue regeneration company that develops, manufactures and distributes medical and surgical products to improve healing in complex wounds and soft tissue reconstruction.

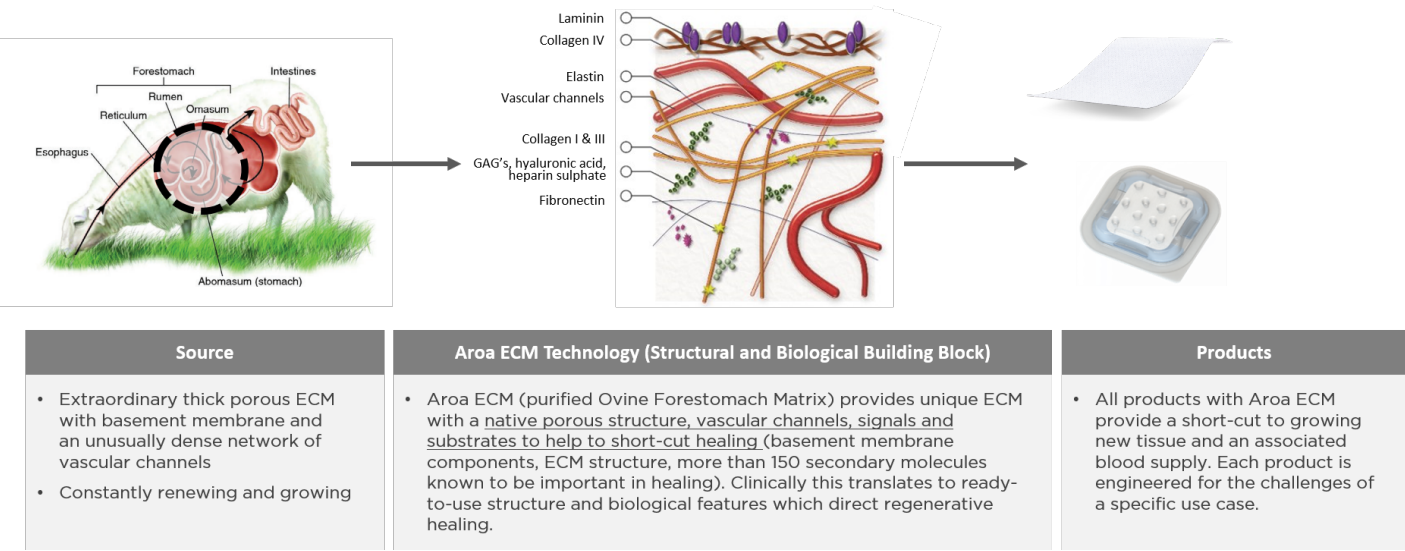
The Company commenced operations in 2008, and has its headquarters and manufacturing facilities in Auckland, New Zealand. AROA has an additional sales office and distribution function in the US.

AROA ECM PLATFORM TECHNOLOGY

The Company has developed AROA ECM, a proprietary soft tissue regeneration platform technology, which is based on the benefits of applying a unique ECM to wounds and soft tissue repair and reconstruction.

AROA ECM is derived from sheep (Ovine) forestomach and contains a rich and complex mix of important biological molecules. AROA ECM can temporarily replace damaged tissue by acting as a scaffold to grow new tissue, and is used where tissue has been lost or damaged by disease or injury. The patient's own cells grow into the AROA ECM product, re-establish a blood supply, and then form new tissue. Over time, the implanted AROA ECM is completely replaced by new patient tissue. AROA has extended this platform technology to also incorporate synthetic polymer reinforcement, antimicrobials, and other actives.

Figure 1: AROA ECM's source, structure and products



AROA believes that its products based on the AROA ECM platform technology offer superior healing performance in complex wounds, soft tissue reconstruction and, when combined with synthetic fibres, reduce complications and reoccurrence rates in hernia¹.

COMPETITIVE ADVANTAGE OF THE AROA ECM PLATFORM TECHNOLOGY

The AROA ECM platform technology affects tissue regeneration and healing in the same way and through the same general mechanisms in all products. The competitive advantage of AROA's products are firstly, based on the advantages of the AROA ECM platform technology, and secondly, based on design features of each product which consider the specific requirements for each particular use case.

The AROA ECM platform technology's competitive advantage is based on the inherent regenerative properties of ovine forestomach tissue, the proprietary manufacturing process and a pricing strategy that makes products affordable and accessible.

¹Bohn, G. A. (2019). Endoform: A Simple Tool to Assess Wound Proteases. Wound Management and Prevention, 65(3), 18-20 & Overbeck, N. et al. (2020). In-vivo evaluation of a reinforced ovine biologic: a comparative study to available hernia mesh repair materials. Hernia.

Unique tissue – ovine forestomach matrix

- A rapidly growing and regenerating organ during normal development;
- Immature tissue source with naturally high levels of secondary ECM molecules;
- Native intact porous ECM which enables rapid cell infiltration and proliferation;
- Basement membrane layer to support epithelial attachment;
- Unusually dense network of blood vessels which are retained as vascular channels;
- Excellent strength and handling characteristics;
- Favourable “M2” immune response which directs regenerative healing, enabling dynamic reciprocity and a constructive remodelling; and
- Continually being remodelled and replaced over time.

Proprietary manufacturing process

- Gentle process that retains the innate biology of the ECM while removing components which can lead to an inappropriate immune response;
- Avoids structural damage to the ECM and protein denaturation which affects function and immune response;
- Retains the high levels of native secondary molecules; and
- Deliberately designed (e.g. modular design) to allow large scale, high-volume and low-cost production.

Pricing strategy

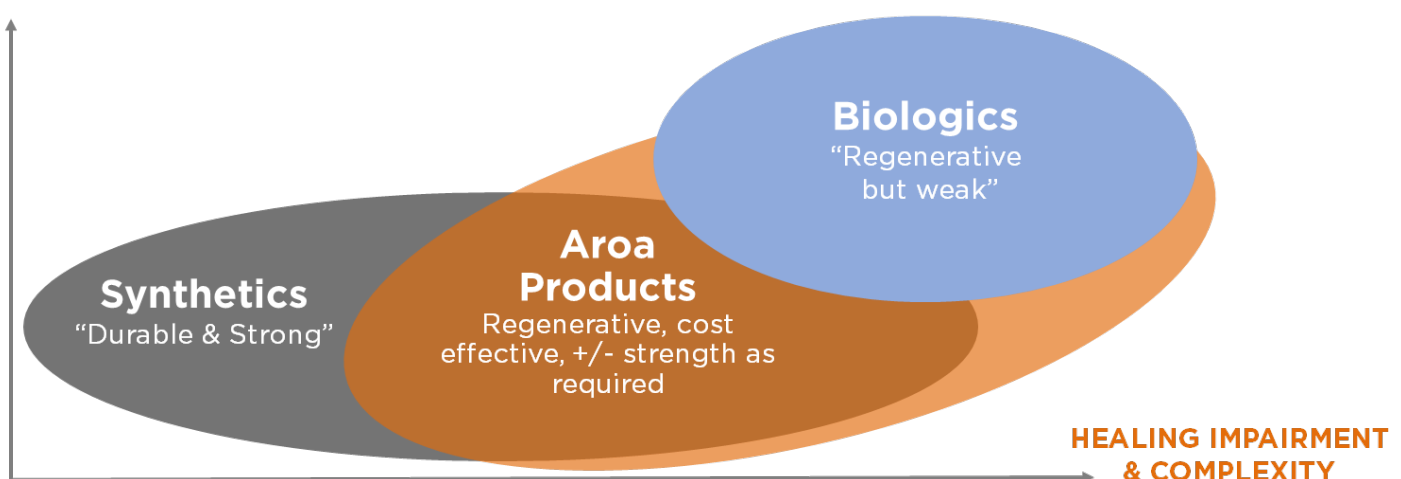
AROA's products are typically 20%-40% less expensive than competing biological products and in many cases only a small premium over synthetic products.

AROA ECM OFFERS DISRUPTIVE VALUE

Currently, the regenerative use of ECM technology is restricted because of its high cost. ECM technology tends to be used in more complex cases or where patients' healing is impaired. A wider group of patients could benefit from this technology but cost constraints limit access. Instead, health care providers and surgeons use less expensive products that have poorer outcomes.

Figure 2: AROA ECM offers disruptive value

PRICE



Note: AROA Management compilation based on peer reviewed publications

The AROA ECM platform technology offers a leading ECM that is more affordable and accessible to a wider group of patients. For less complex conditions, this allows more patients to have earlier access to advanced treatments which may lead to earlier healing and fewer complications.

PRODUCT PORTFOLIO

ARO A sells products in two broad categories: complex wounds and soft tissue reconstruction. All products are based on the ARO A ECM platform technology and are specifically engineered for each use case.

Figure 3: Commercial products and product pipeline

	Brand name	Use case	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23	US TAM (USD)	Sales Channel	Launch
Existing Commercial Products	Endoform™ Natural & Antimicrobial	Stalled complex wounds							\$78m ¹	Aroa	FY'13
	Ovitex	Hernia							\$845m ²	TELA Bio	FY'17
	Myriad	Dermal & implantable Reconstruction							\$200m ³	Aroa	FY'20
	Ovitex PRS	Licensed to TEL A Bio solely for Breast Surgery							\$463m ⁴	TELA Bio	FY'20
	Symphony™	Complex wounds & Limb salvage							\$1.15b ⁵	Aroa	FY'21 ⁶
New Pipeline	TBC	Dead Space Management							TBD	Aroa	FY'23/24 ⁶

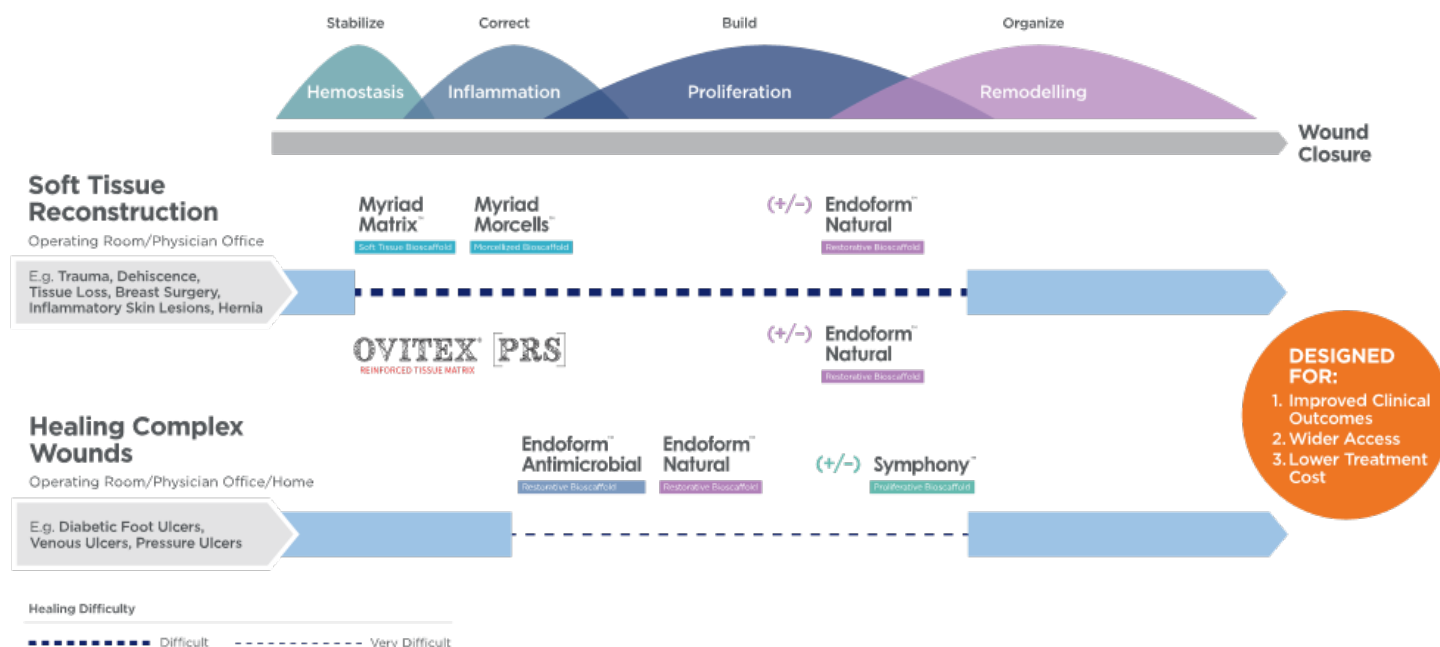
Sources: 1 and 5 SmartTRAK BiomedGPS data 2020, 2. DRG Millennium Research data, Hernia Repair Devices, 2020, 3 Aroa management estimates, 4. DRG Millennium Research, Breast Implants & Reconstructive devices, 2018.
6. Based on current project timeline but remains subject to changes in circumstances and regulatory clearances.

Note: Symphony requires a new reimbursement code, whereas all other products fall under existing reimbursement codes.



ARO A's product range addresses a wide range of applications and large addressable markets.

Figure 4: Phases of healing and ARO A product use



SALES CHANNELS

AROA sells and distributes its products through three sales and distribution channels to maximise operating leverage.

Figure 5: AROA's sales channels

Channel	Description	Products	Target Specialties	Call point	Sales force (FTE)
 AROA	US Commercial operations based in San Diego, with sales professionals across US	Endoform Myriad Symphony	Physicians, WOCN's/ RN's Podiatric, Plastic, Trauma & Orthopaedic surgeons	Outpatient Wound Centres & Inpatient Operating Rooms	20 field, 8 Inside & 20 Independent Sales Representatives
 TELA BIO	NASDAQ listed ~US\$233 Market Cap exclusively sell Aroalicensed products	Ovitex® Ovitex PRS™ (US and European Rights)	General Surgeons Plastic Surgeons	Operating Room	46 sales territories as at 30 March 2021
International (Ex-USA)	• Aroa is appointing distributors for the countries outside the US in which it has received regulatory approvals. • Aroa has the rights for Ovitex and Ovitex PRS outside of US and Europe				

Direct sales

AROA's direct sales team is located throughout the US and is supported from AROA's San Diego office. AROA expects this focused direct sales function to accelerate the growth of Myriad sales and, once launched, sales of AROA's Symphony product.

TELA Bio

AROA licenses its AROA ECM platform technology to TELA Bio for abdominal wall reconstruction/hernia and plastics and reconstructive surgery (licensed to TELA Bio solely for breast reconstruction). Through the relationship, AROA is responsible for process development, product realisation, regulatory submissions and manufacture. TELA Bio is a co-development partner for reinforced bioscaffolds and has responsibility for commercialisation in the US and Europe and for clinical development. AROA receives 27% of net product sales generated by TELA Bio.

International (ex-US)

AROA pursues international sales outside the US through distribution agreements with local distributors in the relevant jurisdictions. AROA has regulatory approval to distribute and sell products in 49 countries and has agreements in place with over 20 local distributors.

AROA believes there is a significant global growth opportunity for its products.



*Fully dedicated US
field sales team and
regulatory approvals
in 49 countries*

DIRECTORS' REPORT

The Directors present their report on the Group during and at the end of the financial year ended 31 March 2021.

DIRECTORS

The following persons held offices as Directors of the Company during the financial year:

- James McLean
- Philip McCaw
- Brian Ward
- John Pinion
- Steven Engle
- John Diddams



James McLean
Chair, Independent Non-executive Director
First appointed 10 August 2011

James (Jim) is a resident of New Zealand. For 25 years he has served as either Chair, Director, or an executive of research and technology businesses for both commercial and New Zealand Government organisations. In addition to AROA, current appointments include Chair of Prevar Limited, R J Hill Laboratories Limited and Information Tools Limited.

He was Chair of the New Zealand Institute of Plant & Food Research and Chair of its predecessor HortResearch, as well as several private businesses and start-up companies. He served on the board of the then Foundation for Research, Science, and Technology including five years as deputy Chair. Jim was an executive and director of Genesis Research & Development Corporation Limited during its early stages through public listing.

Before specialising in science and technology businesses, Jim held management positions with an international manufacturing business and spent thirteen years as a partner at chartered accountants, EY. His time at EY was focused on business strategy and included two years' secondment to EY's Washington DC office.

Jim has a BSc (Hons) in Chemistry from University of Otago and a Post Graduate Diploma in Accounting from Victoria University of Wellington.

Committee responsibilities: Member Audit Committee, Member Risk Committee, Member Remuneration and Nomination Committee



Brian Ward
Managing Director and CEO
First appointed 21 Sep 2007

Brian is the founder of AROA and he is a resident of New Zealand. He has held senior corporate roles in life sciences and health care companies over the last 25 years. He has extensive management experience in life science companies spanning clinical, technical, sales, marketing, corporate development and strategy having worked for a number of multinationals including Baxter, Beecham and SmithKline Beecham throughout the world. He has managed investments into New Zealand technology companies for the Foundation for Research Science and Technology, served as the founding CEO of NZBio, and has sat on a number of government and industry expert panels.

Brian has been responsible for leading the Company's growth from start-up through to becoming a vertically integrated medical device business with substantial US sales and a developing international presence.

As founder, Managing Director and CEO of the Company, and a substantial shareholder in the Company, he is considered by the Board to not be an independent Director.

He is a graduate from Massey University with a Bachelor's degree in Veterinary Science, a Member of the Royal College of Veterinary Surgeons (UK), and holds a Masters degree in Business Administration graduating with distinction.

Committee responsibilities: Member IPO Due Diligence Committee



Steven Engle
Independent Non-executive Director
First appointed 1 April 2015

Steven Engle is a resident of the US. He has over 20 years of executive leadership experience with public biotech companies developing breakthrough products in metabolic, autoimmune, oncologic and infectious disease areas. He was previously the CEO of CohBar, a clinical stage biotechnology company developing mitochondria-based therapeutics to treat age-related diseases and extend healthy lifespan. Before joining CohBar, Steven served as CEO of Averigon Consulting, an advisory firm to the life science industry. Prior to that, he held roles as Chairman and CEO of XOMA Corporation, a leader in the development of therapeutic antibodies and antibody technologies, and La Jolla Pharmaceutical Company, which discovered the biology of B cell tolerance, developed the first B cell toleragen for lupus patients, and received an approvable letter from the FDA. Earlier, he served as Vice President of Marketing for Cygnus, a drug delivery systems company, where he helped to gain FDA approval and to launch Nicotrol for smoking cessation.

Steven is the non-executive Chairman of the Board of Prescient Therapeutics Ltd., an ASX listed clinical stage oncology company, and Executive Chairman of Author-it Software Corporation, a developer of authoring information solutions for pharmaceutical and biotechnology companies. He is a former director of industry associations, BIO, BayBio and BIOCOM, and was a member of the board of the Lupus Foundation of America.

Steven holds M.S.E.E. and B.S.E.E. degrees from the University of Texas with a focus in biomedical engineering.

Committee responsibilities: Chair Remuneration and Nomination Committee, Member Risk Committee



Philip McCaw
Non-executive Director
First appointed 5 March 2008

Philip (Phil) McCaw is a resident of New Zealand and is the Founding Partner of Movac, one of New Zealand's leading Venture Capital funds. Phil led the original investment round into AROA in 2008, has worked closely with the Company and has served on the Board since then. Phil has over 20-years' experience investing into New Zealand technology companies and helping to guide their growth. Phil was an early investor in Trade Me, New Zealand's leading on-line trading community, which was sold to Fairfax in 2006. He was also an early investor into PowerByProxi, a wireless power technology spin-out from Auckland University, which was sold to Apple in 2018.

Outside of Movac, Phil remains an active angel investor and maintains a personal angel investment portfolio. He is a strong advocate for the development of the entrepreneurial and early-stage investment eco-system in New Zealand and was the past Chair of the Angel Association of New Zealand; a founding investor in the Lightning Lab technology accelerator; and a founding investor in the Kiwi Landing Pad in San Francisco.

Prior to starting Movac Phil spent 10 years with Deloitte Consulting working in New Zealand and the US.

Due to his relationship with ongoing substantial shareholders in AROA, Phil is considered by the Board to not be an independent Director.

Phil has a Bachelor of Business Studies (Senior Scholar) from Massey University.

Committee responsibilities: Member Remuneration and Nomination Committee



John Pinion
Independent Non-executive Director
First appointed 1 February 2015

John is a resident of the US. He has over 26 years of global experience leading biologic, small molecule pharmaceutical, gene therapy and device operations across Asia, Europe and the Americas. His expertise and leadership spans engineering, quality, manufacturing and translational sciences. He joined Ultragenyx in July 2015 and currently holds the role of EVP, Translational Sciences and Chief Quality Operations Officer. He provides leadership for Ultragenyx's translational sciences functions which includes Pharmacology and Toxicology, Research and Bioanalytical Development, as well as GxP Quality and Compliance and CMC Analytical Development and QC.

As a key member of Ultragenyx's executive leadership team reporting directly to the organization's CEO, he also contributes to ongoing business development, clinical development, commercial and strategic planning activities.

In the ten years prior to joining Ultragenyx, John has held roles of increasing responsibility at Genentech (subsequently Roche post Genentech acquisition), departing the organization as Senior Vice President and Global Head of Quality and Compliance for Pharma Technical Operations based in Basel, Switzerland.

Previous to Genentech, John spent 17 years in operational and senior leadership roles in Baxter International's Renal, Bioscience, Parenterals and Device divisions.

He holds a B.S. in Mechanical Engineering from West Virginia University.

Committee responsibilities: Chair Risk Committee, Member Audit Committee



John Diddams
Independent Non-executive Director
First appointed 21 November 2019

John is a resident of Australia and has over forty years' experience as a CFO, CEO and director of both private and publicly listed companies. John is currently a non-executive director of New Zealand based Volpara Health Technologies Limited (ASX:VHT), Surf Lakes Holdings Limited and DIT AgTech Limited.

John has extensive knowledge and experience in the practical application of ASX Listing Rules, Australian corporations' law, international accounting standards and corporate governance principles. He heads a CPA firm providing corporate advisory services to SME and mid-cap companies and has managed the listing process, secondary capital raisings and ASX listings in a number of diverse industry sectors, including oil and gas, food and retail, telecommunications, adventure tourism, biotechnology, and the dental and medical sectors.

John holds a Bachelor of Commerce from the University of NSW, is a Fellow of the Australian Society of CPAs and a Fellow of the Australian Institute of Company Directors.

Committee responsibilities: Chair Audit Committee, Chair IPO Due Diligence Committee



BOARD AND COMMITTEE MEETINGS

In addition to its usual Committees, the Board established an IPO Due Diligence Committee during the year to consider matters relating to the Company's IPO and Admission, and provide the Board with recommendations on the same.

Name	Board of Directors		Audit Committee ²		Risk Committee ²		Remuneration and Nomination Committee		IPO Due Diligence Committee	
	Eligible	Attended	Eligible*	Attended	Eligible*	Attended	Eligible*	Attended	Eligible*	Attended
Jim McLean	9	9	4	4	3	3	2	2		3
Brian Ward	9	9		4		3		2	11	11
Steven Engle	9	9					2	2		
Phil McCaw	9	9					2	2		2
John Pinion	9	9	4	4	3	3				
John Diddams	9	9	4	4	3	3			11	11

*To attend as a member of that Committee

With the exception of the IPO Due Diligence Committee, the Committees' charters are available on the Company's website.

PRINCIPAL ACTIVITIES

AROA is a soft tissue regeneration company. During the year, the Group's principal activity was the development, manufacture and distribution of products to improve the healing in complex wounds and soft tissue reconstruction.

²Previously called the Audit and Risk Committee. The Audit and Risk Committee had 3 meetings before separating into an Audit Committee and a Risk Committee in December 2020. Post separation, the Audit Committee had 1 meeting in the relevant period whilst the Risk Committee had yet to meet as its first meeting was scheduled for June 2021. The Board has oversight of all risk matters.

REVIEW OF OPERATIONS AND ACTIVITIES

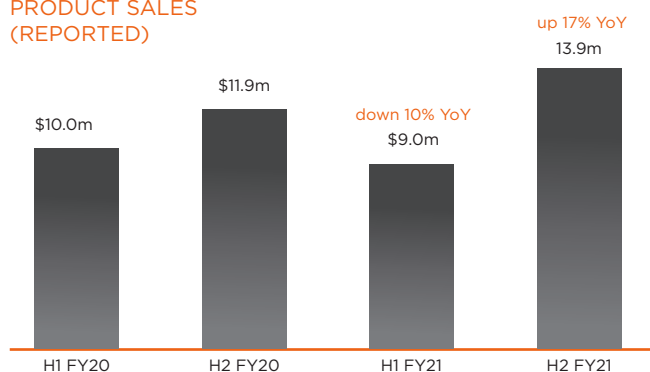
Commentary on the Group's operations and activities during the year is set out in the Chairman's Review and CEO's Report.

FINANCIAL RESULTS FOR THE YEAR

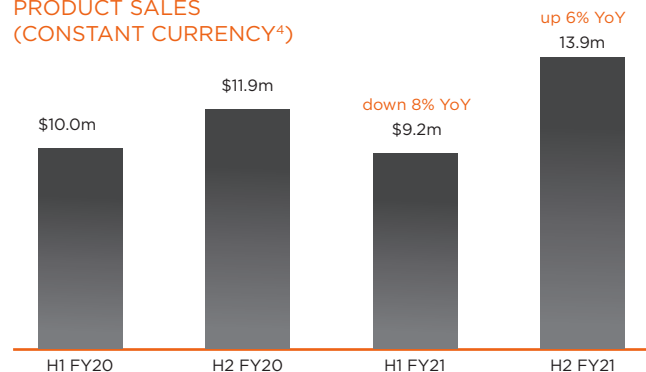
Normalised profit or loss³

	Reported	Reported	Reported	CC ⁴	CC ⁴
	2021	2020	YOY %	2021	YOY %
	NZ\$000	NZ\$000		NZ\$000	
Product sales	21,575	21,924	(2)	23,123	5
Other revenue	767	3,152	(76)	822	(74)
Total revenue	22,342	25,076	(11)	23,945	(5)
Gross profit	15,524	18,737	(17)	17,127	(9)
Product gross margin %	68%	71%	(3) bps	71%	0 bps
Other income	2,682	1,137	136	2,722	139
Normalised selling and administrative expenses ⁵	(18,142)	(15,401)	18	(18,900)	23
Research and development	(6,425)	(5,042)	27	(6,425)	27
Total normalised operating expenses	(24,567)	(20,443)	20	(25,325)	24
Normalised EBIT	(6,361)	(568)	1,018	(5,476)	862
Add back: Depreciation & amortisation	3,078	2,741	12	3,078	12
Normalised EBITDA	(3,283)	2,173	(251)	(2,398)	(210)
Net finance expenses	(1,111)	(3,317)	67	(1,753)	47
Normalised loss before income tax	(7,472)	(3,886)	92	(7,229)	86

PRODUCT SALES (REPORTED)



PRODUCT SALES (CONSTANT CURRENCY⁴)



³The following Profit or Loss is non-GAAP financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the Group's comparative financial performance without any distortion from NZ GAAP accounting treatment specific to one-off, non-cash fair value adjustment of pre-offer shares issued in February and May 2020 and the one-off transaction costs associated with the IPO. The impact of non-cash share based payments expense has also been removed from the Profit or loss. This approach is used by management and the Board to assess the Group's comparative financial performance.

⁴Constant currency (CC) removes the impact of exchange rate movements. This approach is used to assess the Group's underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the USD. The NZD/USD exchange rate of 0.64 has been used in the constant currency analysis, representing the average rate for FY20.

⁵These items have been normalised by the amounts outlined within the 'Reconciliation to NZ GAAP Profit or Loss'.

Product sales

Product sales for the year were \$21.6 million (\$23.1 million in constant currency) which is down 2% on last year, but a 5% increase on a constant currency basis. Product sales for H1 FY21 of \$9.0 million were down 10% (8% in constant currency) compared to H1 FY20, driven by the impact of the COVID-19 pandemic. Despite foreign exchange headwinds and a COVID-19 surge in the US in January, sales recovered strongly in H2 FY21 reaching \$12.6 million. This represents an increase of 6% on H2 FY20 or 17% in constant currency.

Other revenue

Other revenue represents royalties, received under the Company's licensing agreement with TELA Bio and project fee income, received for product development undertaken with TELA Bio. No royalties were received under the TELA Bio licensing agreement for the year, compared to the \$3.0 million received in FY20.

Product gross margin %

Product gross margin decreased to 65% (66% in constant currency) in H1 FY21 compared to FY20 as a result of lower product sales, relative to the level of fixed indirect costs required to support higher sales volumes. Product gross margins recovered strongly in H2 FY21 to 71%, despite foreign exchange headwinds (74% in constant currency), resulting in a full year product gross margin of 68% (71% in constant currency) compared to 71% in FY20.

Other income

Other income represents government grants and subsidies.

Normalised operating expenses

Selling and administrative expenses increased (from \$15.4 million in FY20) to \$18.1 million for FY21, representing a 18% change (23% in constant currency). This reflects the increased investment into the Company's US based sales operations and the increase in expenses from becoming a publicly listed entity.

Research and development expenses increased (from \$5.0 million in FY20) to \$6.4 million for FY21, being a 27% change (no currency impact), reflecting the increase in staffing on pipeline products.

Reconciliation to NZ GAAP profit or loss

	Reported	Reported
	2021	2020
	NZ\$000	NZ\$000
Normalised loss before income tax	(7,472)	(3,886)
Share based payments	(2,011)	(418)
Transaction costs	(1,606)	(850)
Other losses	(8,013)	(1,006)
Loss before income tax (NZ GAAP)	(19,102)	(6,160)

Share based payments

Share based payments of \$2.0 million relate to the vesting of the share options issued to Directors and employees of the Company on IPO and certain employees in September.

Transaction costs

Transaction costs of \$1.6 million relate to the costs associated with the IPO including lead manager fees, legal fees, accounting and audit fees, ASX listing fees and road show expenses. Out of the total costs of \$3.0 million incurred during the year ended 31 March 2021, \$1.6 million was recognised against share capital, with the remaining \$1.6 million recorded within operating expenses.

Other losses

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

Cashflows

Net cash outflow from operating activities of \$5.0 million for FY21 compared to a net cash inflow from operating activities of \$1.7 million in FY20, reflecting the increased investment in operating expenses.

Cash on hand and term deposits, increased to \$35.4 million as at 31 March 2021 from \$3.9 million as at 31 March 2020, resulting from the successful pre-IPO and IPO placements netting \$50.4 million.

Repayment of borrowings totalled \$12.6 million during the year with purchases of property, plant and equipment remaining modest at \$1.3 million compared to \$1.7 million in FY20.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Commentary on significant changes in the Group's state of affairs during the financial year is set out in the Chairman's Review.

Other than as set out in the Chairman's Review and CEO's Report, the Directors are not aware of any matters or circumstances that have arisen since the end of the financial year which have significantly affected, or may significantly affect, AROA's operations, the results of those operations, or the state of affairs of the Group in subsequent financial years.

DIVIDENDS

No dividends were paid, declared or recommended during the financial year.



*Clinical outcomes
with clear economic
benefits are driving
uptake*

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has arranged, as provided for under its Constitution, insurance policies for Directors' and Officers' liability which, with a deed of indemnity entered into with each Director, are intended to ensure (to the extent permitted by applicable law) that the Directors and Officers will not incur monetary losses as a result of actions undertaken by them as a director or officer (as applicable) of any Group company. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of the law. Under the deeds of indemnity with the Directors, AROA must (subject to its Constitution and the Companies Act) maintain such insurance during the Director's directorship and for such period of time following the directorship as determined by the Board.

CORPORATE GOVERNANCE STATEMENT

The Board is responsible for corporate governance. The Board has prepared a Corporate Governance Statement in accordance with the fourth edition of the ASX Corporate Governance Council's Principles and Recommendations.

A copy of AROA's Corporate Governance Statement is available on its website at www.aroabio.com under the Investors/Corporate Governance section.

NON-AUDIT SERVICES

AROA's auditor is BDO Auckland Limited. The Group's statutory audit fee for the financial year ended 31 March 2021 was NZ\$128,000.

During the year ended 31 March 2021, BDO Auckland Limited, or entities associated to it, provided the following non-audit services to the Group.

Description of services	Fees (NZ\$)
Investigating accountant's review of the IPO Prospectus	238,000
Review of interim consolidated financial statements	46,500
Review of certain eligibility declarations by AROA for research and development grant funding	5,000
Assistance with the preparation and review of financial models for valuing certain pre-existing shares in AROA disclosed in the IPO Prospectus	7,500

The Board is satisfied that the services noted above do not impair BDO's independence as auditor on the basis that such services were not in conflict with BDO's audit procedures or adequate safeguards were put into place to mitigate any independence risks.

REMUNERATION REPORT (UNAUDITED)

This Remuneration Report, which forms part of the Directors' Report, sets out the remuneration information for AROA's Directors and other key management personnel for the financial year ended 31 March 2021.

KEY MANAGEMENT PERSONNEL

Key management personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the Group's major activities, whether directly or indirectly.

The Board has determined that the Key Management of the Group are the individuals whose details are set out below. Except as noted below, the named persons held their stated position for the whole of the financial year ended 31 March 2021 and since the end of that financial year.

Name	Position
Non-Executive Directors:	
James (Jim) McLean	Chair, Independent Non-executive Director
Steven Engle	Independent Non-executive Director
Philip McCaw	Non-executive Director
John Pinion	Independent Non-executive Director
John Diddams	Independent Non-executive Director
Executives	
Brian Ward	Managing Director and CEO
James Agnew	CFO & Joint Company Secretary (appointed Company Secretary in February 2020 and Joint Company Secretary from 23 July 2020)

REMUNERATION FRAMEWORK

The key objective of AROA's remuneration policies and practices is to attract, retain, motivate and reward talent. To achieve this, AROA offers compensation and benefits that embody the following:

- competitive within the industry;
- motivate management to pursue AROA's business objectives and pursue AROA's growth and success;
- encourage a high level of performance; and
- align the interests of management with the interests of shareholders.

REMUNERATION GOVERNANCE

The Remuneration and Nomination Committee assists the Board in establishing remuneration and nomination policies and practices which satisfy the remuneration framework outlined above, as well as ensuring that the Board is appropriately structured and comprised of individuals who are best able to discharge the responsibilities of directors.

To achieve this, the Remuneration and Nomination Committee's responsibilities include (amongst others):

- reviewing the structure of remuneration to be paid to Non-Executive Directors and any changes to the same;
- reviewing the performance and remuneration of the CEO and executive managers and providing the Board with recommendations on the same;
- overseeing succession planning reviews and selection processes (as required from time to time) for the CEO and executive managers;

- providing the Board with recommendations in relation to the terms of any issue of equity based remuneration to Executives or employees as part of their individual package or a wider staff incentive and retention scheme;
- regularly assessing the structure, size, composition, skills, experience, independence and diversity required by the Board to fulfil its responsibilities and duties to shareholders having regard to AROA's strategic direction, and reporting the outcome of that assessment to the Board;
- developing a process for evaluating the performance of individual Directors, Board committees and the Board as a whole; and
- establishing processes for identification of suitable candidates for appointment as new directors to the Board having regard to the skills required and skills represented on the Board.

Where appropriate, the Remuneration and Nomination Committee engages external consultants to provide independent advice.

In accordance with corporate governance best practice, the structure of Non-Executive Director remuneration is separate and distinct from that for the CEO and executive managers.

NON-EXECUTIVE DIRECTOR REMUNERATION STRUCTURE

Under the Company's Constitution, the Board may decide the remuneration to which each Non-Executive Director is entitled for their services as a Director of the Company (subject to shareholder approval where applicable under the Companies Act or the ASX Listing Rules). The Board has determined that Non-Executive Directors shall be compensated by way of cash fees and share options, but that no performance-based compensation shall be offered in order to ensure that objectivity in decision making is not compromised. The Remuneration and Nomination Committee assesses and reviews each Non-Executive Director's compensation annually having regard to the time commitment and responsibilities of that Director (and having regard to market comparatives every two years).

The total amount of fees paid to all Non-Executive Directors for their services as Directors (including for any committee roles) must not exceed in aggregate in any financial year the amount fixed by AROA in a general meeting. At the date of this Annual Report, this amount is fixed at NZ\$465,000. Remuneration (if any) in the form of shares or options in AROA granted to Non-Executive Directors is not included in this amount. The remuneration of Non-Executive Directors for the year ended 31 March 2021 is detailed later in this Remuneration Report.

There are no retirement benefit schemes for the Non-Executive Directors, or termination gratuity on ceasing to hold office. Each Non-Executive Director is entitled to be paid for all reasonable travel, accommodation and other expenses incurred by that Director in connection with his attendance at meetings or otherwise in connection with AROA's business.

EXECUTIVES' REMUNERATION STRUCTURE

AROA aims to reward the Executives and senior management with a level and mix of remuneration commensurate with their position and responsibilities within AROA. The remuneration package consists of three components;

- fixed annual remuneration comprising salary and legislative superannuation;
- cash based short term incentives; and
- long term incentives.

Fixed annual remuneration

The fixed annual remuneration of the Executives and senior management is reviewed annually, with any increases to remuneration being subject to individual, Company and market conditions. These include the following:

- size, nature and responsibilities of the role;
- market pay levels benchmarked against comparative roles in the industry;
- locality of role, relative to market benchmarks;
- individual experience, skill and performance;
- increases for employees across the company taking into account the Company's financial performance and position; and
- annual inflation.

Cash based short term incentives

Cash based short term incentives are paid in the form of bonuses for achievement of AROA's annual performance targets. These incentives are aimed at rewarding the achievement of predetermined annual financial, strategic or business performance targets. There is a minimum financial performance hurdle which must be achieved before the cash bonus is payable.

The cash bonus is calculated as a percentage for fixed remuneration. For the Executives, this bonus is between 25%-40% of annual salary.

In addition to short term incentive cash bonuses, in consideration for their performance and efforts during the IPO process, the Executives were entitled to a share in a one-off IPO cash bonus pool of NZ\$200,000. This bonus pool was distributed among the Executives and other AROA employees at the Board's discretion.

Long term incentives

During the financial year ended 31 March 2021, AROA operated two employee and executive incentive plans; the AROA Employee Incentive Share Plan and the AROA Biosurgery Share Option Plan.

1. Share Plan

AROA operated the Share Plan from 2014, with a view to align the interests of employees with the interests of shareholders through the grant of equity in the Company. Employees who were offered the opportunity to participate in the Share Plan were offered unpaid ordinary shares in the Company that then vested in tranches over a specified timeframe set out in the offer letter (usually three years). Subject to the Board's right to make an earlier call on the shares offered pursuant to the Share Plan, any such shares offered and vested had to be paid up by the shareholder by the 10th anniversary of their issue. No grants were made under the Share Plan since 2018 and, apart from the terms of the loan arrangement outlined below, the Share Plan was wound up prior to Admission. Any shares offered pursuant to the Share Plan which were not fully paid up at Admission (whether by the loan arrangement outlined below or otherwise) were forfeited.

The Board offered employees (but not Directors) who held shares offered pursuant to the Share Plan the opportunity to take out an interest free loan from AROA to pay up such shares. The maximum amount of the loan from AROA was NZ\$0.8 million and until a shareholder fully repays their Share Plan shares, legal title in such shares will continue to be held by Mesynthes Nominee Limited and any dividends paid out will first be applied to repayment of their loan. This loan facility will expire on 31 March 2022.

2. Option Plan

From time to time, AROA offers certain Directors, Executives and employees the opportunity to participate in the Option Plan. The Option Plan is intended to retain Executives and employees, and may also be used as equity-based compensation for Non-Executive Directors.

Each option is issued for nil consideration and entitles the participant to subscribe for one ordinary share in the Company at a specified exercise price once the option has vested. Any shares issued on exercise of an option are fully paid and rank pari passu with existing ordinary shares in the Company. The vesting dates are determined by the Board and specified in the option offer letter, but they have typically vested in three tranches of 33% each over a period of up to three years. An option may be exercised at any time from its vesting date up until the expiry date specified in the option offer letter. For grants made prior to Admission, the expiry date is ten years after the grant date whilst grants made on or after Admission expire five years after the grant date.

Should a Non-Executive Director, Executive or employee cease to be employed by AROA, all options which have not yet vested will automatically lapse unless the Board determines otherwise. Any options that have vested with that person must be exercised within 90 days of ceasing employment, or those vested options will also lapse, unless the Board determines otherwise.

The exercise price for options is determined by the Board and specified in the option offer letter, but typically, for grants made:

- at the time of Admission, the exercise price for each option was A\$0.75 per share, being the price offered for each ordinary share in AROA pursuant to the IPO; and
- after Admission, the exercise price for each option is the higher of the share price at the last capital raise and the volume weighted average price of ordinary shares in AROA on the ASX for the five trading days immediately preceding the grant date.

For further details relating to the options, refer to Note 22 to the Consolidated Financial Statements.

CEO AND MANAGING DIRECTOR

Brian Ward is employed by AROA in the role of both CEO and Managing Director. A summary of the key terms relating to his remuneration is outlined below.

- Brian is entitled to a fixed remuneration, plus (subject to achievement of certain financial and product milestones) cash based short term incentives as well as long term incentives. Further details on his remuneration during the financial year ended 31 March 2021 are set out in this Remuneration Report.
- Brian does not receive any additional payments for his performance as Managing Director of AROA.
- The Remuneration and Nomination Committee assesses the level and composition of his remuneration and performance, annually, and makes recommendations to the Board on any changes to his remuneration package.

DETAILS OF REMUNERATION OF KEY MANAGEMENT

Key Management's remuneration (in NZ\$) for the year ended 31 March 2021 is set out below.

	Short term benefits			Post employment benefits	Long term incentives		Total
	Cash salaries and fees	Cash bonus	Shares	Superannuation	Options ⁶	Loan funding	
	\$	\$	\$	\$	\$	\$	
Non-Executive Directors							
Jim McLean	\$84,784	-	-	-	\$152,293	-	\$237,077
Steven Engle	\$85,517	-	-	-	\$121,842	-	\$207,359
Philip McCaw	\$65,833	-	-	-	\$121,842	-	\$187,675
John Pinion	\$85,517	-	-	-	\$121,842	-	\$207,359
John Diddams	\$68,641	-	-	-	-	-	\$68,641
Executives							
Brian Ward	\$483,333	\$75,000	-	\$16,750	\$1,140,128	-	\$1,715,211
James Agnew	\$245,517	\$68,360	\$7,650 ⁷	\$8,498	\$238,142	\$58,839 ⁸	\$627,006
TOTAL	\$1,119,144	\$143,360	\$7,650	\$25,248	\$1,896,088	\$58,839	\$3,250,329

SHARE BASED COMPENSATION

Options granted to Key Management during the financial year ended 31 March 2021 are set out below. These options were issued pursuant to the Option Plan.

As outlined in the Chairman's Review, AROA sees significant opportunity in accelerating its product development targeting dead space management. This is a refinement of the position disclosed in the Prospectus and as a consequence, it has resulted in the Board resolving to re-align the performance condition attaching to certain options granted as compensation to Brian Ward and James Agnew (detailed further below); so that the performance condition for those options are more closely aligned to the revised product development strategy. The expiry date for these options remains unchanged. Accordingly, the vesting date and performance condition now attaching to 1,044,175 of the 3,132,525 options granted to Brian Ward in FY21, and 218,100 of the 654,300 options granted to James Agnew in FY21, are as follows:

- Vesting date: upon satisfaction of the performance condition on or after 31 March 2022
- Performance condition: 510k Clearance of first iteration of "dead space management" product, and completion of first "in human" study with the 2nd iteration of the "dead space management" product.

⁶These amounts reflect the non-cash accounting cost of the share options granted based on NZ IFRS 2 - Share-based Payment. No cash payments are made in relation to these.

⁷This reflects shares issued in lieu of cash salary prior to Admission.

⁸This reflects the outstanding amount owed for shares issued under the Share Plan following the wind-up of that plan prior to Admission.

	Number granted	Fair value per option granted (\$) ⁹	Exercise price per share (\$)	Final vesting date	First exercise date	Last exercise date	Fair value of options granted during the year (\$) ⁹
Non-Executive Directors							
Jim McLean	307,200	A\$0.466	A\$0.75	31 March 2023	31 March 2021	23 July 2025	A\$0.466
Steven Engle	245,775	A\$0.466	A\$0.75	31 March 2023	31 March 2021	23 July 2025	A\$0.466
Philip McCaw	245,775	A\$0.466	A\$0.75	31 March 2023	31 March 2021	23 July 2025	A\$0.466
John Pinion	245,775	A\$0.466	A\$0.75	31 March 2023	31 March 2021	23 July 2025	A\$0.466
John Diddams	-	-	-	-	-	-	-
Executives							
Brian Ward	3,132,525 (3 tranches of 1,044,195)	A\$0.34	A\$0.75	upon satisfaction of the performance condition on or after 31 March 2022	31 March 2021	23 July 2025	A\$0.34
James Agnew	654,300 (3 tranches of 218,100)	A\$0.34	A\$0.75	upon satisfaction of the performance condition on or after 31 March 2022	31 March 2021	23 July 2025	A\$0.34

⁹The fair value of the options has been measured using the Revenue Ruling 59-60 and standard practice. Revenue Ruling 59-60 outlines the standard of value, approach, methods, and factors to be considered in valuing shares of the stock of a closely held entity similar to the Company. Revenue rulings are public administrative rulings by the US Internal Revenue Service.

EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT

Options holdings

The number of options in ordinary shares in the Company held during the financial year ended 31 March 2021 by each Key Management personnel, including their personally related parties, are set out below.

	Balance as at 1 April 2020	Granted as compensation	Exercised	Other changes ¹⁰	Balance at the end of the year	Vested and exercisable	Unvested
Non-Executive Directors							
Jim McLean	2,800	307,200	(2,800)	-	307,200	-	307,200
Steven Engle	8,443	245,775		624,782	879,000	633,225	245,775
Philip McCaw	-	245,775		-	245,775	-	245,775
John Pinion	8,443	245,775		624,782	879,000	633,225	245,775
John Diddams	12,464	-	(8,064)	325,600	330,000		330,000
Executives							
Brian Ward	14,669	3,132,525	(14,669)	-	3,132,525	-	3,132,525
James Agnew	14,293	654,300	(14,293)	-	654,300	-	654,300
TOTAL	61,112	4,831,350	(39,826)	1,575,164	6,427,800	1,266,450	5,161,350

Shareholdings

The number of ordinary shares in the Company held during the financial year ended 31 March 2021 by each Key Management personnel, including their personally related parties, are set out below.

	Balance as at 1 April 2020	Received during the year on exercise of options or warrants	Purchases or, as specified, other additions	Sale	Balance at the end of the year
Non-Executive Directors					
Jim McLean ¹¹	2,480,625	226,500	11,850 ¹²	(146,667)	2,572,308
Steven Engle	411,600	-	-	(185,067)	226,533
Philip McCaw ¹³	16,944,150	524,850	475,425 ¹²	(1,240,000)	16,704,425
John Pinion	457,875	6,300	8,325 ¹²	-	472,500
John Diddams ¹⁴	150,000	604,800	257,750 ¹²	(200,000)	812,550
Executives					
Brian Ward ¹⁵	34,003,350	1,122,450		(2,000,000)	33,125,800
James Agnew	1,029,525	1,071,975	9,225 ¹⁶	(33,333)	2,077,392

¹⁰This reflects the split of share options held immediately prior to Admission at the ratio of 75:1, with effect on IPO.

¹¹As a director of Mesynthes Nominee Limited, Jim McLean also has an interest in 4,794,300 shares held by Mesynthes Nominee Limited on bare trust for certain AROA employees until payment is received for such shares.

¹²Received on re-pricing of series C2 shares, which involved a split of shares held immediately prior to Admission at the ratio of 75:1.

¹³Phil McCaw holds his interest through McSyth Capital Investment Trust, of which he is one of 3 trustees and a beneficiary. Mr McCaw is also a principal of Movac, a substantial shareholder in the Company. Mr McCaw sits as one member of an investment committee of 6 with respect to the Movac Funds, however Mr McCaw has withdrawn from the investment committee with respect to decisions regarding any shares in the Company held by the Movac Funds. Accordingly, Mr McCaw does not control the voting or disposal of those shares and does not have a relevant interest in those shares. As a director of Mesynthes Nominee Limited, Mr McCaw also has an interest in 4,794,300 shares held by Mesynthes Nominee Limited on bare trust for certain AROA employees until payment is received for such shares.

¹⁴This includes interests in shares held by John Diddams' related parties; Whitfield Investments Pty Ltd and Galdarn Pty Ltd.

¹⁵Brian Ward holds his interest through Arawai No. 2 Trust, of which he is one of 3 trustees and a beneficiary.

¹⁶This reflects shares issued in lieu of cash salary prior to Admission

END OF REMUNERATION REPORT

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board.

A handwritten signature in black ink, appearing to read 'J.N. McLean', with a stylized, cursive flourish at the end.

Jim McLean

Independent Chair of the Board of Directors

21 June 2021

INDEPENDENT AUDITOR'S REPORT



BDO Auckland

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

Opinion

We have audited the consolidated financial statements of Aroa Biosurgery Limited ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 March 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis for Opinion

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

Our network firm was the Investigating Accountant in relation to the Company's listing on the ASX. The firm has no other relationship with, or interests in, the Company or any of its subsidiaries.

Key Audit Matters

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

Recognition of revenue - TELA Bio revenue share

Key Audit Matter

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

How The Matter Was Addressed in Our Audit

- Our audit procedures comprised the following:
- We have obtained Management's calculations prepared for the revenue share accrual and evaluated the reasonableness of key inputs and assumptions, including those impacted by Covid-19. The key inputs included sales history, expiry dates of inventory held, average selling prices achieved by TELA Bio and independent research papers which cover TELA Bio
 - We have obtained confirmation from TELA Bio, confirming the actual revenue share

Recognition of revenue - TELA Bio revenue share

Key Audit Matter

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

We consider this to be a key audit matter because of the judgement involved in determining the variable consideration and the quantum of the accrued revenue of \$3.116m.

Refer to note 3 revenue and segment information and note 12 trade and other receivables of the consolidated financial statements.

How The Matter Was Addressed in Our Audit

for their sales made in the year ended 31 March 2021.

- We have compared the key inputs and assumptions with those used by Management last year and considered if these are indicative of Management bias.
- We considered if that the amount of variable consideration estimated is only recorded by the Group to the extent that it is highly probable that a significant reversal in the amount of the cumulative revenue recognised will not occur.
- We have reviewed disclosures in the consolidated financial statements, including the revenue recognition policy, and the requirements of the accounting standard.

Recognition and measurement of Series C preference shares

Key Audit Matter

The Group completed a pre-IPO capital raise in February 2020, raising \$5.821m and May 2020, raising \$19.804m. The securities issued were Series C(2) and C(3) Preference Shares, respectively.

As stated in note 11 these securities had the attributes of both debt and equity instruments. Management elected that the entire instrument was designated as fair value through profit or loss ("FVTPL"), through the designation exemption as allowed in IFRS 9 *Financial Instruments*. Note 4 discloses there was a charge of \$8.013m in profit or loss in the current year. Both instruments required fair value to be determined in accordance with IFRS 13 *Fair Value Measurement*.

The valuation of the instruments required Management judgements in estimating: the probabilities of different scenarios allowed for in terms of the offers to determine the period over which the fair value adjustments would be

How The Matter Was Addressed in Our Audit

Our audit procedures comprised the following:

- We reviewed and evaluated the characteristics of the Series C Preference Shares offered in accordance with NZ IAS 32 - *Financial Instruments: Presentation*.
- We have reviewed, in conjunction with our valuation specialists, Management's fair value of the instruments that required fair value to be determined in accordance with NZ IFRS 13 *Fair Value Measurement*.
- We have assessed the disclosures in note 11 in respect of Series C preference shares to the requirements of the accounting standard.



BDO Auckland

Recognition and measurement of Series C preference shares

Key Audit Matter	How The Matter Was Addressed in Our Audit
recognised in profit or loss; the conversion rate; and the AUD/NZD foreign exchange rate. As a result of the subjective nature of the judgements and given the magnitude of the expense in the current year, this was considered to be a key audit matter.	

Goodwill impairment test

Key Audit Matter	How The Matter Was Addressed in Our Audit
The Group has recognised goodwill on a historical acquisition. The goodwill balance of \$5.538 million at 31 March 2021 is subject to an annual impairment test in accordance with NZ IAS 36 - <i>Impairment of Assets</i>. The Directors performed their impairment test, with reference to COVID-19, by considering the recoverable amount of the Group's goodwill using a value in use calculation. This calculation is complex and subject to key inputs and assumptions such as discount rates and future cash flows, which inherently include a degree of estimation uncertainty and are prone to potential bias and inconsistent application and therefore considered to be a key audit matter Refer to note 15 intangible assets of the consolidated financial statements.	Our audit procedures comprised the following: • We obtained Management's value in use calculations prepared for the Cash Generating Unit ('CGU'). We evaluated and challenged the key inputs and assumptions including those impacted by Covid-19. The key inputs included revenue growth rates, terminal growth rate, gross margins and discount rate. • We engaged our internal valuation experts to review the mechanics of the value in use calculation against the valuation methodology, and the discount rate used. • We reviewed Management's sensitivity analysis performed on key inputs and assumptions to determine the extent to which any changes would affect the recoverable amount of the assets. We also considered and tested alternate sensitivities. • We compared the carrying value of the CGU's assets to the recoverable amount determined by the impairment test to identify any impairment losses. • We have reviewed disclosures in the consolidated financial statements, including impairment and sensitivity analysis, to the requirements of the accounting standard.

Accounting for share based payment arrangements

Key Audit Matter	How The Matter Was Addressed in Our Audit
During the year, the Group issued options to certain employees, including Directors, under the share based payment arrangements. The share based payment arrangements included both market based and non-market based vesting conditions. In determining the value of	Our audit procedures comprised the following: • Agreed the terms of the share based payment arrangements issued during the year to contracts. • We have assessed, in conjunction with our valuation specialists, the appropriateness

Accounting for share based payment arrangements

Key Audit Matter

the new arrangements, the Group used the services of a third-party valuation specialist.

The Group also had existing share based payment arrangements that were exercised during the year.

The share based payments expense recorded for the year ended 31 March 2021 is \$1.985m. Details of these share based payment arrangements are disclosed in note 5 employee benefit expenses and note 22 share based payments reserve of the consolidated financial statements.

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

How The Matter Was Addressed in Our Audit

of the valuation methodology used by management's specialist and the key input assumptions such as volatility rates, expected life and probability of achieving the market-based performance condition.

- We have assessed the Group's judgements in relation to the probability of achieving non-market based vesting conditions.
- We recalculated the share based payments expense recorded in the Statement of Profit or Loss and Other Comprehensive Income over the relevant vesting periods
- We reviewed the disclosures in note 5 and 22 in relation to the share based payment arrangements.

Other Information

The directors are responsible for the other information. The other information comprises the Aroa Biosurgery FY21 Results and FY22 Outlook - Commentary, and Appendix 4E - ASX Listing Rule 4.2A (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

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

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

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

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



BDO Auckland

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

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

This description forms part of our auditor's report.

Who we Report to

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

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

BDO Auckland
Auckland
New Zealand
24 May 2021

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

	Notes	2021 \$000	2020 \$000
Revenue	3	22,342	25,076
Cost of sales		(6,818)	(6,339)
Gross profit		15,524	18,737
Other income	3	2,682	1,137
Selling and administrative expenses		(21,759)	(16,669)
Research and development expenses		(6,425)	(5,042)
Other losses	7	(8,013)	(1,006)
Operating income/(loss) before net financing costs	4,5	(17,991)	(2,843)
Finance income	6	796	3
Finance expenses	6	(1,907)	(3,320)
Net finance expenses		(1,111)	(3,317)
Loss before income tax		(19,102)	(6,160)
Income tax (expense)/credit	8	(107)	202
Loss for the year attributable to shareholders		(19,209)	(5,958)
Other comprehensive income			
Items that will or maybe reclassified to profit or loss			
Exchange loss arising on translation of foreign operations		332	(118)
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	10	615	969
Total other comprehensive income		947	851
Total comprehensive loss for the year attributable to shareholders		(18,262)	(5,107)
Earnings per share during the year:			
Basic earnings per share (cents)	23	(6.39)	(212.63)
Diluted earnings per share (cents)	23	(6.39)	(212.63)

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

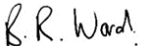
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Notes	2021 \$000	2020 \$000
Current assets			
Cash and cash equivalents	9	15,381	3,850
Term deposits	9	20,000	-
Derivative assets	26	31	1,188
Trade and other receivables	12	8,106	7,516
Inventories	13	3,608	4,005
Tax receivable		39	451
Financial assets at fair value through other comprehensive income	10	1,584	969
Total current assets		48,749	17,979
Non-current assets			
Property, plant and equipment	14	6,707	6,559
Prepayments	12	171	193
Right of use assets	19	5,951	2,175
Intangible assets	15	18,077	19,057
Total non-current assets		30,906	27,984
Total assets		79,655	45,963
Current liabilities			
Trade and other payables	16	2,744	4,310
Derivative liabilities	26	-	386
Employee benefits	17	2,030	949
Interest-bearing loans and borrowings	18	9,952	22,523
Lease liabilities	20	566	215
Financial liabilities at fair value through profit or loss	11	-	6,827
Total current liabilities		15,292	35,210
Non-current Liabilities			
Provisions		161	158
Interest-bearing loans and borrowings	18	-	1,119
Lease liabilities	20	5,716	1,870
Total non-current liabilities		5,877	3,147
Total liabilities		21,169	38,357
Net assets		58,486	7,606
Equity			
Share capital	21	97,316	29,353
Share based payment reserve	22	2,130	951
Foreign currency translation reserve		198	(134)
Equity investment reserve		1,584	969
Accumulated losses		(42,742)	(23,533)
Total equity		58,486	7,606

On behalf of the Board
24 May 2021


Jim McLean - Chairman


Brian Ward – CEO

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

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 31 March 2021

		Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Equity investment reserve	Share Based Payment Reserve	Total Equity
	Notes	\$000	\$000	\$000	\$000	\$000	\$000
Balance as at 1 April 2019		28,889	(17,575)	(16)	-	702	12,000
Comprehensive income							
Loss for the year		-	(5,958)	-	-	-	(5,958)
Other comprehensive income for the year		-	-	(118)	969	-	851
Total comprehensive income for the year		-	(5,958)	(118)	969	-	(5,107)
Transactions with shareholders							
Employee shares exercised	21,22	464	-	-	-	(169)	295
Share based payments	22	-	-	-	-	418	418
Total transactions with shareholders		464	-	-	-	249	713
Balance as at 31 March 2020		29,353	(23,533)	(134)	969	951	7,606
Balance as at 1 April 2020		29,353	(23,533)	(134)	969	951	7,606
Comprehensive income							
Loss for the year		-	(19,209)	-	-	-	(19,209)
Foreign Currency Translation Reserve		-	-	332	-	-	332
Other comprehensive income for the year		-	-	-	615	-	615
Total comprehensive income for the year		-	(19,209)	332	615	-	(18,262)
Transactions with shareholders							
Issue of Series C3 preference shares	11	33,833	-	-	-	-	33,833
Issue of equity securities	21	30,554	-	-	-	-	30,554
Employee shares exercised	21	2,601	-	-	-	(807)	1,794
Employee shares forfeited	22	-	-	-	-	(25)	(25)
Share based payments	22	975	-	-	-	2,011	2,986
Total transactions with shareholders		67,963	-	-	-	1,179	69,142
Balance as at 31 March 2021		97,316	(42,742)	198	1,584	2,130	58,486

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2021

	Notes	2021 \$000	2020 \$000
Cash flows from operating activities			
Cash receipts from sales revenue		21,044	22,373
Cash receipts from license fees, project fees, and grant income		2,552	3,865
Cash paid to suppliers and employees		(28,115)	(24,239)
Interest received		134	3
Dividends received		-	1
Interest paid		(853)	(182)
Income tax received		231	-
Income tax paid		-	(161)
Net cash (outflow)/inflow from operating activities	30a	(5,007)	1,660
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,265)	(1,691)
Purchase of intangible assets		(235)	(179)
Term deposits	9	(20,000)	-
Net cash (outflow) from investing activities		(21,500)	(1,870)
Cash flows from financing activities			
Proceeds from issue of shares	30b	34,951	296
Proceeds from financial liabilities at FVTPL	30b	19,804	5,821
Transaction costs related to issues of equity securities or convertible debt securities		(4,329)	-
Proceeds from borrowings		-	1,775
Repayment of borrowings/deferred consideration		(12,596)	(7,730)
Lease liability – Principal payments		(322)	(147)
Lease liability – Interest payments		(409)	(399)
Net cash inflow/(outflow) from financing activities	30b	37,099	(384)
Net increase/(decrease) in cash and cash equivalents		10,592	(594)
Effect of exchange rate fluctuations on cash and cash equivalents		939	(13)
Cash and cash equivalents at beginning of year		3,850	4,457
Cash and cash equivalents at end of year	9	15,381	3,850

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. Corporate information

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

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

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

The consolidated financial statements of Aroa Biosurgery Limited and its subsidiaries (the "Group") for the year ended 31 March 2021 comprise the Company and its two subsidiaries, Aroa Biosurgery Incorporated and Mesynthes Nominee Limited. All subsidiary entities have a balance date of 31 March.

Equity holding	Principal Activity	Place of Business	2021 %	2020 %
Aroa Biosurgery Incorporated	Sales & Distribution	US	100	100
Mesynthes Nominee Limited	Nominee Shareholder	NZ	100	100

The consolidated financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. These consolidated financial statements were authorised for issue by the Board of Directors on 24 May 2021.

2. Summary of significant accounting policies

Statement of compliance and basis of preparation

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

Basis of measurement

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

- Financial assets at fair value through other comprehensive income;
- Financial liabilities at fair value through profit or loss; and
- Derivative assets and liabilities

Functional and presentation currency

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

Use of estimates and judgements

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

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

Estimates and judgements were made in respect of the value of development expenditure capitalised (refer to Note 4), the likely term of leased premises, which impacts leasehold improvements assets and right of use assets capitalised (refer to Notes 14 and 20), TELA Bio Incorporated ("TELA Bio") accrued revenue (refer to Note 12), the value of share-based payments (refer to Note 22), the impairment of intangible assets (refer to Note 15), and the estimated fair value of financial liabilities at fair value through profit or loss (refer to Note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

2. Summary of significant accounting policies (continued)

Use of estimates and judgements (Continued)

As a result of the ongoing COVID-19 pandemic, the Group has experienced reduced demand during the year due to the overall reduction in economic activity. The pandemic has also impacted a number of financial statement areas, as outlined below.

- Going concern: The Directors have concluded that the Company is a going concern. Refer below.
- Inventory: Despite reduced trading levels, management considers any extra risk caused by COVID-19 as of reporting date is not material given the average remaining shelf life for inventories on hand being significantly more than 12 months and a strong recovery in sales activities noted in the second half of the year. Refer to Note 13.
- Investments: The Group's financial assets include listed equities. Management is satisfied that there is no impairment to the value as of reporting date as the quoted price in the active market has improved post reporting date. Refer to Note 10.
- Intangible assets: The Group measured the recoverable amounts of assets by assessing the recoverable amount based on value in use calculations for goodwill. No impairment was noted. Refer to Note 15.

To date the Company has undertaken the following steps to reduce the impact of COVID-19 on its operations:

- Reduced expenditure in non-critical business areas.
- Received wage subsidies and other business support measures made available by the New Zealand and US Governments. Refer to Note 3.

Going concern

The Group posted a net loss before tax of \$19,102,000 for the year (2020: loss before tax of \$6,160,000). The Group posted total operating cash outflow of \$5,007,000 (2020: inflow of \$1,660,000).

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

In reaching their conclusion that the going concern assumption is appropriate, the Directors have considered the ability to achieve financial performance and cash flow forecasts prepared by management, the ability to repay the outstanding deferred consideration to Hollister Incorporated ("Hollister") in accordance with the extended contractual terms (refer to Note 18), and the sufficiency of the cash on hand as at the reporting date.

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

Principles of consolidation

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

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

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

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

Changes in accounting policies

New standards that have been adopted in the annual financial statements for the year ended 31 March 2021, but have not had a significant effect on the Group are:

- NZ IAS 1 Presentation of Financial Statements and NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative – Definition of Material);
- Going Concern Disclosures (Amendments to FRS-44); and
- Revisions to the Conceptual Framework for Financial Reporting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

3. Revenue and segment information

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

The Group has identified the following main categories of revenue:

Sales of goods

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

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

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

Revenue share

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

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

Royalties

Royalties received are recognised at a point in time when the operational and revenue milestones are completed under the royalty agreement. In 2020, \$3.0 million revenue related to a one-off licence fee, which did not recur during the reporting period.

Project fees

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

3. Revenue and segment information (continued)

	2021	2020
	\$000	\$000
Sales of goods (USA)	20,617	21,017
Sales of goods (Rest of the world)	958	907
Royalties (USA)	-	2,992
Project fees (USA)	767	160
Total revenue	22,342	25,076
Revenue recognised point in time	21,575	24,916
Revenue recognised over time	767	160
Total revenue	22,342	25,076

Segment information

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

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

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

Revenues of approximately \$11,811,000 (2020: \$13,576,000) are derived from a single external customer, being sales of products and services to TELA Bio, which is the Group's USA sales and distribution partner.

The Group held all of its non-current assets in New Zealand with an exception of the right-of-use assets of approximately \$0.2m for the leasehold property in the USA.

Other income

The Group received subsidies and business support measures from the New Zealand and USA governments during the reporting period totalling \$1.3 million (2020: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) For the year ended 31 March 2021

4. Operating loss before net financing costs

		2021 \$000	2020 \$000
Operating loss before net financing costs includes the following:			
Fair value adjustments to financial liabilities at FVTPL	11	8,013	1,006
Transaction costs relating to IPO		1,607	850
Auditor's fees:			
Statutory audit		128	84
Other assurance engagements:			
Half-year review		54	45
Research and development review		5	5
Raw materials and consumables		2,865	2,959
Depreciation:			
Research and development	14,20	451	323
Right of use assets		666	438
Other		747	776
Directors' fees	24	389	295
Insurance		756	356
Rental lease costs - low value and short-term leases		121	118
Amortisation:			
Patents	15	54	45
Customer relationships and reacquired rights	15	1,161	1,161
Research and development *		5,974	4,719

* Total research & development expenditure is \$6,425,000 (2020: \$5,042,000). It includes an amount of \$271,000 (2020: \$101,000) funded by third parties outside of the Group. The balance of \$6,154,000 (2020: \$4,941,000) has been recognised in accordance with the Ministerial Direction/New Zealand Gazette, No 146. All research & development has been expensed in accordance with New Zealand Equivalent to International Accounting Standard 38 - Intangible Assets ('NZ IAS 38').

5. Employee benefit expenses

	2021 \$000	2020 \$000
Salaries & wages (including bonuses)	16,166	10,015
Employer contributions defined contribution Superannuation scheme inclusive of tax	652	218
Share based payments - employee share ownership plan	96	4
Share based payments - share options plan	1,889	414
Total employee benefit expenses	18,803	10,651

Employee entitlements includes an amount of \$3,070,600 (2020: \$2,256,820) disclosed as part of research and development expenditures in Note 4 and includes an amount of \$304,846 (2020: \$57,264) relating to share-based payments for shares issued to the Directors as disclosed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

6. Net finance income/(expenses)

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

	Note	2021 \$000	2020 \$000
Finance income – assets at amortised cost			
Interest received on bank balances		154	3
Total finance income		154	3
Finance expenses – liabilities at amortised cost			
Interest expenses – borrowings		(23)	(112)
Interest expenses – deferred consideration		(1,478)	(2,729)
Interest expenses – lease liabilities	20	(406)	(128)
Total finance expenses		(1,907)	(2,969)
Other finance income/(expenses)			
Foreign currency (losses)/gains		(1,096)	2,288
Foreign currency gains/(losses) on deferred consideration		1,742	(2,635)
Finance cost – make good provision		(4)	(4)
Total other finance income/(expenses)		642	(351)
Net finance expenses		(1,111)	(3,317)

Interest expenses on deferred consideration relates to the deferred consideration of \$1,478,000 (2020: \$2,729,000) owing to Hollister for the purchase of the Wound Care business. Refer to Note 18.

Foreign currency gains on deferred consideration of \$1,742,000 (2020: losses of \$2,635,000) relates to the loan from Hollister for the purchase of the Wound Care business. Refer to Note 18.

7. Other losses

	2021 \$000	2020 \$000
Fair value adjustment on financial liabilities at FVTPL (refer to Note 11)	(8,013)	(1,006)
Total other losses	(8,013)	(1,006)

8. Income taxes

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

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

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences arising on the initial recognition of goodwill; and
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

8. Income taxes (continued)

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

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

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

Income tax recognised in profit or loss and other comprehensive income

Reconciliation of income tax expense	2021 \$000	2020 \$000
Accounting loss before income tax	(19,102)	(6,160)
Income Tax @ 28%	(5,349)	(1,725)
Impact of tax rates in overseas jurisdictions	110	(13)
Expenses not deductible for tax purposes	3,225	1,159
Foreign tax credits forfeited	-	150
Income not subject to tax	-	(700)
Recognition/derecognition of previously unrecognised deferred tax on temporary differences and tax losses	2,121	74
Tax losses not recognised in current year	-	853
Income Tax (Credit)	107	(202)

Major components of tax expense/(income)

	2021 \$000	2020 \$000
Current tax expense/(credit)		
Current period	107	274
R&D tax credit	-	(476)
Total current tax benefit	-	(202)
Deferred tax (income)	-	-
Total tax expense/(income)	107	(202)

As at 31 March 2021, the Company had tax losses of \$14,587,081 (2020: \$12,412,226). Utilisation of these tax losses is dependent upon the Group meeting the continuity of ownership provisions of the Income Tax Act 2007 and carrying forward and offsetting the net losses against net taxable income earned in subsequent years by the Group.

The Group has elected to defer expenditure relating to research and development allowed under section DB34 of the Income Tax Act 2007. As at 31 March 2021, the Group had \$12,100,040 (2020: \$7,202,587) of expenditure available to offset against subsequent years income subject to section EJ23 of the Income Tax Act 2007.

Deferred tax assets have been recognised to the extent they offset deferred tax liabilities. No additional deferred tax has been recognised on tax losses or deferred research and development expenditure in 2021 on the basis that large tax profits are not foreseeable in the year ending 31 March 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

8. Income taxes (continued)

Deferred tax assets/(liabilities) recognised:	2021	2020
	\$000	\$000
Accrued revenue	(872)	(458)
Deferred R&D expenditure	2,870	2,017
Intangible assets	(3,319)	(3,644)
Other	856	(462)
Provision	465	277
Unused tax losses	-	2,270
Total deferred tax asset/(liability) recognised	-	-
Movement in deferred tax assets/(liabilities) recognised	2021	2020
	\$000	\$000
Opening balance	-	-
Arising on acquisitions	-	-
Credited to profit or loss for previously unrecognised temporary difference and tax losses	-	-
Total deferred tax asset/(liability) unrecognised (tax effected)	-	-
Deferred tax assets/(liabilities) unrecognised (tax effected)	2021	2020
	\$000	\$000
Temporary differences	531	384
Deferred R&D expenditure	519	-
Unused tax losses	4,084	1,206
Total deferred tax asset/(liability) unrecognised (tax effected)	5,134	1,590

9. Cash and cash equivalents & term deposits

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

	2021	2020
	\$000	\$000
Bank balances	15,381	3,850
Total cash and cash equivalents	15,381	3,850

Prior to 1 May 2020, the cash balances included an amount held within a Deposit Control Account where the Group is permitted to withdraw 70% of the value of the deposits to such account, leaving 30% of the deposit value to serve as security for the payment toward deferred consideration.

On 1 May 2020, the Group renegotiated the terms of its existing borrowing with Hollister. As a result, the 30% deposit value is no longer required to be escrowed as a security to Hollister. Refer to Note 18.

During the year, the Group entered into short-term deposit arrangements with the Bank of New Zealand and ASB Bank for \$10 million each at the average rate of 1.09% per annum. These deposits have a maturity of 6 months from February 2021.

	2021	2020
	\$000	\$000
Term deposits	20,000	-
Total term deposits	20,000	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

10. Financial assets at fair value through other comprehensive income

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

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

Financial assets measured at FVTOCI include the following:

	2021 \$000	2020 \$000
US listed equity securities	1,584	969
Total financial assets at FVTOCI	1,584	969

The USA listed equity securities comprise of the Group's investment in TELA Bio. In November 2019, TELA Bio listed on the NASDAQ. The Group held 74,316 shares at a value of US\$14.90 per share as at the reporting date (2020: US\$7.82).

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

11. Financial liabilities at fair value through profit or loss

The Group issued Series C (3) Preference shares during the reporting period and received \$19,804,000 as consideration for the shares issued. Whilst these Preference shares can only convert into share capital, the terms of the offer include multiple embedded derivatives (variable number of shares to be issued) and as a result, these shares do not meet the definition of equity per NZ IAS 32. Management elected that the entire instrument was designated as fair value through profit or loss ("FVTPL"), through the designation exemption as allowed in NZ IFRS 9. With the exception of conversion rights, all other rights attached to these shares are consistent with Series C Preference shares (refer to Note 21).

At initial recognition, the instrument was measured at transaction price, represented by the fair value of consideration given or received in exchange for the financial instrument. Its transaction costs were immediately recognised in profit or loss as the instrument is carried at FVTPL. The fair value is determined in accordance with NZ IFRS 13 Fair Value Measurement.

The Group does not recognise a gain or loss on initial recognition of the financial liabilities because the fair value is neither evidenced by a quoted price in an active market for an identical liability (i.e. a level 1 input) nor based on a valuation technique that uses only data from observable markets. The difference between the fair value at initial recognition and the transaction price is recognised in profit or loss on a straight-line basis over the estimated life of the liability, with the aggregate difference yet to be recognised in profit or loss being held off the consolidated statement of financial position.

The change between the initial fair value and fair value at reporting date is recognised in profit or loss (refer to Note 7).

When valuing the instrument, management exercised judgement to estimate the probabilities of different scenarios allowed for in the terms of the offer to determine the period over which the fair value adjustments would be recognised in profit or loss on a straight-line basis.

	Notes	2021 \$000	2020 \$000
Opening financial liabilities at FVTPL at 1 April 2020		6,827	-
Transaction price		-	5,821
Transaction price - Series C(3)		19,804	-
Transaction costs - Series C(3)		(811)	-
Fair value change during the period		8,013	1,006
Reclassification to equity	21	(33,833)	-
Closing financial liabilities at FVTPL at 31 March 2021		-	6,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

12. Trade and other receivables

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

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

	2021 \$000	2020 \$000
Trade receivables	2,790	4,443
Less provision for impairment of trade receivables	(10)	(20)
Net trade receivables	2,780	4,423
Prepayments	918	576
Other receivables	573	49
Other receivables – Revenue share	3,116	2,090
Other receivables – Grant accrual	719	378
Total current trade and other receivables	8,106	7,516

	2021 \$000	2020 \$000
Prepayments	171	193
Total non-current prepayments	171	193

Trade receivables amounting to \$2,780,000 (2020: \$4,423,000) are shown net of impairment losses. Provisions have been made appropriately after considering the impact of COVID-19. Trade receivables are interest free. Trade receivables of a short-term duration are not discounted. Other receivables include Callaghan Innovation grant accrual, accrued revenue share from TELA

Bio which is based on the historical performance and trends. The Group has a high probability of receiving this revenue share.

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

(i) Impaired receivables

As at 31 March 2021, current trade receivables with a nominal value of \$10,000 (2020: \$19,568) were impaired and provided for.

(ii) Past due but not impaired receivables

As at 31 March 2021, trade receivables of \$135,000 (2020: \$1,307,420) were past due but not impaired.

The ageing analysis of trade receivables is as follows:

	2021 \$000	2020 \$000
Current	2,645	3,116
1 - 30 days overdue	88	1,249
30 - 60 days overdue	49	52
60 - 90 days overdue	2	6
90+ days overdue	6	20
Total trade receivables	2,790	4,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

13. Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs to sell. An inventory provision is created to reflect instances where the estimated selling price is lower than costs.

	2021 \$000	2020 \$000
Raw materials	539	576
Work in progress	1,436	1,433
Finished goods	1,913	2,167
Provision for obsolescence	(280)	(171)
Total inventories	3,608	4,005

As at 31 March 2021, inventories of \$279,832 (2020: \$170,632) value were impaired and provided for.

14. Property, plant & equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

14. Property, plant & equipment (continued)

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

Certain plant and equipment were pledged as collateral to secure a loan facility with the Bank of New Zealand. The facility had a limit of \$1,326,121 of which \$nil was drawn as of 31 March 2021 (2020: \$1,718,982). Refer Note 18.

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

	Lease-hold Improvements	Capital Work In Progress	Plant and Equipment	Fixture & Fitting	Computer Equipment & Software	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost						
Balance 1 April 2019	1,590	667	6,283	229	569	9,338
Additions	28	897	504	207	129	1,765
Transfer in/(out)	(146)	(757)	757	-	-	(146)
Disposals	-	-	(38)	-	-	(38)
Balance 31 March 2020	1,472	807	7,506	436	698	10,919
Accumulated Depreciation						
Balance 1 April 2019	(821)	-	(1,985)	(75)	(370)	(3,251)
Depreciation	(124)	-	(753)	(86)	(146)	(1,109)
Balance 31 March 2020	(945)	-	(2,738)	(161)	(516)	(4,360)
Net Book Value						
Balance 1 April 2019	769	667	4,298	154	199	6,087
Balance 31 March 2020	527	807	4,768	275	182	6,559

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

15. Intangible assets

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

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

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

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

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

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

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

15. Intangible assets (continued)

	Patent & Trademark \$'000	Customer relationships \$'000	Reacquired rights \$'000	Goodwill \$'000	Total \$'000
Cost					
Balance 1 April 2019	524	5,563	9,772	5,538	21,397
Additions	179	-	-	-	179
Balance 31 March 2020	703	5,563	9,772	5,538	21,576
Accumulated Amortisation					
Balance 1 April 2019	(152)	(618)	(543)	-	(1,313)
Amortisation	(45)	(618)	(543)	-	(1,206)
Balance 31 March 2020	(197)	(1,236)	(1,086)	-	(2,519)
Net Book Value					
Balance 1 April 2019	372	4,945	9,229	5,538	20,084
Balance 31 March 2020	506	4,327	8,686	5,538	19,057

On 31 March 2021, the Group tested whether goodwill has suffered any impairment. For the purpose of impairment testing, goodwill is allocated to the Group's Wound Care business, at which goodwill is monitored for internal management purposes.

The recoverable amount is determined based on value in use calculations using the method of estimating future cash flows and determining a discount rate in order to calculate the present value of the cash flows (2020: the recoverable amount was determined by using fair value less cost of disposal).

A discounted cash flow ("DCF") model has been based on five-year forecast cash flow projections. The budget for the year ending 31 March 2022 was the basis for the first year's projections and projections for subsequent years have been based on the Group's long-term outlook. Other key assumptions are as follows:

	2021
Discount rate post tax	10.0%
Terminal growth rate	2.5%
Revenue growth rate p.a.	25%-64%
Gross margin %	72%-82%

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

The estimated recoverable amount of the Wound Care business exceeds its carrying value of \$17.4 million. The projected EBITDA for the Wound Care business is forecast to become positive and increase significantly over the forecast period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

16. Trade and other payables

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

	2021 \$000	2020 \$000
Trade payables	740	1,201
Accrued expenses	1,977	3,079
Other payables	27	30
Total trade and other payables	2,744	4,310

Trade payables generally have terms of 30 days and are interest free. Trade payables of a short-term duration are not discounted. The accrued expenses include chargeback and rebates accrual and distribution charges.

17. Employee benefits

(i) Short term employee benefits

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

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

(ii) Defined contribution plans

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

18. Interest bearing loans and borrowings

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

Interest bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

	2021 \$000	2020 \$000
Interest-bearing loans and borrowings	-	841
Deferred consideration	9,952	21,682
Total interest bearing liabilities - current	9,952	22,523
Interest-bearing loans and borrowings	-	1,119
Deferred consideration	-	-
Total interest bearing liabilities - non-current	-	1,119

At the reporting date, the weighted average interest rate of interest-bearing loan is 6.50% p.a. (2020: 6.06% p.a.).

The balance of the deferred consideration incurs interest compounding annually from 1 July 2020 at a rate equal to the Wall Street Journal prime rate plus 3%.

On 1 May 2020, the Group renegotiated the terms of its existing borrowing with Hollister. As a result, the final repayment date has been moved to 31 March 2022 and the Group repaid approximately \$10 million being 50% of the balance outstanding as at 30 April 2020 including the accrued interest. Additionally, the Group was released from its obligation to maintain 30% of its Wound Care customer receipts on escrow, as security to Hollister.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

18. Interest bearing loans and borrowings (continued)

Bank Loan

Total interest-bearing loans and borrowings included secured liabilities of \$1,718,982 in 2020, which is no longer utilised as of 31 March 2021. The bank facility is secured by all present and after acquired property of the Group.

i) Unused lines of credit

As at 31 March 2021, the Group's Credit Plus facility had a limit of \$1,326,121 (2020: \$1,761,468), of which \$1,326,121 (2020: \$42,486) was unused and \$nil (2020: \$1,718,982) was used, secured by assets owned by the Group. Refer to Note 14.

The Group cancelled its overdraft facility of \$2,000,000 and its committed cash advance facility of \$4,000,000 during the reporting period, as these were no longer required.

ii) Fair value

Carrying amounts of interest-bearing liabilities are equivalent to their fair values, as they are at floating rates.

19. Right of use assets

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

	Properties \$000	Equipment \$000	Total \$000
Balance 1 April 2019	2,411	49	2,460
Addition	285	-	285
Modification adjustment*	(244)	1	(243)
Depreciation	(409)	(29)	(438)
Rent incentives	(35)	-	(35)
Make good provision (refer to Note 14)	146	-	146
Balance 31 March 2020	2,154	21	2,175

20. Lease liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

20. Lease liabilities (continued)

	Properties \$000	Equipment \$000	Total \$000
As at 1 April 2019	2,411	49	2,460
Addition	285		285
Modification adjustment	(244)	1	(243)
Interests	126	2	128
Lease payments	(515)	(30)	(545)
As at 31 March 2020	2,063	22	2,085
Current	193	22	215
Non-current	1,870	-	1,870
Total	2,063	22	2,085

NZ IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has the right to obtain substantially all of the economic benefits from the use of an identified asset and the right to direct the use of that asset.

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

20. Lease liabilities (continued)

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

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

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

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Nature of leasing activities (in the capacity as lessee)

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

As standard industry practice, the Group's property leases are subject to market rent reviews. A 1% increase in these payments would result an additional \$5,000 outflow compared to the current period's cash outflow.

For short term or low-value leases, payments made are recognised in profit or loss on a straight-line basis over the term of the lease. These leases are not recognised in the Group's consolidated statement of financial position.

	2021 \$000	2020 \$000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	8	28
Between one and five years	12	-

21. Share capital

(i) Ordinary shares

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

(ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an interest expense in profit or loss as accrued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

21. Share capital (continued)

(ii) Preference share capital (continued)

	2021 \$000	2020 \$000
Share capital at beginning of the year	29,353	28,889
Reclassification of financial liabilities at FVTPL to equity	33,833	-
Shares issued from IPO	30,554	464
Shares issued from Share Plan and Option Plan	3,576	-
Share capital at end of the year	97,316	29,353

# of shares	Series C preference shares	Series B preference shares	Series A preference shares	Ordinary shares	Total
At 1 April 2020	257,715	798,088	1,079,610	617,901	2,753,314
Issue of share capital	-	-	-	32,332	32,332
Balance 31 March 2021	257,715	798,088	1,079,610	650,233	2,785,646
Issue of share capital	-	-	-	602,407	602,407
Conversion of Series C(2) & C(3) shares	-	-	-	366,474	366,474
Converted to ordinary shares	(257,715)	(798,088)	(1,079,610)	2,135,413	-
Impact of share split	-	-	-	296,320,398	296,320,398
Issue of share capital post IPO	-	-	-	651,489	651,489
Balance 31 March 2021	-	-	-	300,726,414	300,726,414

Ordinary shares

During the reporting period, 602,407 (2020: 32,332) ordinary shares were on issue prior to IPO in July 2020 (i.e. pre-split shares). Upon IPO, all preference shares were converted to ordinary shares and all shares were split at the ratio of 75:1. The impact of splitting upon IPO was an increase in the number of ordinary shares by 296,320,398. Post IPO, additional 651,489 ordinary shares were issued as a result of options being exercised during the year.

Unissued and unpaid ordinary shares reserved for issue under the employee share ownership plan is nil shares (2020: 140,095 shares).

All classes of shares

All ordinary, Series A preference and Series B preference shares carry equal voting rights and have the right to an equal share in dividends authorised by the board (except for unpaid or partially paid ordinary shares issued under the employee share ownership plan).

All preference shares

All preference shares were converted to ordinary shares during the reporting period.

Warrants

There are no share warrants outstanding as of the reporting date.

Options

There are 3,488,750 vested options and 8,381,025 unvested options as of the reporting date. Refer to Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

22. Share based payments reserve

Share ownership plan

The Group offered selected employees in 2014 the opportunity to participate in an employee share ownership plan (ESOP).

During the reporting period, all shares were fully exercised or forfeited. No shares remained unvested or outstanding as of 31 March 2021.

Share option plan

During the year ended 31 March 2019 the Group offered selected employees the opportunity to participate in a Share Option Plan. This is an offer of options to acquire ordinary shares. Under the terms of the plan, a parcel of options were issued to employees with an weighted average exercise price. The grant of share options is split into four tranches, with the first tranche vesting immediately on the date of grant. The Company's board has discretion to allow employees to exercise all or part of the options if a) the employee is no longer employed on a vesting date; or b) the employee ceases to be employed before the termination date but the employee has not yet exercised the options.

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

See Note 5 for the expenses recognised in profit or loss.

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

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

Key valuation assumptions for the share option plan are:

Share Option issued on 24 July 2020

Parameters	Assumptions
Valuation date	Grant date
Beginning stock price	The Group's stock price was assumed to be \$0.75 at the Valuation Date per management's guidance
Risk free rate	The risk-free rate was based on the rate of treasury securities with the same term as the estimated time for the projection period.
Volatility	The volatility (standard deviation) was estimated based on an analysis of the historical and implied volatility for the Group's guideline publicly traded competitors.
Dividend yield	The dividend yield was assumed to be nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

22. Share based payments reserve (continued)

Share option plan (continued)

Share Option issued on 28 September 2020

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

	2021 \$000	2020 \$000
Balance as at 1 April	951	702
Share based payment expense	2,011	418
Employee shares exercised	(807)	(169)
Forfeiture of shares	(25)	-
Balance as at 31 March	2,130	951

a) Share ownership plan

Summary of shares granted under the share ownership plan

	2021 Average exercise price per option	2021 # of options	2020 Average exercise price per option	2020 # of options
Balance as at 1 April	11.86	100,296	11.83	105,470
Granted during the year	-	-	-	-
Exercised during the year	11.56	(99,188)	11.27	(5,174)
Forfeited during the year	13.15	(1,108)	-	-
As at 31 March	-	-	11.86	100,296
Vested and exercisable as at 31 March	-	-	11.86	100,296

Shares outstanding at the end of the year have the following expiry dates:

Grant date	Expiry date	Share options 2021	Share options 2020
1 April 2014	31 March 2024	-	48,123
1 October 2014	30 September 2024	-	6,281
1 April 2015	31 March 2025	-	12,450
1 October 2015	30 September 2025	-	20,316
1 April 2016	31 March 2026	-	6,820
1 October 2016	30 September 2026	-	6,306
Total		-	100,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

22. Share based payments reserve (continued)

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

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

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

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

	2021 Average exercise price per option NZ\$	2021 # of options	2020 Average exercise price per option NZ\$	2020 # of options
Opening balance	7.42	131,695	7.34	128,211
Granted during the period	-	-	7.63	40,016
Exercised during the period	7.47	(79,434)	7.34	(32,332)
Impact of share split	-	3,867,314	-	-
Forfeited during the period	-	-	7.34	(4,200)
Closing balance	0.10	3,919,575	7.42	131,695
Vested and exercisable as at 31 March	0.10	1,660,200	7.42	49,112

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

Grant date	Expiry date	Share options 31 March 2021	Share options 31 March 2020
1 October 2018	30 September 2028	2,009,275	91,679
1 July 2019	30 June 2029	472,500	9,450
1 December 2019	30 November 2029	1,437,800	25,064
14 February 2020	13 February 2030	-	5,502
Total		3,919,575	131,695

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

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

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

The exercise price and the number of share options referred below represent amounts and numbers post the 75:1 share split, which took effect upon the initial public offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

22. Share based payments reserve (continued)

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

	2021 Average exercise price per option NZ\$	2021 # of options	2020 Average exercise price per option NZ\$	2020 # of options
Opening balance	-	-	-	-
Granted during the period – 24 July grant	0.81	6,177,000	-	-
Granted during the period – 29 September grant	1.45	1,873,200	-	-
Forfeited during the period	1.45	(100,000)	-	-
Closing balance	0.93	7,950,200	-	-
Vested and exercisable at 31 March	0.82	1,828,550	-	-

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

Grant date	Expiry date	Share options 31 March 2021	Share options 31 March 2020
24 July 2020	23 July 2025	6,177,000	-
29 September 2020	28 September 2025	1,773,200	-
Total		7,950,200	-

23. Earnings per share

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

	2021	2020
Numerator		
Loss for the year after tax ("N") in \$000	(19,209)	(5,958)
Denominator		
Weighted average number of ordinary shares used in basic EPS ("D1")	300,401	2,802
Effects of:		
Employee share options *	12,563	159
Preference shares	-	2,164
Period end number of shares used in diluted EPS ("D2")	300,401	2,802
	Cents	Cents
Basic earnings per share (N/D1 x 100)	(6.39)	(212.63)
Diluted earnings per share (N/D2 x 100)	(6.39)	(212.63)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

24. Related parties

(iii) Subsidiaries

Interests in subsidiaries are set out in Note 1.

(iv) Key management compensation

Key management includes Directors (Executive and Non-Executive) and the senior leadership team. The compensation paid for and payable to key management for directorship services is disclosed within the Corporate Governance & Statutory section of the Annual Report. The total key management compensation excluding Director fees is \$4,394,656 (2020: \$1,490,262) (inclusive of the value of all benefits). The total Director fees excluding share based payments are \$389,001 (2020: \$295,135). The share based payment expense relating to the Directors is \$304,846 (2020: \$57,264).

The compensation paid for key management includes share based payment of \$1,255,278 (2020: \$238,073).

(v) Year end balances

There were no related party receivables and related party payables at year end (2020: \$nil).

(vi) Transactions with related parties

There were no other related party transactions during the year.

25. Financial risk management

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

Market risk

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

Foreign exchange risk

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

After allowing for natural hedges for exposure in USD and retention of USD proceeds with the bank account, the Group uses forward foreign exchange contracts to manage its estimated foreign currency exposure in respect of forecasted revenue receipts from international customers. Refer to Note 26 (i) and (ii).

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

Exposure to foreign currency risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

25. Financial risk management (continued)

2020	USD \$000	AUD \$000	EUR \$000
Cash and cash equivalents	895	-	-
Trade and other receivables	2,332	-	24
Financial assets at FVTOCI	581	-	-
Trade and other payables	(1,451)	(110)	-
Interest-bearing loans and borrowings	(13,003)	-	-
Foreign currency forwards (sell foreign currency)	4,350	-	-
Foreign currency swaps (buy foreign currency)	11,950	-	-
Net exposure	5,654	(110)	24

The following significant exchange rates applied during the year:

	Average rate 2021	Average rate 2020	Closing rate 2021	Closing rate 2020
NZD/USD	0.6711	0.6477	0.6989	0.5997

Sensitivity analysis – underlying exposures

A 5% weakening/strengthening of the NZ dollar against the US dollar at 31 March 2021 would have increased/decreased equity and the net result for the period by the amounts shown below. Based on historical movements a 5% increase or decrease in the NZ dollar is considered to be a reasonable estimate. This analysis assumes that all other variables remain constant.

US dollar

The Group's net result and equity for the period would have been \$140,000 lower on a 5% weakening of the NZ dollar (2020: \$159,000 lower), and \$126,000 higher on a 5% strengthening of the NZ dollar as at 31 March 2021 (2020: \$144,000 higher).

Interest rate risk

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

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

	2021 \$000	2020 \$000
3 months or less	-	252
3 - 12 months	9,952	22,271
1 - 2 years	-	1,119
Total interest bearing loans and borrowings	9,952	23,642

Sensitivity analysis

If interest rates on borrowings had been 100 basis points higher during the year, the Group's net result and equity would have been \$109,346 lower (2020: \$183,666 lower).

A 100 basis points decrease in interest rates would have an equal but opposite effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

25. Financial risk management (continued)

Credit risk

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

Payment and delivery terms are agreed to within each of the respective customers licensing and distribution agreements. Aging of payments due from customers are monitored on a regular basis, with any overdue amounts being settled immediately after notification.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in Note 26. The Group does not see any foreseeable losses on trade receivables over the next 12 months. The Group does not hold any collateral as security.

Liquidity risk

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

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

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

		Less than 3 months	3-12 months	Between 1 and 2 years	Over 2 years	Total contractual cash flows	Total Carrying amounts
At 31 March 2021	Note	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trade and other payables	16	2,744	-	-	-	2,744	2,744
Lease liabilities	20	158	792	931	6,395	8,276	6,282
Interest bearing liabilities	18	205	9,952	-	-	10,157	9,952
Total		3,107	10,744	931	6,395	21,177	18,978
		Less than 3 months	3-12 months	Between 1 and 2 years	Over 2 years	Total contractual cash flows	Total Carrying amounts
At 31 March 2020	Note	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trade and other payables	16	4,310	-	-	-	4,310	4,310
Lease liabilities	20	56	284	349	2,199	2,888	2,085
Interest bearing liabilities	18	1,020	24,534	1,179	-	26,733	23,642
Derivative financial liabilities	27	80	306	-	-	386	386
Financial liabilities at FVTPL	11	-	-	-	-	-	6,827
Total		5,466	25,124	1,528	2,199	34,317	37,250

Capital adequacy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

26. Financial instruments by category

(i) Non-derivative financial liabilities

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

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

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

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

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

(ii) Non-derivative financial assets

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

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

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

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

At 31 March 2021	Note	Assets at amortised cost \$000	Assets at Fair value through other comprehensive income \$000	Total \$000
Assets as per consolidated Statement of Financial Position				
Cash and cash equivalents	9	15,381	-	15,381
Term Deposit	9	20,000	-	20,000
Trade and other receivables	12	7,188	-	7,188
Financial assets at FVTOCI	10	-	1,584	1,584
Total assets at amortised cost/FVTOCI		42,569	1,584	44,153

At 31 March 2021	Note	Liabilities at amortised cost \$000	Liabilities at fair value through profit or loss \$000	Total \$000
Liabilities as per consolidated Statement of Financial Position				
Trade and other payables	16	2,744	-	2,744
Lease liabilities	20	6,282	-	6,282
Interest-bearing loans and borrowings	18	9,952	-	9,952
Total liabilities at amortised cost/FVTPL		18,978	-	18,978

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2021

26. Financial instruments by category (continued)

		Assets at amortised cost	Assets at Fair value through other comprehensive income	Total
		\$000	\$000	\$000
At 31 March 2020	Note			
Assets as per consolidated Statement of Financial Position				
Cash and cash equivalents	9	3,850	-	3,850
Trade and other receivables	12	6,940	-	6,940
Financial assets at FVTOCI	10	-	969	969
Total assets at amortised cost/FVTOCI		10,790	969	11,759

		Liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
		\$000	\$000	\$000
At 31 March 2020	Note			
Liabilities as per consolidated Statement of Financial Position				
Trade and other payables	16	4,310	-	4,310
Lease liabilities	20	2,085	-	2,085
Interest-bearing loans and borrowings - current	18	22,523	-	22,523
Interest-bearing loans and borrowings - non current	18	1,119	-	1,119
Financial liabilities at fair value through profit or loss	11	-	6,827	6,827
Total liabilities at amortised cost/FVTPL		30,037	6,827	36,864

(i) Derivative financial assets

The Group had foreign exchange swaps contracts of \$2,300,000 (2020:\$11,950,000) with the following amounts recognised in the Statement of Financial Position in relation to foreign exchange currency contracts.

	2021 \$000	2020 \$000
Derivative financial assets		
Derivatives not designated as hedging instruments		
Swap foreign exchange contracts	31	1,188
Derivative assets at end of the year	31	1,188

(ii) Derivative financial liability

The Group had no foreign exchange forward contracts as at March 2021 (2020: \$4,350,000). The following amount was recognised in Statement of Financial Position in relation to foreign exchange currency contracts.

	2021 \$000	2020 \$000
Derivative financial liability		
Derivatives not designated as hedging instruments		
Forward foreign exchange contracts	-	386
Derivative liability at end of the year	-	386

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(Continued)

For the year ended 31 March 2021

27. Interest in Joint Operation

In March 2019, the Group and Hydrofera LLC entered into an unincorporated agreement to promote, market and sell the parties' wound care products to customers in North America. The principal place of business of the joint operation is in the United States and the joint operation brand name is "Appulse".

As per the "Shared Sales Force Agreement", the property held in Appulse will be owned and held by the Group and Hydrofera in the proportion of their participating interest. The Group has 42% participating interest. Both parties are responsible only for its liabilities and obligation as set out in the agreement. Therefore, the parties have a joint operation as they have rights to the assets and obligations for the liabilities relating to the arrangement.

During the reporting period, the Group and Hydrofera agreed to dissolve the joint operation.

The Group has recognised all expenses and associated liabilities in the consolidated accounts as they relate to the reporting period.

28. Events after the reporting date

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

29. Restatements for reclassification

No material restatements for reclassification for the reporting period.

30. Other Disclosures

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

	2021 \$000	2020 \$000
Profit/(loss) after tax	(19,209)	(5,958)
Add (deduct) non-cash items:		
Depreciation of property, plant and equipment	1,092	1,080
Depreciation of lease	742	438
(Gain)/loss on disposal of assets	4	(25)
Amortisation of intangibles	1,215	1,206
Share based payments	1,985	418
Foreign exchange loss - deferred consideration	(1,742)	2,635
Interest - deferred consideration	1,478	2,729
Interest - lease liabilities	406	128
Foreign currency translation	(30)	(878)
Fair value adjustment on financial liabilities at FVTPL	8,014	1,006
Non-Capitalised IPO costs	1,607	
Movement in working capital:		
Movement in provisions	4	4
Movement in tax receivable	412	(363)
Movement in trade and other receivables	(489)	(1,675)
Movement in inventory	632	(1,327)
Movement in trade and other payables	(298)	2,272
Movement in right of use assets		36
Movement in interest payables	(830)	(66)
Net cash flows from operating activities	(5,007)	1,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

30. Other Disclosures (continued)

b. Reconciliation cashflow from financing activities

	Interest bearing loans and borrowings – Current	Interest bearing loans and borrowings– Non current	Financial liabilities at fair value through profit or loss	Deferred consideration	Lease liabilities	Paid up share capital	Transaction Cost	Total
	Note 18 \$000	Note 18 \$000	Note 11 \$000	Note 18 \$000	Note 20 \$000	Note 21 \$000	\$000	\$000
At 1 April 2020	(840)	(1,119)	(6,827)	(21,682)	(2,084)	(29,353)	-	(61,905)
Cash flow	840	1,119	(19,804)	10,637	731	(34,951)	4,329	(37,099)
Non-cash flow:	-	-	-	-	-	-	-	-
FX on deferred consideration	-	-	-	1,241	-	-	-	1,241
Interest - deferred consideration	-	-	-	(148)	-	-	-	(148)
Conversion of liability to equity	-	-	33,833	-	-	(33,833)	-	-
Share based payments	-	-	-	-	-	(807)	-	(807)
Lease	-	-	-	-	(4,518)	-	-	(4,518)
Interest on lease payments	-	-	-	-	(411)	-	-	(411)
Fair value adjustment on financial liabilities at FVTPL	-	-	(8,030)	-	-	-	-	(8,030)
Allocation of Transaction cost	-	-	828	-	-	1,629	(4,329)	(1,873)
At 31 March 2021	-	-	-	(9,952)	(6,282)	(97,316)	-	(113,550)

	Interest bearing loans and borrowings – Current	Interest bearing loans and borrowings– Non current	Financial liabilities at fair value through profit or loss	Deferred consideration	Lease liabilities	Paid up share capital	Total
	Note 18 \$000	Note 18 \$000	Note 11 \$000	Note 18 \$000	Note 20 \$000	Note 21 \$000	\$000
At 1 April 2019	(684)	(431)	-	(23,183)	-	(28,889)	(53,187)
Cash flow	(156)	(688)	(5,821)	6,799	546	(296)	384
Non-cash flow:	-	-	-	-	-	-	-
FX on deferred consideration	-	-	-	(2,635)	-	-	(2,635)
Interest - deferred consideration	-	-	-	(2,663)	-	-	(2,663)
Share based payments	-	-	-	-	-	(168)	(168)
Lease	-	-	-	-	(2,533)	-	(2,533)
Interest on lease payments	-	-	-	-	(97)	-	(97)
Fair value adjustment on financial liabilities at FVTPL	-	-	(1,006)	-	-	-	(1,006)
At 31 March 2020	(840)	(1,119)	(6,827)	(21,682)	(2,084)	(29,353)	(61,905)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2021

30. Other Disclosures (continued)

c. Foreign currency transactions

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and are recognised in Other Comprehensive Income (except on impairment in which case foreign currency differences that have been recognised in Other Comprehensive Income are reclassified to profit or loss).

d. Goods and services tax (GST)

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

e. Capital commitments

As at 31 March 2021, the Group had equipment capital commitments of \$611,000 (2020: \$261,000).

f. Contingent liabilities

As at 31 March 2021, the Group had no significant contingent liabilities (2020: \$nil).

ADDITIONAL INFORMATION

AROA BIOSURGERY LIMITED

(NZ Company no. 1980577 / ARBN 638 867 473)

AROA BIOSURGERY IS A NEW ZEALAND COMPANY

Aroa Biosurgery Limited is a company incorporated in New Zealand and principally governed by New Zealand law, rather than Australian Law. In Australia the Company is registered with ASIC as a foreign company with the Australian Registered Body Number 638 867 473. As the Company is not established in Australia, its general corporate activities (apart from any offering of securities in Australia and certain reporting and disclosure obligations) are not regulated under the Corporations Act by ASIC but instead are regulated in New Zealand by New Zealand law including the Companies Act, Financial Markets Conduct Act 2013, Financial Markets Conduct Regulations 2014 and by the New Zealand Financial Markets Authority and Registrar of Companies.

ORDINARY SHARES

On 31 March 2021 and as at the date of this Annual Report, the Company only has one class of shares on issue, being ordinary shares in the Company, each conferring to the registered holder the right to one vote on any resolution. These shares are listed on the ASX (ASX Code: ARX).

The total number of ordinary shares in the Company on issue as at 31 March 2021 was 300,726,414 shares and the total number of ordinary shares in the Company on issue as at 10 June 2021 was 300,726,414 shares.

The distribution of shareholdings as at 10 June 2021 was as shown in the table below:

Size of shareholding	Number of holders	%	Number of ordinary shares	%
1 to 1,000	970	25.24	626,621	0.210
1,001 to 5,000	1,380	35.91	3,947,223	1.310
5,001 to 10,000	603	15.69	4,858,869	1.620
10,001 to 100,000	755	19.65	20,968,086	6.970
100,001 and over	135	3.51	270,325,615	89.890
TOTAL	3,843	100.00	300,726,414	100.00

The number of shareholdings held in less than marketable parcels is 279, representing 90,972 shares.

UNISSUED SHARES

As at 31 March 2021, there were 11,869,775 options (representing the same number of unissued ordinary shares) held by 42 holders under the Option Plan. Refer to the Remuneration Report and Note 22 to the Consolidated Financial Statements for further details of the employee options outstanding. Options do not carry a right to vote.

SHARES ISSUED ON EXERCISE OF OPTIONS

The following ordinary shares of the Company were issued during the year ended 31 March 2021 on the exercise of options granted under the Option Plan.

Date options exercised	Average exercise price (NZ\$)	Number of shares issued ¹⁷
May 2020	\$0.10	4,837,425
June 2020	\$0.10	206,325
December 2020	\$0.10	693,900

¹⁷Shares issued prior to Admission have been reflected on a post split basis at the ratio of 75:1

TWENTY LARGEST SHAREHOLDERS

The names and holdings of the 20 largest registered shareholders in the Company as at 10 June 2021 were:

Shareholder name	Total units	Holding as a % of total ordinary shares on issue as at the date above
Mr Brian Ward & Mrs Tracey Ward <Arawai No 2 A/C> ¹⁸	33,125,800	11.02%
Movac Fund 3 LP	18,679,050	6.21%
Citicorp Nominees Pty Limited	17,856,411	5.94%
Phil McCaw <McSyth Capital Investment A/C> ¹⁹	16,722,425	5.56%
National Nominees Limited	16,075,659	5.35%
J P Morgan Nominees Australia Pty Limited	13,774,374	4.58%
Richard Abbott <Jester 002 Investment A/C>	11,579,775	3.85%
HSBC Custody Nominees (Australia) Limited	8,293,333	2.76%
Washington H Soul Pattinson and Company Limited	7,499,800	2.49%
Aspire NZ Seed Fund Ltd	7,491,000	2.49%
Sparkbox Investments Ltd	7,312,050	2.43%
K One W One (No 3) Ltd	5,882,550	1.96%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	5,051,704	1.68%
BNP Paribas Noms Pty Ltd <DRP>	4,835,542	1.61%
BNP Paribas Noms Pty Ltd <DRP>	4,819,950	1.60%
Sharon Bryant <OT Investment A/C>	4,815,198	1.60%
Mesyntes Nominees Ltd ²⁰	4,580,250	1.52%
Custodial Services Limited <Beneficiaries Holding A/C>	4,120,200	1.37%
Mark Ritcher <Ritcher Investments A/C>	4,120,200	1.37%
Nancy Yopp	3,913,842	1.30%
Total Top 20 Holders	200,890,889	66.802%
Total Securities	300,726,414	

¹⁸Brian Ward holds his interest through Arawai No. 2 Trust, of which he is one of 3 trustees and a beneficiary.

¹⁹Phil McCaw holds his interest through McSyth Capital Investment Trust, of which he is one of 3 trustees and a beneficiary. Mr McCaw is also a principal of Movac, a substantial shareholder in the Company. Mr McCaw sits as one member of an investment committee of 6 with respect to the Movac Funds, however Mr McCaw has withdrawn from the investment committee with respect to decisions regarding any shares in the Company held by the Movac Funds. Accordingly, Mr McCaw does not control the voting or disposal of those shares and does not have a relevant interest in those shares.

²⁰As Directors of Mesyntes Nominee Limited, Jim McLean and Phil McCaw have an interest in the shares held by Mesyntes Nominee Limited on bare trust for certain AROA employees until payment is received for such shares.

TAKEOVERS AND SUBSTANTIAL HOLDINGS

While the ASX Listing Rules apply to the Company, certain provisions of the Corporations Act do not. The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of its shares (including takeovers and substantial holdings). The New Zealand position under the Takeovers Code (as set out in the Takeovers Regulations 2000) and the Financial Markets Conduct Act 2013 is broadly comparable to the Australian position in relation to the regulation of takeovers. The New Zealand takeovers regime, not the Australian takeovers regime, will apply to the Company as a foreign company. A 20% threshold applies (under which a person is prevented from increasing the percentage of voting rights held or controlled by them in excess of that threshold or from becoming the holder or controller of an increased percentage of voting rights if they already hold or control more than 20% of the voting rights), subject to certain “compliance options” (including full and partial offers, 5% creep over 12 months in the 50% to 90% range, and acquisitions with shareholder approval). Compulsory acquisitions are permitted by persons who hold or control 90% or more voting rights in a company.

Under New Zealand law, there is no requirement for a shareholder of the Company to issue a substantial holding notice of holdings above 5%, and because the Company is a New Zealand company the Corporations Act provisions regarding substantial shareholder notices do not apply to the Company. However, a shareholder may voluntarily disclose such information if it chooses to do so and a number of New Zealand companies listed on ASX experience shareholders lodging notices similar to a substantial shareholder notice that is required under the Corporations Act notwithstanding there is no requirement to do so. Separately, the Company has undertaken to ASX that it will inform the market immediately on becoming aware of a person becoming a Substantial Holder, a movement of at least 1% of shares in which the Substantial Holder has a relevant interest and a person ceasing to be a Substantial Holder.

SUBSTANTIAL SHAREHOLDERS

Set out below is, to the best of the Company’s knowledge, details relating to all Substantial Holders in the Company as at 10 June 2021.

Shareholder name	Total units	Holding as a % of total ordinary shares on issue as at 10 June 2021
Mr Brian Ward & Mrs Tracey Ward <Arawai No 2 A/C> ²¹	33,125,800	11.02%
Movac Fund 3 LP	18,679,050	6.21%
Citicorp Nominees Pty Limited	17,856,411	5.94%
Phil McCaw <McSyth Capital Investment A/C> ²²	16,722,425	5.56%
National Nominees Limited	16,075,659	5.35%

RESTRICTED SECURITIES AS AT 10 JUNE 2021

Information relating to restricted securities, or securities subject to voluntary escrow, as at 10 June 2021 is set out below:

Number of securities	Class of securities	Date the escrow period ends
118,047,131	Fully paid ordinary shares (12 months voluntary escrow)	23 July 2021
21,393,225	Fully paid ordinary shares (24 months voluntary escrow)	23 July 2022
13,250,325	Fully paid ordinary shares (36 months voluntary escrow)	23 July 2023

²¹Brian Ward holds his interest through Arawai No. 2 Trust, of which he is one of 3 trustees and a beneficiary.

²²Phil McCaw holds his interest through McSyth Capital Investment Trust, of which he is one of 3 trustees and a beneficiary. Mr McCaw is also a principal of Movac, a substantial shareholder in the Company. Mr McCaw sits as one member of an investment committee of 6 with respect to the Movac Funds, however Mr McCaw has withdrawn from the investment committee with respect to decisions regarding any shares in the Company held by the Movac Funds. Accordingly, Mr McCaw does not control the voting or disposal of those shares and does not have a relevant interest in those shares.

EMPLOYEE REMUNERATION

Remuneration and other benefits (excluding non-cash share based payments) of NZ\$100,000 or more received by employees of the Group (excluding Non-Executive Directors) in their capacity as employees during the financial year ended 31 March 2021 were as follows:

Remuneration range (NZ\$)			Number of employees
100,000	to	110,000	6
110,001	to	120,000	3
120,001	to	130,000	3
150,001	to	160,000	3
160,001	to	170,000	2
170,001	to	180,000	2
180,001	to	190,000	2
190,001	to	200,000	2
250,001	to	260,000	1
260,001	to	270,000	2
300,001	to	310,000	1
410,001	to	420,000	1
540,001	to	550,000	1

*19 granted patents, 18
pending applications &
3 applications filed*



GENERAL DISCLOSURE OF INTERESTS BY DIRECTORS

AROA maintains an interests register in accordance with the Companies Act. The following are general disclosures of interest (pursuant to section 140(2) of the Companies Act) noted in the interests register for the period 1 April 2020 to 31 March 2021. Details on share dealings in the Company by the Directors during that period are set out in the Remuneration Report.

Name	Interest
James McClean	Director, Mesynthes Nominees Limited
	Director, Information Tools Limited
	Director, Prevar Limited
	Director, R J Hill Laboratories Limited
Brian Ward	Director, Green Edge Limited
Steven Engle	Non-Executive Chairman, Prescient Therapeutics Limited (ASX: PTX)
	Director, Author-IT Labs Limited, Author-IT Holdings Limited, Authorit Software Corporation Limited and Author-IT Software Corporation
	Resigned as CEO of Cohbar Inc
	Sole Proprietor, Averigon
Philip McCaw	Director, Mesynthes Nominee Limited
	Director, Toha Foundry Limited
	Director, Author-IT Limited and Authorit Software Corporation Limited
	Director, Kaynemaile Ltd
	Director, Shift72 Limited
	Director, Nutcracker Limited
	Director, Movac Limited
	Director, Movac Fund 4 Custodial Limited
	Director, Movac Fund 5 Custodial Limited
	Director, Movac Fund 5 General Partner Limited
	Director, Movac Fund 4 General Partner Limited
	Director, CAVOM Nominee No 1 Limited
	Director, Movac Fund 4 Custodial Limited
	Director, Calcium Investments Limited
	Director, Calcium Investment Trustee Limited
	Director, PJM Management Limited
John Pinion	None
John Diddams	Director, Volpara Health Technologies Limited (ASX: VHT)
	Director, Surf Lakes Holdings Limited
	Director, DIT AgTech Limited

USE OF COMPANY INFORMATION

AROA did not receive notice from any Director, requesting to use company information received in his capacity as a director of any Group company, which would not otherwise have been available to him.

ON-MARKET BUY-BACK

There is no current on-market buy-back for the Company's shares.

USE OF CASH AND READILY CONVERTIBLE ASSETS

The Company confirms that in the period from Admission to 31 March 2021, it used the cash and assets (in a form readily convertible to cash) that it had at the time of Admission in a manner consistent with the Company's business objectives.

Use of funds	Prospectus Estimate NZ\$m	Actual Funds Used NZ\$m	Actual as a % of Estimate	Notes
Investment in sales and marketing	\$5.0	\$1.8	36%	1
Investment in additional manufacturing capacity, investment in new products, plant and equipment and other general corporate capital expenditure	\$5.0	\$0.8	16%	2
Working capital, other operating costs	\$5.0	\$2.1	42%	3
Repayment of borrowings	\$13.1	\$0.0	0%	4
Offer costs	\$3.8	\$3.9	103%	5
Total	\$31.9	\$8.6	27%	

Notes

1. Commencement of new sales and marketing initiatives including the hire of over 20 direct sales personnel in Q4 FY21.
2. Preliminary costs of manufacturing expansion in H2 FY21.
3. Net operating cash outflows for Q2, Q3 & Q4 FY21, excluding cash outflows relating to the investment in sales & marketing.
4. Maturing 31 March 2022. Remains unchanged from Q3 FY21.
5. Includes cash outflows prior to IPO. Remains unchanged from Q3 FY21.

DONATIONS

No Group company made any donations during in the year ended 31 March 2021.

SUBSIDIARY COMPANY INFORMATION

The persons listed below held office as directors of the Company's subsidiaries as at 31 March 2021. None of those persons receives any remuneration or other benefits for their role as a director of a Company subsidiary.

No entries were made in the interests register of any Company subsidiary during the year ended 31 March 2021.

Company	Directors
Mesyntes Nominee Limited (NZBN 9429 041 350 003)	Jim McLean, Phil McCaw
Aroa Biosurgery Incorporated (Delaware File number 6560549)	Brian Ward, John Pinion

GLOSSARY

Term	Description
Admission	Admission of the Company to the ASX's official list
AROA or the Company	Aroa Biosurgery Limited NZCN 1980577, ARBN 638 867 473
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Companies Act	Companies Act 1993 (NZ)
Corporations Act	Corporations Act 2001 (Cth, Australia)
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECM	Extracellular matrix
Executives	Brian Ward (Managing Director and CEO) and James Agnew (CFO and Joint Company Secretary)
FDA	The Food and Drug Administration of the US
FY	Financial Year
Group	The group of companies comprising AROA, Aroa Biosurgery Incorporated (Delaware File number 6560549) and Mesynthes Nominee Limited (NZBN 9429 041 350 003)
IPO	The Company's initial public offering in July 2020 of 60,000,000 shares in the Company at a price of A\$0.75 per share
Key Management	The Board has determined that the key management personnel of the Group are the Directors and James Agnew (CFO and Joint Company Secretary)
NZD	New Zealand Dollar
NZ GAAP	New Zealand Generally Accepted Accounting Practice
NZ IFRS	New Zealand Equivalents to International Financial Reporting Standards
Option Plan	The AROA Share Option Plan
Prospectus	Prospectus dated 22 June 2020 in respect of the IPO
Share Plan	The AROA Employee Incentive Share Plan
Substantial Holder	Has the meaning given to it in the Corporations Act
TELA Bio	TELA Bio, Inc
US	The United States of America
USD	United States Dollar

CORPORATE DIRECTORY

ARBN 638 867 473
NZCN: 1980577

Chairman and Non-Executive Director

Jim McLean

Non-Executive Directors

Steve Engle

Phil McCaw

John Pinion

John F Diddams

Chief Executive Officer and Managing Director

Brian Ward

Company Secretaries

James Agnew

Tracy Weimar

Registered Office and Address for Service

64 Richard Pearse Drive
Mangere
Auckland 2022
Telephone: +64 9 869 3035

Auditor

BDO Auckland

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4 Graham Street
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Banker

Bank of New Zealand

Deloitte Centre
80 Queen Street
Auckland 1010

Share Registry

Boardroom Pty Limited

Level 12, 225 George Street
Sydney NSW 2000



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