

21 February 2019

Interim Report – 6 months to 31 December 2018

I am pleased to present Allegra Orthopaedics Limited's Appendix 4D and Interim Report for the 6 months to 31 December 2018.

Sincerely



Peter Kazacos
Non-Executive Chairman

Allegra Orthopaedics Limited

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1. Company details

Name of entity:	Allegra Orthopaedics Limited
ABN:	71 066 281 132
Reporting period:	For the half-year ended 31 December 2018
Previous period:	For the half-year ended 31 December 2017

2. Results for announcement to the market

			\$
Revenues from ordinary activities	down	22.4% to	1,829,072
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	696.4% to	(338,157)
Loss from ordinary activities after tax attributable to the owners of Allegra Orthopaedics Limited	up	142.8% to	(480,865)
Loss for the half-year attributable to the owners of Allegra Orthopaedics Limited	up	142.8% to	(480,865)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to \$480,865 (31 December 2017: \$198,057).

The consolidated entity continues to operate as two distinct business segments, namely the Orthopaedics Division, which sells and distributes its portfolio of medical device products and the second segment being the Innovation Division, which invests resources into the development and commercialisation of new products to take to market. Corporate costs are excluded from these segments and are reported on separately.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') for the consolidated entity was a loss of \$338,157 (31 December 2017: \$42,461).

The Orthopaedics Division generated an EBITDA of \$1,839 (31 December 2017: \$294,889) this result was primarily due to a 22% decline in revenues year on year. The continuing investment in product development within the Innovation Division resulted in an EBITDA loss of \$138,923 (31 December 2017: \$195,771). Corporate overhead costs not allocated to either division totalled \$201,073 (31 December 2017: \$141,579).

Further information on the review of operations and financial position is detailed in the Review of operations section of the Directors' report which is part of the Interim Report.

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

On 21 November 2018, the company announced that it met with the USA's Food and Drug Administration (FDA) on 7 November 2018, in Washington DC, to discuss the approval process for release of the Sr-HT-Gahnite spinal cage device into the USA. As a result of this meeting, the Sr-HT-Gahnite spinal cage design without a central hole was approved. This is the first time the FDA has approved a spinal cage design that does not incorporate a central hole for bone ingrowth. The Sr-HT-Gahnite cage design does not require the use of additional graft material usually required to fill the central hole in other devices. FDA also indicated that a 6-12 month, large animal, study will be sufficient, in order to prove the success of this device. Since this is the world's first load-bearing and degradable spinal cage device, the FDA will require a small human confirmatory study, to ensure the animal results are representative of clinical benefit in the human population. Furthermore, the FDA responded positively to this small human study taking place in Australia.

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS'). 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	
	31 Dec 2018	31 Dec 2017
	\$	\$
Loss after income tax	(480,865)	(198,057)
Add: Depreciation and amortisation	144,593	153,273
Add: Finance cost	-	6,222
Less: Interest income	(1,885)	(3,899)
EBITDA	<u>(338,157)</u>	<u>(42,461)</u>

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>5.81</u>	<u>6.78</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

9. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

10. Attachments

Details of attachments (if any):

The Interim Report of Allegra Orthopaedics Limited for the half-year ended 31 December 2018 is attached.

11. Signed



Signed _____

Date: 20 February 2019

Peter Kazacos
Chairman
Sydney

Allegra Orthopaedics Limited

ABN 71 066 281 132

Interim Report - 31 December 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Allegra Orthopaedics Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

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

Peter Kazacos
 Anthony Hartnell
 Sean Mulhearn
 Nicholas Hartnell

Principal activities

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

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$480,865 (31 December 2017: \$198,057).

Revenue

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

	31 Dec 2018	31 Dec 2017	Change	Change
	\$	\$	\$	%
Sale of goods	1,680,064	2,125,658	(445,594)	(21%)
Commissions revenue	149,008	227,861	(78,853)	(35%)

Revenues from 'sales of goods' declined 21% year on year. Factors attributable to this revenue decline are primarily a weaker demand for the consolidated entity's medical device implants used by surgeon's during this period.

'Commission revenues' earned by the consolidated entity declined year on year due to a reduction in the commission percentage earned on each transaction from a particular vendor plus a decline in the number of surgeon users of their product.

Other income

A comparison of half-year other income compared with previous half-year is as follows:

	31 Dec 2018	31 Dec 2017	Change	Change
	\$	\$	\$	%
Other income	575,195	270,092	305,103	113%

'Other income', increased year on year due to the inclusion of the MTP Grant awarded to the consolidated entity (refer ASX release on 18 April 2018). The amount of the MTP Grant recognised as income in the six months to 31 December 2018 totalled \$282,931 (31 December 2017: \$nil).

Expenses

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

	31 Dec 2018	31 Dec 2017	Change	Change
	\$	\$	\$	%
Cost of sales and purchases of consumables	738,090	669,741	68,349	10%
Corporate and administration expenses	864,001	909,894	(45,893)	(5%)
Quality and research and development expenses	720,363	503,603	216,760	43%
Sales and marketing expenses	564,563	736,107	(171,544)	(23%)
Finance costs	-	6,222	(6,222)	(100%)

Cost of sales and purchases of consumables has increased by 10% year on year. This is due to:

- (a) the product mix of revenues sold in the current period having a higher cost compared to the product mix sold in the previous corresponding period; and
- (b) there was an inventory write down in this period of \$136,948 due to inventory reaching its expiry date.

'Corporate and administration expenses' decreased by 5% year on year and reflect a decrease in insurance costs, IT costs and salaries. These cost decreases were partly offset with the addition of a new non-executive Director and annual increases in office rental and support services.

'Quality and research and development expenses' totalled \$720,363 and is an increase of 43% year on year. This increase in expenditure is in line with current planned project costs. This increase in expenditure is supported by funding from the MTP grant awarded to the consolidated entity (refer ASX release on 18 April 2018).

'Sales and marketing expenses' totalled \$564,563 and represents a reduction of 23% year on year. This reduction in expenditure is primarily due to lower sales commission costs paid to sales agents due to lower revenues achieved and a reduction in salary costs.

Outlook

The consolidated entity has amended its outlook for the next six months to 30 June 2019 and believes revenues will continue at the same rate or marginally higher than for the six months to 31 December 2018. This would result in full year revenues for FY2019 being materially down when compared to FY2018. Management is actively looking at strategies to improve this revenue outcome and it continues to review and implement expense efficiencies and expense reductions to offset the impact of reduced revenues.

Significant changes in the state of affairs

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

On 21 November 2018, the company announced that it met with the USA's Food and Drug Administration (FDA) on 7 November 2018, in Washington DC, to discuss the approval process for release of the Sr-HT-Gahnite spinal cage device into the USA. As a result of this meeting, the Sr-HT-Gahnite spinal cage design without a central hole was approved. This is the first time the FDA has approved a spinal cage design that does not incorporate a central hole for bone ingrowth. The Sr-HT-Gahnite cage design does not require the use of additional graft material usually required to fill the central hole in other devices. FDA also indicated that a 6-12 month, large animal, study will be sufficient, in order to prove the success of this device. Since this is the world's first load-bearing and degradable spinal cage device, the FDA will require a small human confirmatory study, to ensure the animal results are representative of clinical benefit in the human population. Furthermore, the FDA responded positively to this small human study taking place in Australia.

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

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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Kazacos
Chairman

20 February 2019
Sydney

20 February 2019

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

Dear Board Members

Re: 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 review of the financial report of Allegra Orthopaedics Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

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

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 half-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 20 February 2019.

Allegra Orthopaedics Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018



		Consolidated	
	Note	31 Dec 2018	31 Dec 2017
		\$	\$
Revenue	3	1,829,072	2,357,418
Other income	4	575,195	270,092
Interest revenue calculated using the effective interest method		1,885	-
Expenses			
Cost of sales and purchases of consumables		(738,090)	(669,741)
Corporate and administration expenses		(864,001)	(909,894)
Quality and research and development expenses		(720,363)	(503,603)
Sales and marketing expenses		(564,563)	(736,107)
Finance costs		-	(6,222)
Loss before income tax expense		(480,865)	(198,057)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Allegra Orthopaedics Limited		(480,865)	(198,057)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Allegra Orthopaedics Limited		(480,865)	(198,057)
		Cents	Cents
Basic earnings per share	10	(0.48)	(0.22)
Diluted earnings per share	10	(0.48)	(0.22)

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

		Consolidated	
	Note	31 Dec 2018 \$	30 Jun 2018 \$
Assets			
Current assets			
Cash and cash equivalents		1,180,731	1,614,937
Trade and other receivables		743,493	1,149,025
Inventories		3,285,622	3,028,345
Prepayments		112,347	149,385
Total current assets		<u>5,322,193</u>	<u>5,941,692</u>
Non-current assets			
Property, plant and equipment	5	1,032,975	1,147,789
Intangibles		226,565	242,058
Security deposit		96,032	96,032
Total non-current assets		<u>1,355,572</u>	<u>1,485,879</u>
Total assets		<u>6,677,765</u>	<u>7,427,571</u>
Liabilities			
Current liabilities			
Trade and other payables		442,060	828,753
Contract liabilities - deferred income	6	117,069	-
Provisions		49,242	62,669
Total current liabilities		<u>608,371</u>	<u>891,422</u>
Non-current liabilities			
Provisions		58,331	55,417
Total non-current liabilities		<u>58,331</u>	<u>55,417</u>
Total liabilities		<u>666,702</u>	<u>946,839</u>
Net assets		<u>6,011,063</u>	<u>6,480,732</u>
Equity			
Issued capital	7	14,865,163	14,865,163
Share-based payments reserve		604,084	592,888
Accumulated losses		(9,458,184)	(8,977,319)
Total equity		<u>6,011,063</u>	<u>6,480,732</u>

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

Allegra Orthopaedics Limited
Statement of changes in equity
For the half-year ended 31 December 2018



Consolidated	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	12,348,455	580,280	(8,373,175)	4,555,560
Loss after income tax expense for the half-year	-	-	(198,057)	(198,057)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(198,057)	(198,057)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	2,544,538	-	-	2,544,538
Share-based payments	-	1,412	-	1,412
Balance at 31 December 2017	<u>14,892,993</u>	<u>581,692</u>	<u>(8,571,232)</u>	<u>6,903,453</u>
Consolidated	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	14,865,163	592,888	(8,977,319)	6,480,732
Loss after income tax expense for the half-year	-	-	(480,865)	(480,865)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(480,865)	(480,865)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	11,196	-	11,196
Balance at 31 December 2018	<u>14,865,163</u>	<u>604,084</u>	<u>(9,458,184)</u>	<u>6,011,063</u>

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

	Consolidated 31 Dec 2018 \$	31 Dec 2017 \$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	2,166,477	2,550,997
Payments to suppliers (inclusive of GST)	<u>(3,412,359)</u>	<u>(4,020,777)</u>
	(1,245,882)	(1,469,780)
Grants received	275,000	-
Interest received	2,310	4,720
Other revenue	7,662	3,136
Interest and other finance costs paid	(4,219)	(3,783)
Income taxes refunded relating to research and development	<u>545,209</u>	<u>277,834</u>
Net cash used in operating activities	<u>(419,920)</u>	<u>(1,187,873)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(14,286)	(903,067)
Proceeds from disposal of property, plant and equipment	<u>-</u>	<u>8,250</u>
Net cash used in investing activities	<u>(14,286)</u>	<u>(894,817)</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	2,511,590
Repayment of lease liabilities	<u>-</u>	<u>(25,364)</u>
Net cash from financing activities	<u>-</u>	<u>2,486,226</u>
Net increase/(decrease) in cash and cash equivalents	(434,206)	403,536
Cash and cash equivalents at the beginning of the financial half-year	<u>1,614,937</u>	<u>1,847,647</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>1,180,731</u></u>	<u><u>2,251,183</u></u>

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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 during the financial half-year ended 31 December 2018 and are not expected to have any significant impact for the full financial year ending 30 June 2019. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced 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 that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are 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 or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, 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). 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 use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using 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. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are 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. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Note 1. Significant accounting policies (continued)

Impact of adoption

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact on the adoption on opening retained profits as at 1 July 2018.

The impact of the new Accounting Standards compared with the previous Accounting Standards on the current reporting period is as follows:

	Currently reported \$	Previously reported \$	Change \$
Statement of profit or loss			
Revenue	1,829,072	1,830,957	(1,885)
Interest revenue calculated using the effective interest method	1,885	-	1,885
Statement of financial position			
Trade and other payables	442,060	559,129	(117,069)
Contract liabilities - deferred income	117,069	-	117,069

Changes to the significant accounting policies as a result of the new standards adopted since the Annual Report date are as follows.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

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

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

Sale of goods

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

Commission revenue

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

Grant revenue

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

Note 1. Significant accounting policies (continued)

Interest

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

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

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 of statement date.

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

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

Contract liabilities - deferred income

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

Comparatives

Certain expense comparatives in the statement of profit or loss have been reclassified to conform with current year disclosure. No change to profit or loss occurred as a result of the expense reclassifications.

These reclassifications are not as a result of AASB 9 and AASB 15 changes which were applied under the modified retrospective approach as discussed above.

Note 2. Operating segments

Identification of reportable operating segments

The consolidated entity is organised in two main operating segments namely the orthopaedics and the innovation division. Corporate costs which cannot be allocated to a segment are listed separately. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

Corporate costs have been separately disclosed during the half-year and better reflects the information the CODM uses. Accordingly, the comparative table has been restated for this change.

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.

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

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

Note 2. Operating segments (continued)

Types of products and services

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

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

Intersegment transactions

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

	Orthopaedics division \$	Innovation division \$	Corporate costs (unallocated) \$	Total \$
Consolidated - 31 Dec 2018				
Revenue				
Sale of goods	1,680,064	-	-	1,680,064
Commissions revenue	149,008	-	-	149,008
Total sales revenue	1,829,072	-	-	1,829,072
Government grants	-	282,931	-	282,931
Sundry income	4,600	-	-	4,600
Research and development tax offset	-	287,664	-	287,664
Total revenue	1,833,672	570,595	-	2,404,267
EBITDA				
Depreciation and amortisation	1,839	(138,923)	(201,073)	(338,157)
Interest revenue	(123,294)	(21,299)	-	(144,593)
	1,796	89	-	1,885
Loss before income tax expense	(119,659)	(160,133)	(201,073)	(480,865)
Income tax expense				-
Loss after income tax expense				(480,865)

Note 2. Operating segments (continued)

	Orthopaedics division \$	Innovation division \$	Corporate costs (unallocated) \$	Total \$
Consolidated - 31 Dec 2017				
Revenue				
Sale of goods	2,125,658	-	-	2,125,658
Commissions revenue	227,861	-	-	227,861
Total sales revenue	2,353,519	-	-	2,353,519
Sundry income	4,594	-	-	4,594
Research and development tax offset	-	265,498	-	265,498
Total revenue	2,358,113	265,498	-	2,623,611
EBITDA				
Depreciation and amortisation	294,889	(195,771)	(141,579)	(42,461)
Interest revenue	(147,554)	(5,719)	-	(153,273)
Finance costs	3,899	-	-	3,899
	(6,222)	-	-	(6,222)
Profit/(loss) before income tax expense	145,012	(201,490)	(141,579)	(198,057)
Income tax expense				-
Loss after income tax expense				(198,057)

Note 3. Revenue

	Consolidated	
	31 Dec 2018	31 Dec 2017
	\$	\$
<i>Sales revenue</i>		
Sale of goods	1,680,064	2,125,658
Commissions revenue	149,008	227,861
	<u>1,829,072</u>	<u>2,353,519</u>
<i>Other revenue</i>		
Interest	-	3,899
Revenue	<u>1,829,072</u>	<u>2,357,418</u>

As a result of the changes to AASB 9 'Financial Instruments' as disclosed in note 1, interest is now disclosed on the face of the statement of profit or loss. The modified retrospective approach was used in the current period meaning comparatives have not been reclassified to the new standard.

Disaggregation of revenue

The disaggregation of revenue is as follows:

	Consolidated	
	31 Dec 2018	31 Dec 2017
	\$	\$
<i>Major product lines</i>		
Government	515,072	525,964
Non-government	1,314,000	1,827,555
	<u>1,829,072</u>	<u>2,353,519</u>
<i>Geographical regions</i>		
Australia	<u>1,829,072</u>	<u>2,353,519</u>

Note 4. Other income

	Consolidated	
	31 Dec 2018	31 Dec 2017
	\$	\$
Government grants	282,931	-
Sundry income	4,600	4,594
Research and development tax offset	287,664	265,498
	<u>575,195</u>	<u>270,092</u>

Note 5. Non-current assets - property, plant and equipment

	Consolidated	
	31 Dec 2018	30 Jun 2018
	\$	\$
Plant and equipment - at cost	576,244	567,393
Less: Accumulated depreciation	(465,855)	(441,544)
	<u>110,389</u>	<u>125,849</u>
Fixtures and fittings - at cost	1,177,422	1,174,901
Less: Accumulated depreciation	(1,153,344)	(1,146,841)
	<u>24,078</u>	<u>28,060</u>
Leasehold improvements - at cost	59,870	59,870
Less: Accumulated depreciation	(28,302)	(26,079)
	<u>31,568</u>	<u>33,791</u>
Instrument sets - at cost	3,584,819	3,581,905
Less: Accumulated depreciation	(2,717,879)	(2,621,816)
	<u>866,940</u>	<u>960,089</u>
	<u>1,032,975</u>	<u>1,147,789</u>

Reconciliations

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

Consolidated	Plant and equipment \$	Fixtures and fittings \$	Leasehold improvements \$	Instrument sets \$	Total \$
Balance at 1 July 2018	125,849	28,060	33,791	960,089	1,147,789
Additions	8,851	2,521	-	2,914	14,286
Depreciation expense	(24,311)	(6,503)	(2,223)	(96,063)	(129,100)
Balance at 31 December 2018	<u>110,389</u>	<u>24,078</u>	<u>31,568</u>	<u>866,940</u>	<u>1,032,975</u>

Note 6. Current liabilities - contract liabilities - deferred income

	Consolidated	
	31 Dec 2018	30 Jun 2018
	\$	\$
Contract liabilities - deferred income	117,069	-
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial half-year are set out below:		
Opening balance	-	-
Transfer from deferred income on adoption of AASB 15	150,000	-
Payments received in advance	250,000	-
Transfer to revenue - other balances	(282,931)	-
Closing balance	117,069	-

As a result of the changes to AASB 15 'Revenue from Contracts with Customers' as disclosed in note 1, contract liabilities are now disclosed separately on the face of the statement of financial position. The modified retrospective approach was used in the current period meaning comparatives have not been reclassified to the new standard.

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$117,069 as at 31 December 2018 (\$nil as at 30 June 2018) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	31 Dec 2018	30 Jun 2018
	\$	\$
Within 6 months	117,069	-

Note 7. Equity - issued capital

	Consolidated			
	31 Dec 2018	30 Jun 2018	31 Dec 2018	30 Jun 2018
	Shares	Shares	\$	\$
Ordinary shares - fully paid	99,559,052	99,559,052	14,865,163	14,865,163

Note 8. Equity - dividends

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

Note 9. Contingent liabilities

The consolidated entity has a bank guarantee totalling \$96,032 at 31 December 2018 (30 June 2018: \$96,032) in relation to support office rental commitments.

Note 10. Earnings per share

	Consolidated	
	31 Dec 2018	31 Dec 2017
	\$	\$
Loss after income tax attributable to the owners of Allegra Orthopaedics Limited	<u>(480,865)</u>	<u>(198,057)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>99,559,052</u>	<u>89,231,123</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>99,559,052</u>	<u>89,231,123</u>
	Cents	Cents
Basic earnings per share	(0.48)	(0.22)
Diluted earnings per share	(0.48)	(0.22)

Options have been excluded from the above calculation of diluted earnings per share as their inclusion would be anti-dilutive.

Note 11. Events after the reporting period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Kazacos
Chairman

20 February 2019
Sydney

Independent Auditor's Review Report to the members of Allegra Orthopaedics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Allegra Orthopaedics Limited and its controlled entities (the consolidated entity) which comprises the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 31 December 2018 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Allegra Orthopaedics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the half-year financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Allegra Orthopaedics Limited is not in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: *Interim Financial Reporting and the Corporations Regulations 2001*.

Crowe Horwath Sydney

Crowe Horwath Sydney

John Haydon

John Haydon
Senior Partner

Dated this 20th day of February 2019