

1. Company details

Name of entity:	Allegra Orthopaedics Limited
ABN:	71 066 281 132
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2. Results for announcement to the market

The Group has adopted Accounting Standard AASB 16 'Leases' for the half-year ended 31 December 2019 using the modified retrospective approach and as such the comparatives have not been restated.

			\$
Revenues from ordinary activities	up	26.3% to	2,309,509
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	72.2% to	(582,293)
Loss from ordinary activities after tax attributable to the owners of Allegra Orthopaedics Limited	up	70.0% to	(817,314)
Loss for the half-year attributable to the owners of Allegra Orthopaedics Limited	up	70.0% to	(817,314)

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 \$817,314 (31 December 2018: \$480,865).

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 medical devices to take to market. Corporate costs are excluded from these segments and are reported on separately.

The implementation of AASB 16 'Leases' had an immaterial impact on the current period. The current profit before income tax expense was reduced by \$3,823 which included an increased depreciation and amortisation expense of \$76,298, increased finance costs of \$5,896, offset by a reduction in rental expenses (reclassification of lease expenses) of \$78,371. As at 31 December 2019, net current assets were reduced by \$152,528 (attributable to current lease liabilities) and net assets were reduced by \$3,823 (attributable to right-of-use assets and lease liabilities).

The earnings before interest, tax, depreciation and amortisation ('EBITDA') was a loss of \$582,293 (31 December 2018: \$338,157).

The Orthopaedics Division generated an EBITDA of \$623,334 (31 December 2018: \$1,839). This is primarily due to a 26% year-on-year increase in revenues from the consolidated entity's Orthopaedics business unit. Allegra's continuing investment in research and product development activities within the Innovation Division has resulted in an EBITDA loss for this Division of \$1,005,792 (31 December 2018: \$138,923). The increased expenditure in the Innovation Division is attributable primarily to the significant expenditure incurred to perform the preclinical large animal study (refer ASX announcement: 15 November 2019). Total Corporate overhead costs not allocated to either Division were \$199,834 (31 December 2018: \$201,073).

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 2019	31 Dec 2018
	\$	\$
Loss after income tax	(817,314)	(480,865)
Add: Depreciation and amortisation	230,682	144,593
Add: Finance cost	5,896	-
Less: Interest income	(1,557)	(1,885)
EBITDA	<u>(582,293)</u>	<u>(338,157)</u>

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

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

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>4.47</u>	<u>5.48</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 2019 is attached.

11. Signed



Signed _____

Date: 20 February 2020

Peter Kazacos
Chairman
Sydney

Allegra Orthopaedics Limited

ABN 71 066 281 132

Interim Report - 31 December 2019

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 2019.

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 \$817,314 (31 December 2018: \$480,865).

Revenue

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

	31 Dec 2019 \$	31 Dec 2018 \$	Change \$	Change %
Sale of goods	2,264,022	1,680,064	583,958	35%
Commissions revenue	45,487	149,008	(103,521)	(69%)

Revenues from 'sales of goods' increased 35% year-on-year. Factors attributable to this revenue increase are primarily a 156% revenue growth of the consolidated entity's product range from Waldermar Link GmbH. In addition, there was a 19% revenue growth of the consolidated entity's primary knee systems, as well as 10% revenue growth of the clavicle fracture system.

'Commission revenue' earned by the consolidated entity declined year on year due to the departure of one particular vendor.

Other income

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

	31 Dec 2019 \$	31 Dec 2018 \$	Change \$	Change %
Other income	710,699	575,195	135,504	24%

'Other income' increased by 24% year on year, mainly due to an increase on the R&D tax incentive resulted from higher R&D spending in the six months to 31 December 2019. Revenue recognised from Grants awarded to the consolidated entity totalling of \$204,313 in the six months to 31 December 2019 (31 December 2018: \$282,931).

Expenses

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

	31 Dec 2019 \$	31 Dec 2018 \$	Change \$	Change %
Cost of sales and purchases of consumables	793,536	738,090	55,446	8%
Corporate and administration expenses	851,316	864,001	(12,685)	(1%)
Quality and research and development expenses	1,726,505	720,363	1,006,142	140%
Sales and marketing expenses	461,826	564,563	(102,737)	(18%)
Finance costs	5,896	-	5,896	-

Cost of sales and purchases of consumables has increased by 8% 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 \$54,000 due to inventory reaching its expiry date (31 December 2018: \$136,948).

'Corporate and administration expenses' decreased by 1% year on year, reflecting a decrease in IT costs and office consumable costs.

'Quality and research and development expenses' are \$1,006,143 higher when compared with the previous period ending 31 December 2018. This reflects the on-going product development cost associated with the Spinal Fusion Cage Device and in particular the significant investment in the preclinical large animal study. The increase in expenditure is supported by funding from the MTP Grant and the NHMRC Grant awarded to the consolidated entity (refer ASX release on 18 April 2018 and 23 December 2019).

'Sales and marketing expenses' are \$102,738 lower year on year mainly due to lower sales commission paid to sales agents and a reduction in salary costs.

Earnings before interest, tax, depreciation and amortisation ('EBITDA')

The earnings before interest, tax, depreciation and amortisation ('EBITDA') was a loss of \$582,293 (31 December 2018: \$338,157).

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

	Consolidated	
	31 Dec 2019 \$	31 Dec 2018 \$
Loss after income tax	(817,314)	(480,865)
Add: Depreciation and amortisation	230,682	144,593
Add: Finance cost	5,896	-
Less: Interest income	(1,557)	(1,885)
EBITDA	<u>(582,293)</u>	<u>(338,157)</u>

Significant changes in the state of affairs

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

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

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 2020
Sydney

20 February 2020

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

Dear Board Members

Allegra Orthopaedics Limited

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

As lead audit partner for the review of the financial report of Allegra Orthopaedics Limited for the half-year ended 31 December 2019, 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 review.

Yours sincerely

Crowe Sydney



JOHN HAYDON
Senior Partner

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

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

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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 2020.

Allegra Orthopaedics Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019



		Consolidated	
	Note	31 Dec 2019	31 Dec 2018
		\$	\$
Revenue	3	2,309,509	1,829,072
Other income	4	710,699	575,195
Interest revenue calculated using the effective interest method		1,557	1,885
Expenses			
Cost of sales and purchases of consumables		(793,536)	(738,090)
Corporate and administration expenses		(851,316)	(864,001)
Quality and research and development expenses		(1,726,505)	(720,363)
Sales and marketing expenses		(461,826)	(564,563)
Finance costs		(5,896)	-
Loss before income tax expense		(817,314)	(480,865)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Allegra Orthopaedics Limited		(817,314)	(480,865)
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		(817,314)	(480,865)
		Cents	Cents
Basic earnings per share	12	(0.82)	(0.48)
Diluted earnings per share	12	(0.82)	(0.48)

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

		Consolidated	
	Note	31 Dec 2019	30 Jun 2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		287,878	1,076,425
Trade and other receivables		1,867,712	1,163,575
Inventories		3,171,033	3,125,923
Prepayments		131,109	139,796
Total current assets		<u>5,457,732</u>	<u>5,505,719</u>
Non-current assets			
Property, plant and equipment	5	972,216	974,195
Right-of-use assets	6	228,893	-
Intangibles	7	195,252	211,022
Security deposit		104,443	102,120
Total non-current assets		<u>1,500,804</u>	<u>1,287,337</u>
Total assets		<u>6,958,536</u>	<u>6,793,056</u>
Liabilities			
Current liabilities			
Trade and other payables		1,007,050	822,855
Contract liabilities - deferred income	8	721,331	105,143
Borrowings		-	84,399
Lease liabilities		152,528	-
Employee benefits		58,604	51,901
Total current liabilities		<u>1,939,513</u>	<u>1,064,298</u>
Non-current liabilities			
Lease liabilities		80,188	-
Employee benefits		56,712	51,142
Provisions		10,000	10,000
Total non-current liabilities		<u>146,900</u>	<u>61,142</u>
Total liabilities		<u>2,086,413</u>	<u>1,125,440</u>
Net assets		<u>4,872,123</u>	<u>5,667,616</u>
Equity			
Issued capital	9	14,875,788	14,865,163
Share-based payments reserve		626,476	615,280
Accumulated losses		<u>(10,630,141)</u>	<u>(9,812,827)</u>
Total equity		<u>4,872,123</u>	<u>5,667,616</u>

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

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>
Consolidated	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019	14,865,163	615,280	(9,812,827)	5,667,616
Loss after income tax expense for the half-year	-	-	(817,314)	(817,314)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(817,314)	(817,314)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	11,196	-	11,196
Monies received from sale of previously issued shares to foreign investors deemed ineligible to hold shares (sale at a premium)	10,625	-	-	10,625
Balance at 31 December 2019	<u>14,875,788</u>	<u>626,476</u>	<u>(10,630,141)</u>	<u>4,872,123</u>

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

Allegra Orthopaedics Limited
Statement of cash flows
For the half-year ended 31 December 2019



	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	2,489,542	2,166,477
Payments to suppliers and employees (inclusive of GST)	(3,823,619)	(3,412,359)
	(1,334,077)	(1,245,882)
Other revenue	339	7,662
Interest received	304	2,310
Interest and other finance costs paid	(4,744)	(4,219)
Income taxes refunded relating to research and development	541,685	545,209
Net cash used in operating activities	(796,493)	(694,920)
Cash flows from investing activities		
Payments for property, plant and equipment	(112,679)	(14,286)
Net cash used in investing activities	(112,679)	(14,286)
Cash flows from financing activities		
Proceeds from issue of shares	10,625	-
Grant received	110,000	275,000
Net cash from financing activities	120,625	275,000
Net decrease in cash and cash equivalents	(788,547)	(434,206)
Cash and cash equivalents at the beginning of the financial half-year	1,076,425	1,614,937
Cash and cash equivalents at the end of the financial half-year	<u>287,878</u>	<u>1,180,731</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 2019 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 2019 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 2019 and are not expected to have any significant impact for the full financial year ending 30 June 2020. 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 16 Leases

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

The adoption of the new accounting standard AASB 16 starting 1 July 2019 resulted in the inclusion of a lease liability and a right of use asset on its balance sheet for future reporting periods. This change gives a more accurate representation of the consolidated entity's financial position by fully reflecting all its liability commitments and provides more useful information in financial reporting for investors and shareholders. The consolidated entity will have a lease liability of \$158,595 at 30 June 2020 and \$0 lease liability for the year ending 30 June 2021. The lease liabilities will be higher in future years as the company is expected to enter into new leases when the current leases expire with likely terms of five years. The total value of the expected right-of-use asset recognised in the reporting period is \$305,191. The new accounting standard AASB 16 also requires the consolidated entity to reflect its lease payments as depreciation expenses and interest expenses, rather than an operating rental expense. The consolidated entity will have \$152,594 right-of-use asset depreciation for both 30 June 2020 and 30 June 2021 financial years, in addition interest expense of \$10,147 and \$3,285 respectively. This change will not have material effect to the consolidated entity's future financials. The change will cause an increase in one of the management metrics such as EBITDA. The transition from the current accounting standard to the new accounting standard AASB 16 requires the consolidated entity to make new estimates and judgements based on current lease agreements and lease data. Therefore, ongoing monitoring of the changes to future lease terms and regular review of the current lease terms will also be required.

Note 1. Significant accounting policies (continued)

Impact of adoption

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

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

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

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

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

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

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

Lease liabilities (from 1 July 2019)

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

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

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.

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, antimicrobial properties, the capacity to be reabsorbed and the ability to be 3D printed.
Corporate costs (unallocated)	Relates to the corporate running costs of the 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.

Note 2. Operating segments (continued)

	<i>Orthopaedics division</i> \$	<i>Innovation division</i> \$	<i>Corporate costs (unallocated)</i> \$	<i>Total</i> \$
Consolidated - 31 Dec 2019				
Revenue				
Sale of goods	2,264,022	-	-	2,264,022
Commissions revenue	45,487	-	-	45,487
Total sales revenue	2,309,509	-	-	2,309,509
Government grants	-	204,313	-	204,313
Sundry income	14,571	65,500	-	80,071
Research and development tax offset	-	426,315	-	426,315
Total revenue	2,324,080	696,128	-	3,020,208
EBITDA	623,334	(1,005,792)	(199,835)	(582,293)
Depreciation and amortisation	(199,919)	(30,763)	-	(230,682)
Interest revenue	1,557	-	-	1,557
Finance costs	(5,896)	-	-	(5,896)
Profit/(loss) before income tax expense	419,076	(1,036,555)	(199,835)	(817,314)
Income tax expense				-
Loss after income tax expense				(817,314)
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	1,839	(138,923)	(201,073)	(338,157)
Depreciation and amortisation	(123,294)	(21,299)	-	(144,593)
Interest revenue	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 3. Revenue

	Consolidated 31 Dec 2019 \$	31 Dec 2018 \$
Sale of goods	2,264,022	1,680,064
Commissions revenue	45,487	149,008
Revenue	2,309,509	1,829,072

Note 3. Revenue (continued)

Disaggregation of revenue

The disaggregation of revenue is as follows:

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
<i>Major product lines</i>		
Government	826,468	515,072
Non-government	1,483,041	1,314,000
	<u>2,309,509</u>	<u>1,829,072</u>
<i>Geographical regions</i>		
Australia	2,274,343	1,829,072
New Zealand	35,166	-
	<u>2,309,509</u>	<u>1,829,072</u>

Note 4. Other income

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
Government grants	204,313	282,931
Sundry income	80,071	4,600
Research and development tax offset	426,315	287,664
Other income	<u>710,699</u>	<u>575,195</u>

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

	Consolidated	
	31 Dec 2019	30 Jun 2019
	\$	\$
Plant and equipment - at cost	719,104	617,415
Less: Accumulated depreciation	(494,862)	(468,061)
	<u>224,242</u>	<u>149,354</u>
Fixtures and fittings - at cost	1,182,373	1,182,373
Less: Accumulated depreciation	(1,165,715)	(1,160,119)
	<u>16,658</u>	<u>22,254</u>
Leasehold improvements - at cost	65,561	65,561
Less: Accumulated depreciation	(62,101)	(54,610)
	<u>3,460</u>	<u>10,951</u>
Instrument sets - at cost	3,637,968	3,603,023
Less: Accumulated depreciation	(2,910,112)	(2,811,387)
	<u>727,856</u>	<u>791,636</u>
	<u>972,216</u>	<u>974,195</u>

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

Reconciliations

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

Consolidated	<i>Plant and equipment</i> \$	<i>Fixtures and fittings</i> \$	<i>Leasehold improvements</i> \$	<i>Instrument sets</i> \$	<i>Total</i> \$
Balance at 1 July 2019	149,354	22,254	10,951	791,636	974,195
Additions	101,690	-	-	34,945	136,635
Depreciation expense	(26,802)	(5,596)	(7,491)	(98,725)	(138,614)
Balance at 31 December 2019	<u>224,242</u>	<u>16,658</u>	<u>3,460</u>	<u>727,856</u>	<u>972,216</u>

Note 6. Non-current assets - right-of-use assets

	Consolidated 31 Dec 2019 \$	30 Jun 2019 \$
Land and buildings - right-of-use	305,191	-
Less: Accumulated depreciation	(76,298)	-
	<u>228,893</u>	<u>-</u>

Reconciliations

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

Consolidated	<i>Land and buildings</i> \$
Balance at 1 July 2019	-
Transfers in on adoption of AASB 16	305,191
Depreciation expense	(76,298)
Balance at 31 December 2019	<u>228,893</u>

Note 7. Non-current assets - intangibles

	Consolidated 31 Dec 2019 \$	30 Jun 2019 \$
Website - at cost	18,200	18,200
Less: Accumulated amortisation	(5,161)	(3,331)
	<u>13,039</u>	<u>14,869</u>
Patents and trademarks - at cost	669,220	669,220
Less: Accumulated amortisation	(535,146)	(531,038)
	<u>134,074</u>	<u>138,182</u>
New product line set-up costs - at cost	102,695	102,695
Less: Accumulated amortisation	(54,556)	(44,724)
	<u>48,139</u>	<u>57,971</u>
	<u>195,252</u>	<u>211,022</u>

Note 7. Non-current assets - intangibles (continued)

Reconciliations

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

Consolidated	<i>Website</i> \$	<i>Patents and trademarks</i> \$	<i>New product line set-up costs</i> \$	<i>Total</i> \$
Balance at 1 July 2019	14,869	138,182	57,971	211,022
Amortisation expense	(1,830)	(4,108)	(9,832)	(15,770)
Balance at 31 December 2019	<u>13,039</u>	<u>134,074</u>	<u>48,139</u>	<u>195,252</u>

Note 8. Current liabilities - contract liabilities - deferred income

	Consolidated 31 Dec 2019 \$	30 Jun 2019 \$
Contract liabilities - deferred income	<u>721,331</u>	<u>105,143</u>

Reconciliation

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	105,143	-
Transfer from deferred income on adoption of AASB 15	-	150,000
Service agreement contract	786,000	-
Payments received in advance	100,000	550,000
Transfer to revenue - other balances	(269,813)	(594,857)
Closing balance	<u>721,330</u>	<u>105,143</u>

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 \$721,331 as at 31 December 2019 (\$105,143 as at 30 June 2019) and is expected to be recognised as revenue in future periods as follows:

	Consolidated 31 Dec 2019 \$	30 Jun 2019 \$
Within 6 months	393,831	105,143
Within 6 to 12 months	<u>327,500</u>	<u>-</u>
	<u>721,331</u>	<u>105,143</u>

Note 9. Equity - issued capital

	31 Dec 2019 Shares	30 Jun 2019 Shares	Consolidated 31 Dec 2019 \$	30 Jun 2019 \$
Ordinary shares - fully paid	<u>99,559,052</u>	<u>99,559,052</u>	<u>14,875,788</u>	<u>14,865,163</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2019	99,559,052		14,865,163
Monies received from sale of previously issued shares to foreign investors deemed ineligible to hold shares (sale at a premium)	31 July 2019	-	\$0.125	10,625
Balance	31 December 2019	<u>99,559,052</u>		<u>14,875,788</u>

Note 10. Equity - dividends

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

Note 11. Contingent liabilities

The consolidated entity has a bank guarantee totalling \$99,024 at 31 December 2019 (30 June 2019: \$99,024) in relation to support office rental commitments.

In March 2019, the company was notified that legal action is being brought against it by an Allegra Active Knee user. The company considers the action to be largely unsubstantiated and will defend its position and it is currently with the company's insurers. At 31 December 2019, the company has accrued \$20,000 for legal costs in respect of this action.

Note 12. Earnings per share

	Consolidated 31 Dec 2019 \$	31 Dec 2018 \$
Loss after income tax attributable to the owners of Allegra Orthopaedics Limited	<u>(817,314)</u>	<u>(480,865)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>99,559,052</u>	<u>99,559,052</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>99,559,052</u>	<u>99,559,052</u>
	Cents	Cents
Basic earnings per share	(0.82)	(0.48)
Diluted earnings per share	(0.82)	(0.48)

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

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2019 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 2019 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 2020
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 (the Company), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, and notes to the financial statements, including a summary of significant accounting policies, 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 and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and 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 a 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 half-year 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 2019 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

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

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Orthopaedics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual 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 other 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Allegra Orthopaedics Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Crowe Sydney



JOHN HAYDON

Senior Partner

Dated at Sydney this 20th day of February 2020