

# 2017

## Annual Report

ABN 71 066 281 132



**Allegra** 

**ORTHOPAEDICS**  
Human Movement Technology



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ASX Release

29 August 2017

**Financial Report 30 June 2017**

I am pleased to present Allegra Orthopaedics Limited's ('Allegra') Annual Report for the year ended 30 June 2017.

FY2017 has been a significant year of achievements at Allegra as the company successfully continues to execute on its strategic plan. These achievements include:

- Improved NPAT profit of \$501k, which is a \$2.537M improvement on our FY2016 result and the most significant profit achieved by the company since listing on the ASX.
- Reduced the company's loans balances to \$150k at 30 June 2017 compared to FY2016 where we had \$1.078M of loans
- Improved cash balances at 30 June 2017 with cash & cash equivalents of \$1.848M compared to \$1.155M at 30 June 2016
- Continued expansion of our customer surgeon base which will pave the way to improved revenues.
- Significant progress of our Sr-HT Garhnite Bone Substitute project, with positive results from the 12 month histology testing and clinical sheep study. Allegra's Innovation Division is now setting up a pilot manufacturing facility in Lane Cove as part of this commercialisation project
- Continued to maintain strong shareholder support as indicated by the substantially oversubscribed shareholder rights issue in April 2017 raising \$1,219,023 in new capital for the company. (refer ASX announcement on 12 April 2017)

Allegra's Orthopaedic Division continues to perform well with new products continually being evaluated to bring to market. Our goal is to ensure Allegra is delivering products and services which our customers want. We intend to stay ahead of the curve in terms of orthopaedics products offered.

With regard to our Innovation Division, engagement and collaboration with surgeons, universities and companies are key goals. We aim to deliver a positive impact to the market with our Sr-HT-Gahnite Bone Substitute technology commencing with our spinal custom cage. Our recent collaboration with Bone, Ligament, Tendon Pty Ltd (BLT) will add yet another dimension to this division

Lastly, I would like to thank my fellow directors, Allegra management and staff for the significant turnaround in Allegra's performance over the last 12 months.

Sincerely



Peter Kazacos  
Non-Executive Chairman

**Allegra Orthopaedics Limited**

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## Corporate directory - 30 June 2017

<b>Directors</b>	<b>Peter Kazacos Anthony Hartnell Sean Mulhearn</b>
<b>Company secretaries</b>	<b>Justyn Stedwell (appointed on 18 January 2017) Richard Urick (resigned on 18 January 2017)</b>
<b>Notice of annual general meeting</b>	<b>The annual general meeting of Allegra Orthopaedics Limited is to be held at: Level 8 18-20 Orion Road Lane Cove West, NSW 2066 on Wednesday 25 October 2017 at 10:00 am (AEST)</b>
<b>Registered office</b>	<b>Level 8 18-20 Orion Road Lane Cove West, NSW 2066 Head office telephone: 02 9119 9200</b>
<b>Share register</b>	<b>Link Market Services Limited Level 12 680 George Street Sydney, NSW 2000 Shareholders enquiries: 1300 554 474</b>
<b>Auditor</b>	<b>Crowe Horwath Sydney Level 15 1 O'Connell Street Sydney, NSW 2000</b>
<b>Bankers</b>	<b>Commonwealth Bank of Australia PO Box 327 Silverwater, NSW 2128</b>
<b>Stock exchange listing</b>	<b>Allegra Orthopaedics Limited shares are listed on the Australian Securities Exchange (ASX code: AMT)</b>
<b>Website</b>	<b><a href="http://www.allegraorthopaedics.com">www.allegraorthopaedics.com</a></b>
<b>Corporate Governance Statement</b>	<b>The Corporate Governance Statement which was approved at the same time as the Annual Report can be found at <a href="http://www.allegraorthopaedics.com/corporate-governance">http://www.allegraorthopaedics.com/corporate-governance</a></b>



## Directors' report - 30 June 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Allegra Orthopaedics Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

### Directors

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

Peter Kazacos  
Anthony Hartnell  
Sean Mulhearn

### Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of the sale, design and distribution of surgical implants and the exclusive global licence to commercialise a load bearing biocompatible ceramic material.

### Dividends

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

### Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$501,048 (30 June 2016: loss of \$2,035,788).

Total revenue from ordinary activities for the year ended 30 June 2017 was \$4,943,216 (30 June 2016: \$5,018,556).

Sale of goods for the year ended 30 June 2017 was \$4,262,476 (30 June 2016: \$4,343,656). Due to various cost savings measures, including outsourcing manufacturing and relocating to new premises, there was an improvement in gross margin to 68% for the year ended 30 June 2017 (2016: 59%).

Revenue earned from commission sales for the year ended 30 June 2017 was \$672,698 (30 June 2016: \$653,545). This represents a 3% increase.

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

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

	Consolidated	
	2017 \$	2016 \$
Profit/(loss) after income tax	501,048	(2,035,788)
Add: Depreciation and amortisation	290,667	514,780
Add: Finance cost	111,292	68,269
Less: Interest income	(8,042)	(21,355)
<b>EBITDA</b>	<b>894,965</b>	<b>(1,474,094)</b>

Included within the profit/(loss) after income tax figure above for 30 June 2016 are \$810,992 of one off restructuring costs.

Cost of sales and purchases of consumables have decreased by \$493,767 to \$1,567,896. This decrease is attributable to the reduction of salary and rent costs due to the decision taken to outsource the manufacturing division during the last financial year.



## Directors' report - 30 June 2017

Corporate and administration expenses decreased by \$1,094,364 to \$1,737,046. Aside from the \$810,992 one off restructuring costs incurred during the year ended 30 June 2016, corporate and administration expenses decreased by \$283,372. This reduction is mainly attributable to savings of \$71,857 in audit and tax fees, \$78,638 in insurance costs and \$67,520 in legal fees. There was also a reduction in the depreciation charge for the year.

Quality and research and development expenses were down \$444,835 to \$898,298. This decrease is attributable to a reduction in the quality and research staff as a result of the decision to outsource manufacturing. The primary expenditure relates to the commercialisation of the Sr-HT Gahnite bone substitute project.

Sales and marketing expenses decreased by \$518,918 to \$1,206,500. The decrease is attributable to lower travels costs, consultants and sales agent fees. As announced to the ASX on 20 April 2016, the National Sales Manager took up the role of CEO. The national sales manager position was not replaced but rather merged into the CEO role. This resulted in salary cost savings within this division.

On 13 December 2016, the company announced that it had issued 9,438,957 fully paid ordinary shares at an issue price of \$0.08 per share. The \$755,117 raised was used to repay a loan of \$700,000 owing to Robinwood Investments Pty Ltd (related party) which had been drawn down prior to 30 June 2016 (refer ASX announcement dated 30 June 2016).

On 13 April 2017, the company issued 9,388,269 fully paid ordinary shares at an issue price of \$0.125 per share. A further 363,912 fully paid ordinary shares allocated to parties related to directors will be issued subject to shareholder approval. The \$1,219,023 raised will be used to continue funding the SR-HT-Gahnite bone substitute project and increase its investment in surgical instrumentation and inventory.

Finance costs increased by \$43,023 to \$111,292. The increase is attributable to interest and loan establishment fees paid for the related party loan to Robinwood Investments Pty Limited.

Net profit after tax was \$501,048 (2016: loss of \$2,035,788) which includes the Restructuring Cost of \$Nil (2016: \$810,992) related to the decision to outsource manufacturing.

### *Cash position*

The cash balance as at 30 June 2017 was \$1,847,647 which is an increase of \$693,057 when compared with the cash balance as at 30 June 2016 of \$1,154,590.

### *Outlook*

The consolidated entity will be focusing on two major objectives. The first being the improvement of sales and distribution of its medical device product range. This should be achieved by continuing to seek innovative revenue channels and products coupled with ongoing development of its highly trained and skilled medical device workforce. The second objective being pursued is the ongoing product development of the exciting SrHT Gahnite Bone Substitute project.

### **Significant changes in the state of affairs**

On 13 December 2016, the company announced that it had issued 9,438,957 fully paid ordinary shares at an issue price of \$0.08 per share pursuant to shareholder approval given at the company's Annual General Meeting held on November 30 2017. The \$755,117 raised was used to repay the loan for \$700,000 drawn down prior to 30 June 2016, with Robinwood Investments Pty Limited (refer ASX announcement dated 30 June 2016).

On 12 April 2017, the company announced that it would issue 9,752,181 fully paid ordinary shares at an issue price of \$0.125 per share. The \$1,219,023 raised is being used to (1) continue funding the Sr-HT-Gahnite bone substitute project and (2) increase the company's investment in surgical instrumentation and inventory to support the company's expanding surgeon numbers base.

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

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

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### **Likely developments and expected results of operations**

The consolidated entity will continue to execute on its two major objectives as stated in the December 2016 half-year Financial Report.



**Directors' report - 30 June 2017**

The first objective being the improvement of sales and distribution of its medical device product range contained within company's Orthopaedic Division. This objective is expected to be achieved through the combination of distribution channels, expansion of the company's highly skilled medical representatives, and the recent acquisition of additional Active Knee instrumentation to support the company's expanding surgeon base. This division is expected to continue trading profitably for FY2018.

The second objective, relates to company's Innovation Division where the company continues with the on-going product development and investment in its Sr-HT-Gahnite bone substitute project (refer recent ASX announcement on 10th February 2017). This project continues to show impressive results and is gaining awareness and great interest from significant organisation both from within Australia and internationally. The Sr-HT-Gahnite bone substitute is pre revenue with all costs related to development being expensed. Therefore in FY2018, the Innovation division is expected to operate at a loss. It is important to note that in previous years including FY2017, the Innovation Division recognised NSW Government grant funding as revenue. This grant funding has now been utilised so no further revenue will be recognised in FY2018.

The consolidation of the company's two operating divisions is expected to be a trading loss for FY2018 due to the on-going investment in the Innovation Division expected to exceed the continuing profits resulting from the Orthopaedics Division.

**Environmental regulation**

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

**Information on directors**

**Name:** Peter Kazacos  
**Title:** Non-Executive Director and Chairman  
**Qualifications:** B.E, B.Sc.  
**Experience and expertise:** Peter has over 40 years' experience in the IT industry. He founded KAZ in 1988, guided it from a small IT services company in NSW to one of Asia Pacific's leading IT services and business process outsourcing service providers with over 4,000 employees, as a fully owned subsidiary of Telstra. He also founded Anittel Ltd, building it into one of Australia's leading IT&C service providers operating outside the major metropolitan areas, leading to its acquisition in 2010 by Anittel Group Limited (since renamed Axxis Technology Group Ltd.), representing a major strategic milestone in the transformation and convergence of the IT&T industry. Prior to founding KAZ and Anittel, Peter held a number of senior technical positions in the Australian IT industry with leading Australian organisations. Peter was the recipient of the inaugural Australian Entrepreneur of the Year 2001 award in the Technology, Communications, E-Commerce and Biotechnology category.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee

**Interests in shares:** 1,184,430 ordinary shares  
**Interests in options:** None

**Name:** Anthony Hartnell  
**Title:** Non-Executive Director  
**Qualifications:** BEc LLB (Hons) (ANU), LL.M (Highest Hons) (George Washington University)  
**Experience and expertise:** Anthony who has been honoured as an Officer in the Order of Australia has had a distinguished legal career in both government and private practice. He is the founding partner of Atanaskovic Hartnell, a legal firm specialising in corporate and commercial law, particularly covering corporate financing, takeovers and regulatory issues. He was the inaugural Chairman of the Australian Securities Commission. He has chaired a number of ASX-listed companies.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee

**Interests in shares:** 36,307,911 ordinary shares  
**Interests in options:** None



## Directors' report - 30 June 2017

Name:	Sean Mulhearn
Title:	Non-Executive Director
Qualifications:	BEC (University of Sydney)
Experience and expertise:	Sean has been involved in the financial markets for over 30 years' with experience in Asia, Europe and the Americas. Sean has particular expertise in risk management. He founded Jacaranda Capital Partners, a boutique advisory and markets training business with offices in Singapore and Australia.
Other current directorships:	Non-Executive Director of Greka Drilling Limited.
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Committee and member of the Nomination and Remuneration Committee.
Interests in shares:	873 ordinary shares
Interests in options:	None

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

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

### Company secretaries

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

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

Richard resigned as company secretary on 18 January 2017 and Justyn was appointed on the same date.

### Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

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

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

### Remuneration report (audited)

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

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





## Directors' report - 30 June 2017

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

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

### *Principles used to determine the nature and amount of remuneration*

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

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

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

The remuneration structures take into account:

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

### *Remuneration committee*

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

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

### *Remuneration structure*

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

### *Non-executive directors' remuneration*

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

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

### *Executive remuneration*

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

The KMP remuneration and reward framework has four components:

- Base pay and non-monetary benefits;
- Short-term performance incentives;
- Share-based payments; and
- Other remuneration such as superannuation and long service leave.

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



## Directors' report - 30 June 2017

### *Fixed remuneration*

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

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

### *Consolidated entity performance and link to remuneration*

Performance linked remuneration is designed to reward KMP for meeting or exceeding their financial and personal objectives. Refer to the 'Additional information' section of the remuneration report for details of the earnings and total shareholders return, from 1 July 2013.

### *Short-term incentive ('STI')*

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

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

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

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

### *Long-term incentives ('LTI')*

The long-term incentive is intended to be provided to KMP, other than non-executive directors, ordinary shares or options over ordinary shares in the company so to align KMP interests with shareholders' interests.

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

There were no outstanding share plans.

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

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

### *Use of remuneration consultants*

During the financial year ended 30 June 2017, the consolidated entity engaged Godfrey Remuneration Group, to provide draft structure of the ESOP which has yet to be considered/approved by the Board. Godfrey Remuneration Group was paid \$8,000 for these services.

An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. The Board is satisfied that the protocols were followed and as such there was no undue influence.



## Directors' report - 30 June 2017

### Voting and comments made at the company's 2016 Annual General Meeting ('AGM')

At the 2016 AGM less than 0.05% of the votes received were against the adoption of the remuneration report for the year ended 30 June 2016. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

### Details of remuneration

#### Amounts of remuneration

The KMP of the consolidated entity consisted of the directors of the Company and the following persons:

- Jenny Swain - Chief Executive Officer
- Richard Ulrick - Company Secretary (resigned on 18 January 2017)

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

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

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

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Leave benefits \$	Equity-settled shares \$	
<b>2016</b>							
<i>Non-Executive Directors:</i>							
Peter Kazacos (Chairman)	62,520	-	-	-	-	-	62,520
Anthony Hartnell	20,000	-	-	-	-	-	20,000
Sean Mulhearn *	13,333	-	-	-	-	-	13,333
<i>Executive Directors:</i>							
Peter Welsh **	6,500	-	-	-	-	-	6,500
<i>Other Key Management Personnel:</i>							
Richard Ulrick	52,800	-	-	-	-	-	52,800
Jenny Swain *	29,071	10,000	6,544	3,383	649	-	49,647
Chris Calamos **	117,654	-	-	11,177	-	-	128,831
Tom Milicevic ***	118,355	-	-	11,908	-	-	130,263
	420,233	10,000	6,544	26,468	649	-	463,894



## Directors' report - 30 June 2017

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

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

Name	Fixed remuneration 2017	At risk - STI 2017	At risk - LTI 2017
<i>Non-Executive Directors:</i>			
Peter Kazacos	100%	-	-
Anthony Hartnell	100%	-	-
Sean Mulhearn	100%	-	-
<i>Other Key Management Personnel:</i>			
Jenny Swain	100%	-	-
Richard Ulrick	100%	-	-

### Service agreements

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

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

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

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

### Share-based compensation

#### Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2017.

#### Options

There were no options over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2017.

There were no options over ordinary shares granted to or vested in directors and other KMP as part of compensation during the year ended 30 June 2017.

### Additional information

The Board considers that the above performance-linked remuneration structures will generate the desired outcome based on the experience of other companies. STI's are determined by NPAT, which was not met this year.



## Directors' report - 30 June 2017

The earnings of the consolidated entity for the five years to 30 June 2017 are summarised below:

	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$
Sales revenue	7,156,000	7,965,762	7,316,662	4,997,201	4,935,174
Net (loss)/profit after income tax	(571,000)	(64,000)	(855,056)	(2,035,788)	501,048

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

	2013	2014	2015	2016	2017
Share price at financial year end (\$)	0.11	0.06	0.25	0.15	0.17

### Additional disclosures relating to key management personnel

#### Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Peter Kazacos	1,045,084	-	139,346	-	1,184,430
Anthony Hartnell	22,565,878	-	13,743,033	(1,000)	36,307,911
Sean Mulhearn	-	-	873	-	873
Richard Ulrick *	288,282	-	40,036	(328,318)	-
Jenny Swain	200,000	-	67,027	-	267,027
	24,099,244	-	13,990,315	(329,318)	37,760,241

\* Disposals/other - represents the holding at the time of ceasing to be a KMP within the consolidated entity and not necessarily actual disposed.

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

#### Unissued shares

Subject to shareholder approval, 363,912 fully paid ordinary shares allocated to parties related to directors, will be issued by 30 November 2017.

#### Shares under option

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

#### Shares issued on the exercise of options

There were no ordinary shares of Allegra Orthopaedics Limited issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report.

#### Indemnity and insurance of officers

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

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

#### Indemnity and insurance of auditor

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



## Directors' report - 30 June 2017

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

### Proceedings on behalf of the company

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

### Non-audit services

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

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

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

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

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

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

### Auditor's independence declaration

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

### Auditor

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

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

On behalf of the directors

Peter Kazacos  
Director

29 August 2017  
Sydney

29 August 2017

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

Dear Board Members

## Allegra Orthopaedics Limited

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

As lead audit partner for the audit of the financial report of Allegra Orthopaedics Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

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

Yours sincerely



**Crowe Horwath Sydney**



**John Haydon**  
Senior Partner



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### General information

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2017. The directors have the power to amend and reissue the financial statements.





## Statement of profit or loss and other comprehensive income For the year ended - 30 June 2017

	Note	Consolidated	
		2017 \$	2016 \$
<b>Revenue</b>	4	4,943,216	5,018,556
Other income	5	1,078,864	975,549
<b>Expenses</b>			
Cost of sales and purchases of consumables		(1,567,896)	(2,061,663)
Corporate and administration expenses		(1,737,046)	(2,831,410)
Quality and research and development expenses		(898,298)	(1,343,133)
Sales and marketing expenses		(1,206,500)	(1,725,418)
Finance costs	7	(111,292)	(68,269)
<b>Profit/(loss) before income tax expense</b>		501,048	(2,035,788)
Income tax expense	8	-	-
<b>Profit/(loss) after income tax expense for the year attributable to the owners of Allegra Orthopaedics Limited</b>		501,048	(2,035,788)
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the owners of Allegra Orthopaedics Limited</b>		501,048	(2,035,788)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	31	0.71	(3.20)
Diluted earnings per share	31	0.71	(3.20)

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



## Statement of financial position As at 30 June 2017

	Note	Consolidated 2017 \$	2016 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,847,647	1,154,590
Trade and other receivables	9	1,031,332	1,628,049
Inventories	10	1,776,560	1,511,486
<b>Total current assets</b>		<b>4,655,539</b>	<b>4,294,125</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	567,044	477,219
Intangibles	12	154,476	158,868
Security deposits		98,123	95,585
<b>Total non-current assets</b>		<b>819,643</b>	<b>731,672</b>
<b>Total assets</b>		<b>5,475,182</b>	<b>5,025,797</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	679,325	1,676,787
Borrowings	14	149,987	1,078,303
Provisions	15	45,816	41,371
<b>Total current liabilities</b>		<b>875,128</b>	<b>2,796,461</b>
<b>Non-current liabilities</b>			
Borrowings	16	-	39,469
Provisions	17	44,494	39,181
<b>Total non-current liabilities</b>		<b>44,494</b>	<b>78,650</b>
<b>Total liabilities</b>		<b>919,622</b>	<b>2,875,111</b>
<b>Net assets</b>		<b>4,555,560</b>	<b>2,150,686</b>
<b>Equity</b>			
Issued capital	18	12,348,455	10,459,629
Reserves	19	580,280	565,280
Accumulated losses		(8,373,175)	(8,874,223)
<b>Total equity</b>		<b>4,555,560</b>	<b>2,150,686</b>

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



## Statement of changes in equity For the year ended 30 June 2017

	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
<b>Consolidated</b>				
Balance at 1 July 2015	10,459,629	565,280	(6,838,435)	4,186,474
Loss after income tax expense for the year	-	-	(2,035,788)	(2,035,788)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,035,788)	(2,035,788)
Balance at 30 June 2016	10,459,629	565,280	(8,874,223)	2,150,686
<b>Consolidated</b>				
Balance at 1 July 2016	10,459,629	565,280	(8,874,223)	2,150,686
Profit after income tax expense for the year	-	-	501,048	501,048
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	501,048	501,048
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	1,888,826	-	-	1,888,826
Share-based payments	-	15,000	-	15,000
Balance at 30 June 2017	12,348,455	580,280	(8,373,175)	4,555,560

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



## Statement of changes in equity For the year ended 30 June 2017

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	10,459,629	565,280	(6,838,435)	4,186,474
Loss after income tax expense for the year	-	-	(2,035,788)	(2,035,788)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,035,788)	(2,035,788)
Balance at 30 June 2016	10,459,629	565,280	(8,874,223)	2,150,686
Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	10,459,629	565,280	(8,874,223)	2,150,686
Profit after income tax expense for the year	-	-	501,048	501,048
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	501,048	501,048
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	1,888,826	-	-	1,888,826
Share-based payments	-	15,000	-	15,000
Balance at 30 June 2017	12,348,455	580,280	(8,373,175)	4,555,560

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



## Statement of cash flows For the year ended 30 June 2017

	Note	Consolidated 2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		5,745,165	5,460,997
Payments to suppliers and employees (inclusive of GST)		(6,008,649)	(7,104,629)
		(263,484)	(1,643,632)
Other revenue		46,417	25,889
Interest received		4,896	21,355
Interest and other finance costs paid		(111,292)	(68,269)
Income taxes refunded relating to research and development		472,080	868,535
<b>Net cash from/(used in) operating activities</b>	30	148,617	(796,122)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	11	(372,344)	(71,537)
Payments for intangibles	12	(3,756)	(15,274)
Proceeds from disposal of property, plant and equipment		-	286,000
<b>Net cash from/(used in) investing activities</b>		(376,100)	199,189
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	18	1,928,150	-
Share issue transaction costs		(39,825)	-
(Repayment)/proceeds from debtor finance facility		(178,634)	178,634
Repayment of insurance loans		(21,833)	-
Repayment of lease liabilities		(67,318)	(210,256)
(Repayments)/proceeds from borrowings - related party		(700,000)	700,000
<b>Net cash from financing activities</b>		920,540	668,378
<b>Net increase in cash and cash equivalents</b>		693,057	71,445
<b>Cash and cash equivalents at the beginning of the financial year</b>		1,154,590	1,083,145
<b>Cash and cash equivalents at the end of the financial year</b>		1,847,647	1,154,590

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



## Notes to the financial statements - 30 June 2017

### Note 1. Significant accounting policies

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

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

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

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

#### **Basis of preparation**

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

#### *Historical cost convention*

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

#### *Critical accounting estimates*

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

#### **Parent entity information**

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

#### **Principles of consolidation**

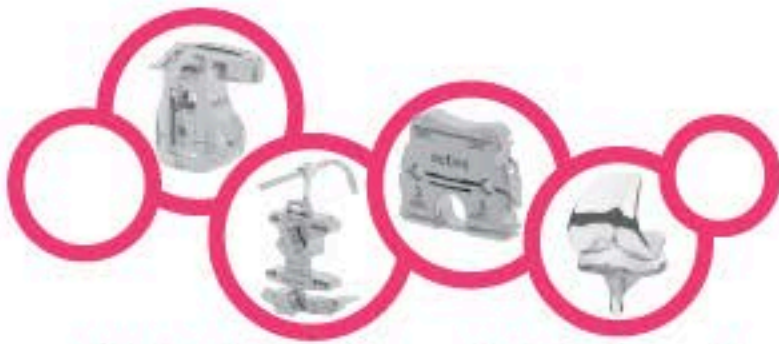
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Allegra Orthopaedics Limited ('company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Allegra Orthopaedics Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

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

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



## Notes to the financial statements - 30 June 2017

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

#### Operating segments

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

#### Revenue recognition

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

#### Sale of goods

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

#### Commissions revenue

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

#### Interest

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

#### Other income

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

#### Income tax

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

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

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

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

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

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

#### Current and non-current classification

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



## Notes to the financial statements - 30 June 2017

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

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

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

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

#### Cash and cash equivalents

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

#### Trade and other receivables

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

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

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

#### Inventories

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

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

#### Property, plant and equipment

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

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

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

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





## Notes to the financial statements - 30 June 2017

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

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

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

#### Leases

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

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

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

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

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

#### Intangible assets

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

#### Patents and trademarks

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

#### Research and development

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

#### Impairment of non-financial assets

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

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



## Notes to the financial statements - 30 June 2017

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

#### Trade and other payables

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

#### Borrowings

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

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

#### Government grants

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

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

#### Finance costs

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

#### Provisions

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

#### Employee benefits

##### *Short term employee benefits*

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

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

Employee benefits not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Liabilities for employee entitlements which have vested in the employee at reporting date are recognised as current liabilities notwithstanding that they are not expected to be settled within 12 months of reporting date as the consolidated entity does not have an unconditional right to defer settlement.

##### *Defined contribution superannuation expense*

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

#### Fair value measurement

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



## Notes to the financial statements - 30 June 2017

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

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

#### Issued capital

Ordinary shares are classified as equity.

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

#### Earnings per share

##### *Basic earnings per share*

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

##### *Diluted earnings per share*

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

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

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

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

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

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

#### Reclassifications

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

#### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.



## Notes to the financial statements - 30 June 2017

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

#### *AASB 9 Financial Instruments*

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

#### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that most of the group's revenue is recognised at the time of transfer of title/use which represents the satisfaction of the primary performance obligation.



## Notes to the financial statements - 30 June 2017

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

#### AASB 16 Leases

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

### Note 2. Critical accounting judgements, estimates and assumptions

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

#### *Provision for impairment of inventories*

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

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

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

#### *Going concern*

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

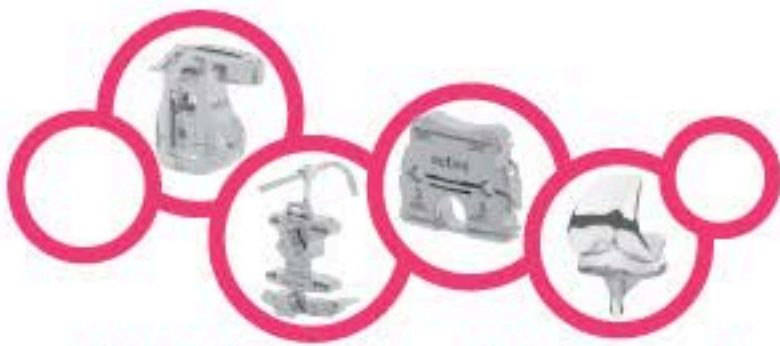
### Note 3. Operating segments

#### *Identification of reportable operating segments*

The consolidated entity is organised in two operating segments based on an orthopaedics division and an innovation division. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. For the innovation division, net cash flow information are reported to the CODM as a measure of EBITDA.

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



## Notes to the financial statements - 30 June 2017

### Note 3. Operating segments (continued)

	Orthopaedics division \$	Innovation division \$	Total \$
<b>Consolidated - 2016</b>			
<b>Revenue</b>			
Sale of goods	4,343,656	-	4,343,656
Commission revenue	653,545	-	653,545
<b>Total sales revenue</b>	<b>4,997,201</b>	<b>-</b>	<b>4,997,201</b>
Government grants	-	470,439	470,439
Other income	25,889	-	25,889
Research and development tax offset	315,849	163,372	479,221
Interest revenue	21,355	-	21,355
<b>Total revenue</b>	<b>5,360,294</b>	<b>633,811</b>	<b>5,994,105</b>
<b>EBITDA</b>			
Depreciation and amortisation	(1,637,366)	163,272	(1,474,094)
Interest revenue	(514,780)	-	(514,780)
Finance costs	21,355	-	21,355
	(68,269)	-	(68,269)
<b>Profit/(loss) before income tax expense</b>	<b>(2,199,060)</b>	<b>163,272</b>	<b>(2,035,788)</b>
Income tax expense			-
<b>Loss after income tax expense</b>			<b>(2,035,788)</b>

The cash balance as at 30 June 2017 for the Orthopaedics Division was \$839,467 (2016: \$348,095).

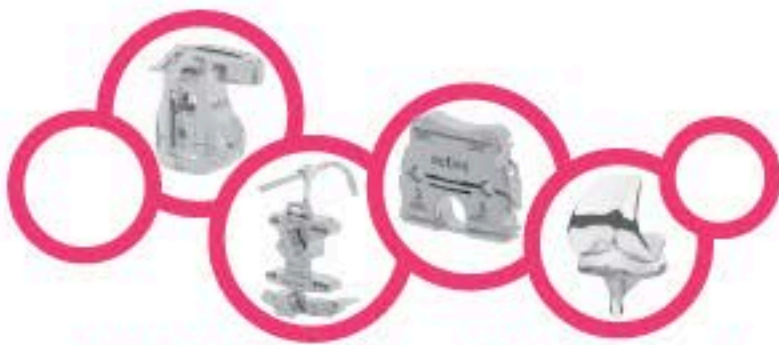
The cash balance as at 30 June 2017 for the Innovation Division was \$1,008,180 (2016: \$770,495).

### Note 4. Revenue

	Consolidated	
	2017 \$	2016 \$
<b>Sales revenue</b>		
Sale of goods	4,262,476	4,343,656
Commissions revenue	672,698	653,545
	<b>4,935,174</b>	<b>4,997,201</b>
<b>Other revenue</b>		
Interest	8,042	21,355
<b>Revenue</b>	<b>4,943,216</b>	<b>5,018,556</b>

### Note 5. Other income

	Consolidated	
	2017 \$	2016 \$
Government grants	770,495	470,439
Other income	46,417	25,889
Research and development tax offset	261,952	479,221
<b>Other income</b>	<b>1,078,864</b>	<b>975,549</b>



## Notes to the financial statements - 30 June 2017

### Note 6. Restructuring costs

During the prior financial year the consolidated entity outsourced its activities associated with the manufacture of its highly acclaimed Active Knee product range to Signature Orthopaedics Pty Ltd ('Signature') which is an Australian based company. To facilitate the outsourcing, relevant equipment was sold to Signature and some personnel were transferred. No restructuring costs were incurred during the current year.

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

	Consolidated	
	2017	2016
	\$	\$
Redundancy costs	-	108,291
Net loss on inventory write-down	-	149,654
Cost of sales and purchases of consumables - materials	-	231,061
Cost of sales and purchases of consumables - repairs and maintenance	-	19,373
Net loss on sale of plant and equipment	-	302,613
<b>Total restructuring costs</b>	<b>-</b>	<b>810,992</b>

### Note 7. Expenses

	Consolidated	
	2017	2016
	\$	\$
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	10,206	75,700
Fixtures and fittings	65,128	160,490
Leasehold improvements	4,227	42,096
Instrument sets	202,958	212,060
<b>Total depreciation</b>	<b>282,519</b>	<b>490,346</b>
<i>Amortisation</i>		
Website	-	4,609
Patents and trademarks	8,148	19,825
<b>Total amortisation</b>	<b>8,148</b>	<b>24,434</b>
<b>Total depreciation and amortisation</b>	<b>290,667</b>	<b>514,780</b>
<i>Impairment</i>		
Inventories	74,811	244,348
<i>Finance costs</i>		
Interest and finance charges paid/payable	111,292	68,269
Minimum lease payments - operating lease expense	141,675	308,037
Net foreign exchange loss	18,708	36,207
Defined contribution superannuation expense	117,621	177,902
Employee benefits expense excluding superannuation	1,586,622	2,130,404



## Notes to the financial statements - 30 June 2017

### Note 8. Income tax expense

	Consolidated	
	2017 \$	2016 \$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit/(loss) before income tax expense	501,048	(2,035,788)
Tax at the statutory tax rate of 27.5% (2016: 30%)	137,788	(610,736)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	-	66
Concessional research and development expenditure treatment	224,351	345,839
Research and development tax incentive	(76,404)	(141,624)
Share based payment	4,125	-
	289,860	(406,455)
Current year temporary differences and tax losses not recognised	(268,695)	427,139
Share raising cost recognised directly in equity	(21,165)	(20,684)
Income tax expense	-	-

	Consolidated	
	2017 \$	2016 \$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	2,553,167	3,677,289
Potential tax benefit @ 27.5% (2016: 30%)	702,121	1,103,187

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

### Note 9. Current assets - trade and other receivables

	Consolidated	
	2017 \$	2016 \$
Trade receivables	562,368	896,988
Other receivables	35,955	82,076
Research and development tax receivable	277,835	487,963
	313,790	570,039
Prepayments	155,174	161,022
	1,031,332	1,628,049

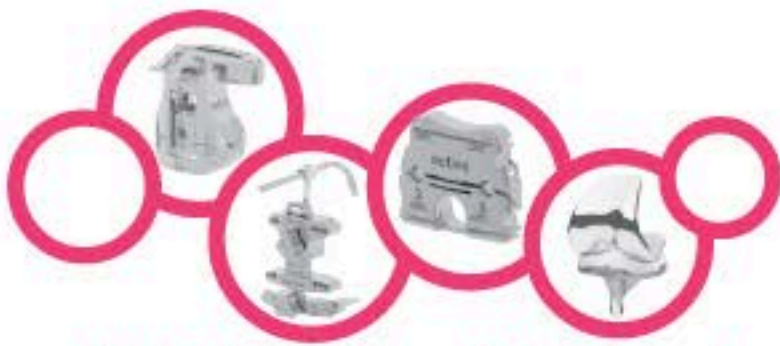
#### *Impairment of receivables*

The consolidated entity has recognised a provision \$nil (2016: \$nil) in corporate and administration expenses in profit or loss, in respect of impairment of receivables for the year ended 30 June 2017.

#### *Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$268,888 as at 30 June 2017 (\$622,385 as at 30 June 2016).





## Notes to the financial statements - 30 June 2017

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

#### Reconciliations

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

Consolidated	Plant and equipment \$	Fixtures and fittings \$	Leasehold * improvements \$	Instrument sets ** \$	Total \$
Balance at 1 July 2015	711,716	274,638	42,096	498,524	1,526,974
Additions	2,219	3,586	10,000	65,732	81,537
Disposals	(628,275)	(12,671)	-	-	(640,946)
Depreciation expense	(75,700)	(160,490)	(42,096)	(212,060)	(490,346)
Balance at 30 June 2016	9,960	105,063	10,000	352,196	477,219
Additions	71,316	7,935	3,230	289,863	372,344
Depreciation expense	(10,206)	(65,128)	(4,227)	(202,958)	(282,519)
Balance at 30 June 2017	71,070	47,870	9,003	439,101	567,044

\* The net book value of leasehold improvements disposed of was \$nil (cost of \$434,217 and accumulated depreciation of \$434,217).

\*\* Includes net book value of finance leased assets of \$34,382 (2016: \$128,021) (cost: \$112,524 (2016: \$205,033), accumulated depreciation: \$78,142 (2016: \$77,012)).

#### Property, plant and equipment secured under finance leases

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

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

	Consolidated	
	2017 \$	2016 \$
Patents and trademarks - at cost	669,220	665,464
Less: Accumulated amortisation	(514,744)	(506,596)
	154,476	158,868

#### Reconciliations

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

Consolidated	Patents and trademarks \$	Website \$	Total \$
Balance at 1 July 2015	219,552	18,751	238,303
Additions	12,037	3,237	15,274
Write off of assets	(52,896)	(17,379)	(70,275)
Amortisation expense	(19,825)	(4,609)	(24,434)
Balance at 30 June 2016	158,868	-	158,868
Additions	3,756	-	3,756
Amortisation expense	(8,148)	-	(8,148)
Balance at 30 June 2017	154,476	-	154,476



## Notes to the financial statements - 30 June 2017

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

#### Total secured liabilities

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

	Consolidated	
	2017	2016
	\$	\$
Lease liability	39,467	106,785
Related party loans	-	700,000
Debtor finance facility	-	178,634
	39,467	985,419

The total non-secured liabilities include insurance loans by \$110,520 (2016: \$132,353).

#### Assets pledged as security

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

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

	Consolidated	
	2017	2016
	\$	\$
Plant and equipment	34,382	128,021



## Notes to the financial statements - 30 June 2017

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

#### Financing arrangements

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

	Consolidated	
	2017	2016
	\$	\$
<b>Total facilities</b>		
Bank overdraft	500,000	-
Related party loans	-	1,000,000
Lease liability	39,467	106,785
Business card facility	15,000	15,000
Debtor finance facility	-	1,500,000
Insurance loans	110,520	132,353
	<b>664,987</b>	<b>2,754,138</b>
<b>Used at the reporting date</b>		
Bank overdraft	-	-
Related party loans	-	700,000
Lease liability	39,467	106,785
Business card facility	-	-
Debtor finance facility	-	178,634
Insurance loans	110,520	132,353
	<b>149,987</b>	<b>1,117,772</b>
<b>Unused at the reporting date</b>		
Bank overdraft	500,000	-
Related party loans	-	300,000
Lease liability	-	-
Business card facility	15,000	15,000
Debtor finance facility	-	1,321,366
Insurance loans	-	-
	<b>515,000</b>	<b>1,636,366</b>

During the period, the loan from Robinwood Investments Pty Limited (related party) amounting to \$700,000 was repaid.

During the period, the agreement for the debtor finance facility, was terminated.

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

	Consolidated	
	2017	2016
	\$	\$
Employee benefits	34,494	29,181
Lease make-good	10,000	10,000
	<b>44,494</b>	<b>39,181</b>

#### Lease make-good

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



## Notes to the financial statements - 30 June 2017

### Note 18. Equity - issued capital

	2017 Shares	Consolidated 2016 Shares	2017 \$	2016 \$
Ordinary shares - fully paid	82,528,474	63,601,248	12,348,455	10,459,629

#### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2015	63,501,248		10,459,629
Shares issued	31 July 2015	100,000	\$0.00	-
Balance	30 June 2016	63,601,248		10,459,629
Shares issued to employees	20 September 2016	100,000	\$0.00	-
Shares issued	13 December 2016	9,438,957	\$0.08	755,117
Shares issued	13 April 2017	9,388,269	\$0.13	1,173,534
Share issue transaction costs		-	\$0.00	(39,825)
Balance	30 June 2017	82,528,474		12,348,455

\* Subject to shareholder approval, 363,912 fully paid ordinary shares allocated to parties related to directors, will be issued by 30 November 2017.

#### Ordinary shares

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

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

#### Share buy-back

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

#### Capital risk management

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

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

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

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



## Notes to the financial statements - 30 June 2017

### Note 19. Equity - reserves

	Consolidated	
	2017	2016
	\$	\$
Share-based payments reserve	580,280	565,280

#### Share-based payments reserve

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

#### Movements in reserves

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

Consolidated	Share-based payments \$	Total \$
Balance at 1 July 2015	565,280	565,280
Balance at 30 June 2016	565,280	565,280
Share-based payments	15,000	15,000
Balance at 30 June 2017	580,280	580,280

### Note 20. Equity - dividends

#### Dividends

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

#### Franking credits

	Consolidated	
	2017	2016
	\$	\$
Franking credits available for subsequent financial years based on a tax rate of 30%	320,477	320,477

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

### Note 21. Financial instruments

#### Financial risk management objectives

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

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



## Notes to the financial statements - 30 June 2017

### Note 21. Financial instruments (continued)

#### Market risk

##### Foreign currency risk

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

##### Price risk

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

##### Interest rate risk

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

For the consolidated entity the bank, finance lease and other loans outstanding, totalling \$149,987 (2016: \$1,117,772), are principal and interest payment loans. Minimum principal repayments of \$149,987 (2016: \$199,669) are due during the year ending 30 June 2018.

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

#### Credit risk

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

#### Liquidity risk

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

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

#### Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2017 \$	2016 \$
Bank overdraft	500,000	-
Related party loans	-	300,000
Business card facility	15,000	15,000
Debtor finance facility	-	1,321,366
	515,000	1,636,366



## Notes to the financial statements - 30 June 2017

### Note 21. Financial instruments (continued)

#### Remaining contractual maturities

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

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

Consolidated - 2016	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	598,912	-	-	-	598,912
<i>Interest-bearing - fixed rate</i>						
Debtor finance facility	8.50%	186,226	-	-	-	186,226
Related party loans	13.00%	745,500	-	-	-	745,500
Lease liability	13.03%	77,418	42,273	-	-	119,691
Insurance funding agreement	3.55%	132,353	-	-	-	132,353
<b>Total non-derivatives</b>		<b>1,740,409</b>	<b>42,273</b>	<b>-</b>	<b>-</b>	<b>1,782,682</b>

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

### Note 22. Fair value measurement

#### Fair value hierarchy

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

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



## Notes to the financial statements - 30 June 2017

### Note 23. Key management personnel disclosures

#### Compensation

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

	Consolidated	
	2017	2016
	\$	\$
Short-term employee benefits	380,013	436,777
Post-employment benefits	23,081	26,468
Long-term benefits	3,869	649
	406,963	463,894

### Note 24. Remuneration of auditors

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

	Consolidated	
	2017	2016
	\$	\$
<i>Audit services - Crowe Horwath Sydney (2016: PricewaterhouseCoopers)</i>		
Audit or review of the financial statements	55,000	108,740
<i>Other services - Crowe Horwath Sydney (2016: PricewaterhouseCoopers)</i>		
Tax compliance services	-	12,500
Tax consulting and advice - R&D	-	30,000
	-	42,500
	55,000	151,240

### Note 25. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2017 and 30 June 2016.

The consolidated entity has performance guarantee totalling \$98,123 at 30 June 2017 (2016: \$95,586) in relation to rental commitments.





## Notes to the financial statements - 30 June 2017

### Note 26. Commitments

	Consolidated 2017 \$	2016 \$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	33,517	31,384
One to five years	5,586	36,615
	39,103	67,999
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	42,271	77,418
One to five years	-	42,273
Total commitment	42,271	119,691
Less: Future finance charges	(2,804)	(12,906)
Net commitment recognised as liabilities	39,467	106,785
Representing:		
Lease liability - current (note 14)	39,467	67,316
Lease liability - non-current (note 16)	-	39,469
	39,467	106,785

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

Finance lease commitments includes contracted amounts for various plant and equipment with a carrying value of \$34,382 (2016: \$128,021) under finance leases expiring within one to five years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

### Note 27. Related party transactions

#### Parent entity

Allegra Orthopaedics Limited is the parent entity.

#### Subsidiaries

Interests in subsidiaries are set out in note 29.

#### Key management personnel

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



## Notes to the financial statements - 30 June 2017

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

#### Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2017 \$	2016 \$
Payment for goods and services:		
Fees paid to Law Corporation (director related entity of Peter Kazacos)	-	14,750
Fees paid and payable to Atanaskovic Hartnell (a legal firm in which Anthony Hartnell is a partner)	13,152	52,111
Surgeon advisory fees paid to Dr Nicholas Hartnell (related to Anthony Hartnell – director)	5,000	-
Payment for other expenses:		
Interest and fees paid on loan to Robinwood Investments Pty Ltd	96,903	-

#### Receivable from and payable to related parties

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

	Consolidated 2017 \$	2016 \$
Current payables:		
Surgeon advisory fees payable to Dr Nicholas Hartnell (related to Anthony Hartnell - director)	5,000	-

#### Loans to/from related parties

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

	Consolidated 2017 \$	2016 \$
Current borrowings:		
Loan from Robinwood Investments Pty Ltd	-	700,000

#### Terms and conditions

All transactions were made on normal commercial terms and conditions.

### Note 28. Parent entity information

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

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

	2017 \$	Parent 2016 \$
Profit/(loss) after income tax	497,048	(2,035,788)
Total comprehensive income	497,048	(2,035,788)



**Notes to the financial statements - 30 June 2017**

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

*Statement of financial position*

	Parent	
	2017 \$	2016 \$
Total current assets	4,777,637	4,416,223
Total assets	5,550,792	5,101,405
Total current liabilities	875,540	2,792,871
Total liabilities	920,034	2,871,521
Equity		
Issued capital	12,348,455	10,459,629
Share-based payments reserve	580,280	565,280
Accumulated losses	(8,297,977)	(8,795,025)
Total equity	4,630,758	2,229,884

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

The parent has performance guarantee totalling \$98,123 at 30 June 2017 (2016: \$95,586) in relation to rental commitments.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2017 and 30 June 2016.

*Significant accounting policies*

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

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

**Note 29. Interests in subsidiaries**

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2017 %	2016 %
Allegra Orthopaedics Holdings Pty Limited	Australia	100.00%	100.00%
Advanced Surgical Design & Manufacture (UK) Limited *	United Kingdom	100.00%	100.00%

\* This entity is dormant.



## Notes to the financial statements - 30 June 2017

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

	Consolidated	
	2017	2016
	\$	\$
Profit/(loss) after income tax expense for the year	501,048	(2,035,788)
Adjustments for:		
Depreciation and amortisation	290,667	514,780
Net loss on disposal of property, plant and equipment	-	302,613
Share-based payments	15,000	-
Interest received - non-cash	(3,146)	-
Government grants non-cash	(770,495)	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	381,850	(80,302)
Decrease/(increase) in inventories	(265,074)	848,033
Decrease in prepayments	5,848	47,707
Decrease in income taxes refunded relating to research and development	210,128	380,558
Decrease in trade and other payables	(226,967)	(445,051)
Increase/(decrease) in other provisions	9,758	(328,672)
Net cash from/(used in) operating activities	148,617	(796,122)

### Note 31. Earnings per share

	Consolidated	
	2017	2016
	\$	\$
Profit/(loss) after income tax attributable to the owners of Allegra Orthopaedics Limited	501,048	(2,035,788)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	70,883,069	63,593,051
Weighted average number of ordinary shares used in calculating diluted earnings per share	70,883,069	63,593,051
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	0.71	(3.20)
Diluted earnings per share	0.71	(3.20)

### Note 32. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.



## Directors' declaration - 30 June 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors

---

Peter Kazacos  
Director

29 August 2017  
Sydney

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

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of Allegra Orthopaedics Limited (the Company) and its subsidiaries (the Consolidated entity), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (a) giving a true and fair view of the Consolidated entity's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

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

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

#### *Key Audit Matters*

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Revenue recognition</b> Refer to Note 1 and Note 4</p> <p>The sales of goods are recognised as revenue when the goods have been used or received by the customer. As revenue from the sale of goods is a significant balance in the financial report, and impacts the reported profit for the year, we have focused particular audit attention on revenue recognition.</p>	<p>We performed the following key procedures:</p> <ul style="list-style-type: none"> <li>▪ Obtained an understanding of the key controls management has in place to ensure appropriate recognition of revenue for the sale of goods, and tested this process for a sample of sales throughout the year.</li> <li>▪ Tested a sample of invoices raised in the months of June 2017 and July 2017 to ensure that the revenue was recognised in the correct period.</li> <li>▪ Assessed the movement of individual revenue line items to ensure that the movements are reasonable and within our expectations when compared to movements in inventory.</li> </ul>

#### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Consolidated entity's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

#### *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, IFRS and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

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

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our auditor's report.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 5 to 10 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Allegra Orthopaedics Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

*Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**Crowe Horwath Sydney**



**John Haydon**  
Senior Partner

Dated 29 August 2017





## Shareholder information - 30 June 2017

The shareholder information set out below was applicable as at 17 July 2017.

### Distribution of equitable securities

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

	Number of holders of ordinary shares
1 to 1,000	19
1,001 to 5,000	129
5,001 to 10,000	67
10,001 to 100,000	120
100,001 and over	39
	374
Holding less than a marketable parcel	41

### Equity security holders

#### Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	34,941,615	42.34
NETWEALTH INVESTMENTS LIMITED	7,169,579	8.69
WELSH SUPERANNUATION PTY LIMITED	6,600,000	8.00
CRYPTYCH PTY LTD	5,981,163	7.25
MARIE CAROLL & DAWSON CAROLL	5,636,285	6.83
MERGIN INVESTMENTS PTY LTD	2,151,857	2.61
SANPEREZ PTY LTD	1,370,485	1.66
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,199,444	1.45
MR NICHOLAS HARTNELL	1,134,090	1.37
MR KENNETH CAMPBELL	1,000,000	1.21
MR THOMAS JAMES CARROLL	1,000,000	1.21
DR ANDREW WILLIAM LEICESTER & MRS SKYE CHRISTINE LEICESTER	976,456	1.18
DESTIN PTY LIMITED	946,470	1.15
MISTY HILLS NOMINEES PTY LTD	892,857	1.08
DR ANDREW WILLIAM LEICESTER & MRS SKYE CHRISTINE LEICESTER	605,603	0.73
DESMOND J BOKOR PTY LIMITED	510,000	0.62
PETER WELSH	473,685	0.57
MS NICOLE FAITH ROGER	403,334	0.49
CRYPTYCH PTY LTD	355,000	0.43
MR RICHARD ULRICK & MRS WENDY ULRICK	328,318	0.40
	73,676,241	89.27

#### Unquoted equity securities

There are no unquoted equity securities.



## Shareholder information - 30 June 2017

### Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	36,075,705	43.71
NETWEALTH INVESTMENTS LIMITED	7,169,579	8.69
WELSH SUPERANNUATION PTY LIMITED and PETER WELSH	7,123,132	8.63
CRYPTYCH PTY LTD and GREGORY JAMES ROGER	6,336,163	7.68
MARIE CAROLL & DAWSON CAROLL	5,636,285	6.83

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

### Voting rights

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

#### Ordinary shares

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

There are no other classes of equity securities.



**Allegra** 

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