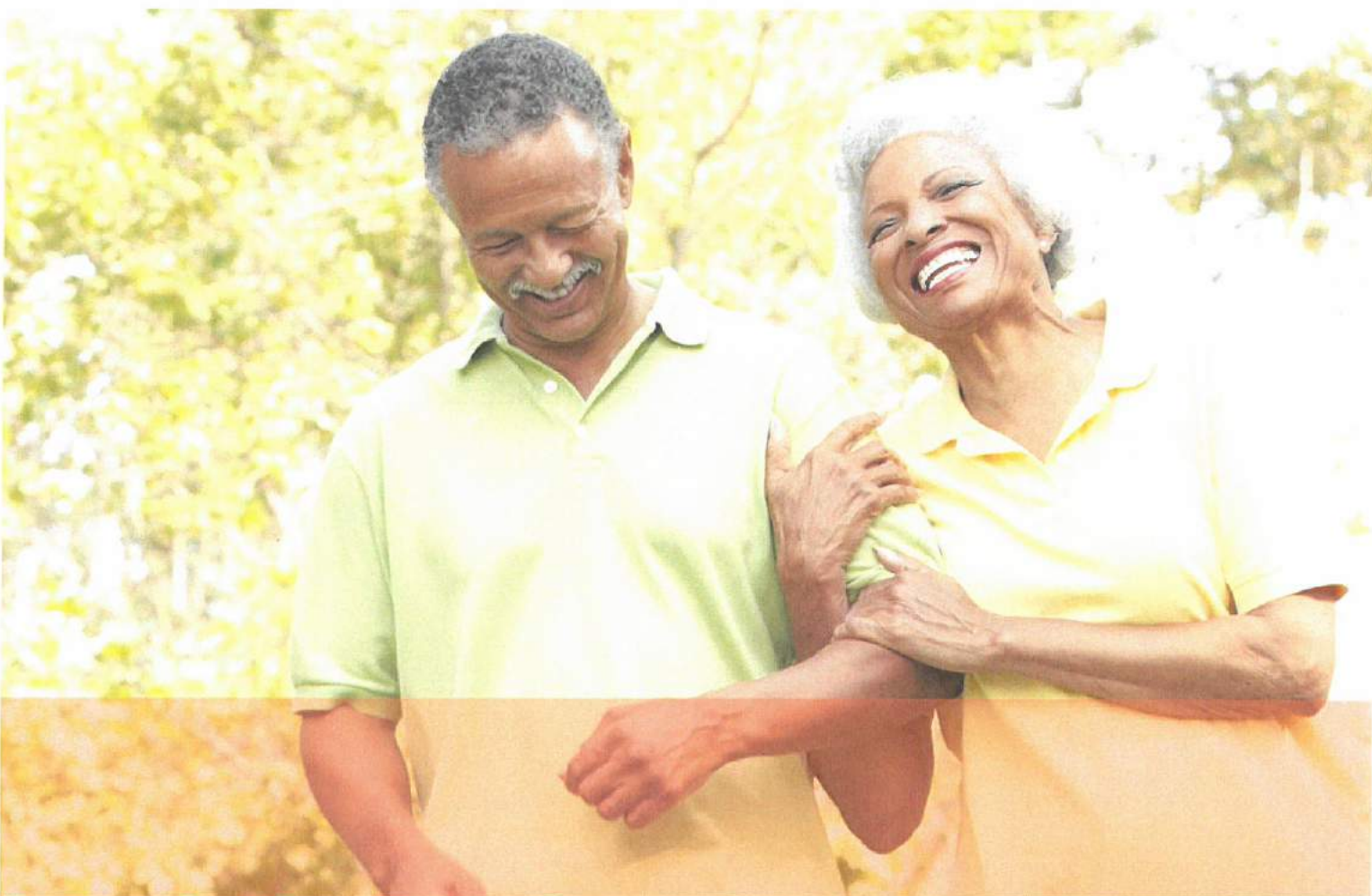


AROA BIOSURGERY LIMITED
ANNUAL REPORT
31 MARCH 2019



CONTENTS

CONTENTS	1
HIGHLIGHTS	3
CHAIRMAN'S REPORT	4
CEO'S REPORT	5
FINANCIAL COMMENTARY	6
DIRECTORS' RESPONSIBILITY STATEMENT	9
OUR BOARD OF DIRECTORS	10
OUR SENIOR LEADERSHIP TEAM	12
FINANCIAL STATEMENTS	13
<i>INDEPENDENT AUDITOR'S REPORT</i>	14
<i>CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME</i>	16
<i>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</i>	17
<i>CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY</i>	18
<i>CONSOLIDATED STATEMENT OF CASH FLOWS</i>	19
<i>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</i>	20
CORPORATE GOVERNANCE AND STATUTORY INFORMATION	44

HIGHLIGHTS

REVENUE

NZ\$24.2 million ↑118%

Revenue 2016 to 2019 (\$m)



EBITDA

NZ\$2.8m

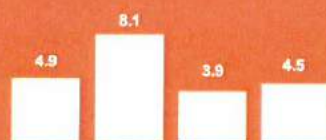
EBITDA 2016 to 2019 (\$m)



CASH & TERM DEPOSITS

NZ\$4.5 million

Cash & term deposits (\$m)



RESEARCH & DEVELOPMENT

NZ\$4.6 million 19% OF REVENUE

Research & Development 2016 to 2019 (\$m)



EMPLOYEES

**110 FTE 45% FEMALE
20+ NATIONALITIES**

of FTEs 2016 to 2019



+ NEW PRODUCTS

Endoform® Antimicrobial wound care products launched in Q1

Ovitex™ large format surgical devices launched in Q3

Restella™ plastics reconstruction devices launched in Q4

+ NEW MARKETS

Sales and distribution channels established for Endoform® products in Canada, Germany, Austria, Thailand, Jordan and India

Ovitex™ products launched in Europe

+ REGULATORY SUBMISSIONS

Multiple submissions for Endoform® portfolio, supporting the expansion of global sales channels

Ovitex™ large format submission in Europe

Myriad™ plastics reconstruction product in Europe

Symphony™ skin substitute product in USA

+ PRODUCT PIPELINE

Product pipeline advanced, with several new product launches planned for FY2020

+ MARKET ACCESS

Endoform® Antimicrobial approval in Canada

Endoform® Natural approval in Brazil

Ovitex™ large format and Restella™ plastics reconstruction products approval in USA

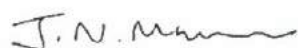
CHAIRMAN'S REPORT

As is to be expected in rapidly growing companies like ours, each year in the life of Aroa Biosurgery ("Aroa") brings rapid change. The year ended 31 March 2019 is no different. This is the first year of operations since re-acquiring the wound care distribution rights from Hollister Incorporated ("Hollister"). Managing our own sales and distribution in the US through Appulse, the joint operation we have with Hydrofera LLC, is a critical strategic decision. It brings the ability to be closer to patients, our ultimate customers, to be able to manage the introduction of new products and to capture greater margin.

We don't underestimate the challenge of this strategic change. Accordingly, a great deal of effort has been, and will continue to be, directed at getting this right. The transition from Hollister to Appulse has gone well. CEO, Brian Ward describes progress with Appulse in his report below.

Total revenue for the year is \$24 million compared to \$11 million in 2018 reflecting the change in structure and some growth. Aroa now has 5 products in the market following the launches of Endoform Antimicrobial, Restella and Myriad. Each device comes in a variety of sizes with almost 100 stock units now being manufactured. The consequent growth and added complexity of our business has been well managed by the development of key people in all parts of the business. Last year I referred to how well many people have grown into their jobs as Aroa has developed. We are now seeing greater depth of capability from these people and from new hires. I am confident Aroa has the people throughout the company who can continue to secure its future.

Accordingly, we are in good shape and have a committed team able to capture the many opportunities in front of us and continue the successful development of Aroa.



Jim McLean – Chairman

CEO'S REPORT

Aroa is now quite a different business after integrating the Hollister wound business and initiating direct sales in the US. We have a new relationship with Hydrofera, our joint operation partner, a shared sales team based right across the US, distribution in Connecticut and marketing and back office support for sales operations and administration in NZ. Twelve months ago, these functions were not part of our business model and now we operate a more typical vertically integrated medical device business.

We began selling 1 June 2018 as planned, with most of our sales team making the move from Hollister to Appulse, our shared direct sales force. Initial uncertainty within the salesforce, competitors creating doubt about the future of Endoform, realigning territories, voids in sales data, and vacant territories all conspired to impact sales despite our best efforts. We lost ground during the transition period with sales down 10% but we believe this setback is temporary. After initially starting with fewer feet on the ground we have scaled up to 24 Wound Care Specialists and total team of 30. We've also embarked on new marketing activities to drive increased awareness and improve our reach. We expect the results to show in the next six months.

Endoform Antimicrobial was launched in June 2018 and has achieved good early sales despite the requirement for lengthy clinical evaluations which are the ticket to entry into hospital procurement processes. Sales were close to \$400,000 at year end, and while they were short of our forecasts, the volumes say more about the time lag for clinical evaluations than acceptance by the clinicians.

We are on track with Appulse to undertake a limited launch of Myriad mid-2019 for soft tissue repair and reconstruction. We are targeting inpatient soft tissue reconstruction procedures which are predominantly undertaken by plastic and general surgeons. The Wound Care Specialists that are experienced in selling surgical products will lead this initial phase with a full rollout to the wider team expected early next year.

Looking back, the last 12 months has been transformational. We now have direct contact with our clinicians and we are much closer to patients. This brings benefits in terms of relationships and clinical insights. For employees, it is very rewarding to see the differences that our products are making for patients every day with debilitating wounds and injuries.

Our rationale for creating Appulse remains as strong as ever. We are in control of a solid base of business and we are now able to build on this position in the United States. Our strategy has always been to have full control over at least one part of the business and capture more value as we evolve and commercialise future pipeline products. We have a cemented a strong working relationship with Hydrofera, our joint operation partner, and this collaboration continues to be invaluable.

Tela's OviTex sales continue to improve and they exceeded US\$1M per month in the last quarter of this 2019, Clinical outcomes show very low levels of recurrence in complex hernias compared to the market leading products which bodes well for an inflexion in future sales.

With the FDA providing clearances for larger formats of Ovitex in January 2019 and Restella for breast reconstruction in April 2019 we have more opportunities for sales growth. Surgeons have been asking for a large format Ovitex for morbidly obese patients and we can now offer a 150% surface area increase. The early implantations for Restella are underway and we expect interim outcomes to be reported towards the end of 2019.

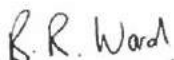
Taking our wound care and surgical businesses together we are now starting to reach a critical scale. With total sales at \$24.2M, product sales at \$18.8M and EBITDA at \$2.9M our financials are beginning to reflect the effort that has been put into development over the previous years.

Our product pipeline is particularly strong. We have a submission with the FDA for regulatory clearance for "Symphony", a next generation skin substitute for complex wounds. And we are well advanced in developing and testing a novel device for 'active dead-space management' which combines our expertise in implantable soft tissue devices with new capabilities in hardware development, mechanical, electrical and software engineering. Clinical feedback on this product from Key Opinion Leaders is very encouraging and we see strong potential to drive considerable future growth in plastics, general surgery and beyond.

The operations and quality groups continue to ensure manufacturing runs smoothly and at the same time they have moved new products into production, made process improvements and delivered cost reductions. This area of our business continues to become more mature and resilient. At the beginning of the year they were called on to quickly transition the Hollister wound care products to Aroa's own branding. They responded by meeting very tight timelines to ensure that Aroa's name was quickly in the market. At the same time, they stepped up to deliver the new Ovitex and Restella products which are considerably more complex than the products we have previously manufactured. And amongst this we were successful with our second MDSAP audit from DEKRA, our notified body which simplifies our approach to ensuring regulatory compliance in our major markets.

Overall, we continue to make strong progress across many fronts. With the foundation that we now have in place, we are well positioned for growth and expansion.

In conclusion I'd like to thank to our Directors, employees and shareholders for their contributions and support during a period of significant change over the last year.



Brian Ward - CEO

FINANCIAL COMMENTARY

NORMALISED INCOME STATEMENT

The following Income Statement is non-conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the Group's comparative financial performance without any distortion from NZ GAAP accounting treatment specific to the reacquisition of the Wound Care business and the impact of foreign currency movements on deferred consideration. This approach is used by management and the Board assess the Group's comparative financial performance.

	2019 NZ\$000	2018 NZ\$000
Revenue	24,189	11,100
Direct cost of sales	(3,388)	(2,446)
Gross margin before indirect cost of sales	20,801	8,654
Indirect cost of sales	(3,614)	(3,184)
Gross profit	17,187	5,470
Gross profit %	71.0%	49.3%
Other income*	13	109
Selling and administrative expenses*	(10,696)	(3,897)
Research and development	(4,643)	(3,353)
Total operating expenses	(16,500)	(7,250)
EBIT	1,861	(1,671)
Add back: Depreciation & Amortisation*	899	734
EBITDA	2,760	(937)
Finance income	3	156
Finance expenses*	(16)	(69)
Normalised Profit (Loss) before income tax	1,848	(1,584)

*These items have been normalised by the amounts outlined within the 'Reconciliation to NZ GAAP Income Statement' below.

Revenue

Operating revenue of \$24.2m was made up of Sales of products \$18.8m (up 111%), Royalties of \$3.7m, Project Fees of \$0.8m and Grant Income of \$0.9m. Wound Care product sales increased by 142% as a result of the re-acquisition of the Marketing and Distribution rights from Hollister Incorporated ("Hollister"). Surgical product sales increased by 91%.

Gross profit

Gross profit % of 71% increased by 21.7% as a result of the increase in margins for the Wound Care business, increasing surgical sales and increased utilisation of fixed indirect costs.

Normalised Operating expenses

Operating expenses of \$16.5m increased 128%, primarily driven by Selling Expenses of \$5.4m attributable to the re-acquired Wound Care business. Research and development expenses increased by \$1.3m.

Depreciation

Depreciation expense is included within 'Indirect cost of sales' (\$458,000), 'Selling and administrative expenses' (\$118,000) and Research and development (\$281,000).

FINANCIAL COMMENTARY

(Continued)

RECONCILIATION TO NZ GAAP INCOME STATEMENT

	2019 NZ\$000	2018 NZ\$000
Normalised Profit (Loss) before income tax	1,848	(1,584)
Other income	176	-
Amortisation of intangible assets (wound care business)	(1,161)	-
Interest expense – deferred consideration	(2,567)	-
Foreign currency losses on deferred consideration	(1,343)	-
Loss before income tax (NZ GAAP)	(3,047)	(1,584)

Other income

Operating income includes an amount of \$176,000 under NZ GAAP for the gain realised on settlement of the pre-existing Marketing and Distribution Agreement with Hollister Inc.

Amortisation

Under NZ GAAP, a valuation of the assets acquired within the Wound Care business was undertaken. This valuation attributed value to customer relationships, re-acquired rights and goodwill. The amortisation charge of \$1.2m, included within Selling and administrative expenses, is attributable to amortisation of the value assigned to customer relationships and re-acquired rights.

Finance expenses

Finance expenses includes a non-cash interest expense of \$2.6m, being the current year portion of the fair value discount applied (under NZ GAAP) to the deferred consideration, payable for the re-acquisition of the Wound Care business. A summary of the accounting treatment of the deferred consideration, under NZ GAAP, is provided below (Financing commentary).

Finance expenses also includes an unrealised foreign currency loss of \$1.3m, being the movement in foreign currency during the year on the USA based deferred consideration.

FINANCIAL COMMENTARY

(Continued)

Intangible assets

The Group entered into a Distribution Transition Agreement ("Agreement") with Hollister, cancelling the Marketing and Distribution Agreement ("MDA"). The purchase consideration for the Agreement was \$31.2m (US\$22.5m) payable by way of upfront cash consideration and deferred consideration. The following is a reconciliation of the purchase consideration to the intangible assets balance reported within the statement of Financial Position.

	2019 NZ\$000
Wound care business purchase price	31,237
<i>Reconciliation to Intangible assets balance:</i>	
Discount applied to deferred consideration	(4,889)
Allocation of deferred revenue on existing MDA	(9,948)
Gain on settlement of existing MDA	176
Total purchase consideration	16,576
Deferred tax liability	4,294
Amortisation	(1,161)
Balance after amortisation	19,709
Add: Closing book value of patents	372
Net intangible asset	20,081

Financing

	2019 NZ\$000	2018 NZ\$000
Loans and borrowings	(1,116)	(1,523)
Deferred consideration	(25,792)	-
Less: Discount applied to deferred consideration	4,889	-
Add back: Current year portion of discount	(2,566)	-
FX movement on outstanding portion of discount	286	-
Total deferred consideration (as reported)	(23,183)	-
Total interest bearing liabilities	(24,299)	(1,523)
Cash and cash equivalents	4,457	3,878
Net debt	(19,842)	2,355
Undrawn debt facilities	6,761	

Loans and borrowings of \$1.1m comprise the Group's equipment financing facility with the Bank of New Zealand. As at reporting date, \$0.8m was available in undrawn funds under this facility.

As at reporting date, the total deferred consideration, payable to Hollister is \$25.8m (US\$17.5m). Under NZ GAAP, deferred consideration was discounted by \$4.8m, as it was to intangible assets. No interest was payable on the deferred consideration during the year, however under NZ GAAP a non-cash interest charge of \$2.6m accrued, being the current year's portion of the discount applied to the consideration.

Cash and cash equivalents of \$4.5m includes an amount of \$2.1m held within a Deposit Control account as security for payment of the deferred consideration.

As at reporting date, the Group has undrawn debt facilities of \$6.8m, comprising \$0.8m on the Group's equipment financing facility, a \$2m overdraft facility and a \$4m cash advance facility.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors have pleasure in presenting the annual report of Aroa Biosurgery Limited, incorporating the consolidated financial statements and the independent auditor's report, for the year ended 31 March 2019.

The Directors are responsible for presenting the consolidated financial statements in accordance with the Companies Act 1993 and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 31 March 2019 and the results of the Group's operations and cash flows for the year ended on that date.

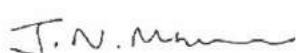
The Directors consider the consolidated financial statements of the Group have been prepared using accounting policies which have been consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable the determination of the financial position of the Group and facilitate compliance with the Financial Reporting Act 2013.

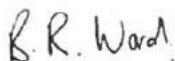
The Directors consider they have taken adequate steps to safeguard the assets of the Group and its subsidiaries, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the consolidated financial statements.

The Directors authorised these consolidated financial statements presented on pages 17 to 44 for issue on 19 July 2019.

For and on behalf of the Board of Directors.



Jim McLean
Chairman



Brian Ward
CEO

OUR BOARD OF DIRECTORS



Jim McLean

Chairperson

Jim is an Auckland-based company director who is currently the Chair of Aroa Biosurgery Ltd., Prevar Ltd., Infotools Ltd., and R J Hills Laboratories Ltd. Mr McLean was previously an Executive Director of Genesis Research and prior to that, a partner with EY.

Appointed August 2011



Phil McCaw

Non Executive Director

Phil is the Founding Partner of Movac, New Zealand's leading technology investor. He has been actively investing since 1998 and personally invested in all the Movac funds and led investment into over 20 companies. Phil serves on the board of a number of New Zealand technology companies and is also the past Chair of the Angel Association of New Zealand. Phil holds a Bachelor of Business Studies majoring in Accounting, Finance and Information Technology and was awarded a Senior Scholarship from Massey University.

Appointed March 2008



John Pinion II

Independent Director

John Pinion has over 25 years of global experience providing executive leadership and expertise in engineering, quality, manufacturing management of biologic, pharmaceutical and device operations across Asia, Europe and the Americas. He joined Ultragenyx in July 2015 and currently holds the role of EVP, Translational Sciences and Chief Quality Operations Officer. Mr. Pinion provides leadership for Ultragenyx's translational sciences functions to include Pharmacology and Toxicology, Research and Bioanalytical Development, as well as GxP Quality and Compliance, Validation, and CMC Analytical Development and QC. As a key member of Ultragenyx's executive leadership team reporting directly to the organization's CEO, he also contributes to ongoing business development, clinical development and commercial and strategic planning activities.

In the ten years prior to joining Ultragenyx, Mr. Pinion held roles of increasing responsibility at Genentech (subsequently Roche when Genentech was acquired), departing the organization as Senior Vice President and Global Head of Quality and Compliance for Pharma Technical Operations based in Basel, Switzerland. Previous to Genentech, Mr. Pinion spent 17 years in operational and senior leadership roles in Baxter International's Renal, Bioscience, Parenterals and Device divisions.

John currently sits on the Board of Directors and serves as the Chair of the Audit and Risk Committee of Aroa Biosurgery Ltd, a privately-held soft tissue repair company commercializing regenerative tissue substitutes based in Auckland, New Zealand. He holds a B.S. in Mechanical Engineering from West Virginia University and lives in Northern California with his wife and two sons.

Appointed February 2015

OUR BOARD OF DIRECTORS (CONTINUED)



Steve B. Engle

Independent Director

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

Mr. Engle is Chairman of the Board of Prescient Therapeutics Ltd., a clinical stage oncology company, and a Director of the board of Author-it Software Corporation, a developer of authoring information solutions for pharmaceutical and biotechnology companies. He is a former director of industry associations, BIO, BayBio and BIOCOM, and was a member of the board of the Lupus Foundation of America. Mr. Engle holds M.S.E.E. and B.S.E.E. degrees from the University of Texas with a focus in biomedical engineering.

Appointed April 2015.



Brian Ward

Chief Executive, Executive Director and Founder

Brian has held senior corporate roles in life sciences and health care companies over the last 20 years. He is a graduate from Massey University with a Bachelor's degree in Veterinary Science, a Member of the Royal College of Veterinary Surgeons (UK), and holds a Masters degree in Business Administration graduating with distinction. He has extensive management experience in life science companies spanning clinical, technical, sales, marketing, corporate development and strategy having worked for a number of multinationals including Baxter, Beecham and SmithKline Beecham throughout the world. He has managed investments into New Zealand technology companies for the Foundation for Research Science and Technology, served as the founding CEO of NZBio, has sat on a number of government and industry expert panels.

Brian was the Founder of Aroa (previously Mesynthes) and has been responsible for leading the company's growth from start-up through to becoming a vertically integrated medical device business with substantial US sales and a developing international presence.

Appointed September 2007

OUR SENIOR LEADERSHIP TEAM



James Agnew

Chief Financial Officer

James has over 15 years of experience in business and finance. He brings extensive experience in corporate finance, investment management, M&A, strategic and operational planning, contractual management and negotiation, international taxation and compliance, including US GAAP. Prior to this role he was the VP of Finance & Operations for MXM Mobile (a division of the Meredith Corporation) based in New York, overseeing all international subsidiaries following the acquisition of The Hyperfactory Ltd (NZ high growth technology company) where he held the role of Group Financial Controller. In his earlier career, James worked within public practice providing accounting and business advisory services to diverse range of successful NZ companies. In 2011 James was a finalist in the Young Financial Manager of the year at the Annual CFO Awards and holds a Bachelor of Laws and Bachelor of Commerce from Auckland University.



Barnaby C. H. May

Vice President – Technology

Barnaby May has over 15 years' experience developing devices and therapeutics for a range of human conditions. Barnaby has 10+ years of industrial experience and has a strong understanding of medical device development, regulatory and commercialization. Barnaby has led teams of scientists and product engineers developing devices for wound healing and soft tissue reinforcement, including combination devices. He has directed development activities for multiple strategic partnerships and co-development programs, as well as providing strategic input on the product pipeline. Prior to joining Aroa Biosurgery, Barnaby was Adjunct Professor, University of California, San Francisco, where he managed a drug development program targeting protein misfolding diseases. Barnaby is widely published in peer review scientific journals. Dr. May is named inventor on patents relating to the development of biomaterials for soft tissue regeneration and patents relating to the pharmacological intervention in protein misfolding diseases. Dr. May received his Ph.D. in Medicinal Chemistry from the University of Canterbury (NZ) and his undergraduate Honors degree (Chemistry) from the University of Otago (NZ).



Simone Von Fircks

Vice President – Operations

Simone brings extensive expertise in biological product manufacturing, with more than 30 years of practice in various technical fields. She was previously a senior manager and head at Baxter Healthcare Austria (Baxter Innovations, now Shire, Biopharmaceuticals) where she developed and managed operations, process transfers, and holds patents in the field of recombinant cell culture technology. Her proven skills as a leader of international and cross-functional teams and outstanding contribution to successful project completion has been internationally acknowledged in 2007 for the generation of a continuous cell line, 2010 for the development of a bio-improved human recombinant activated factor and 2011 for tech transfer, planning and construction support for commissioning of a vaccine plant in Japan with the Bioscience R&D Award of Baxter Healthcare. Simone is also experienced in quality requirements and systems and has successfully managed inspections from the FDA, PMDA, ANVISA and European Governments. She holds qualification as an auditor for products manufactured from biologically sourced materials and has supported regulatory product licensure for the US, Australian, New Zealand, Japan and EU market. Prior to this role, Simone worked for biotech start-up Mologen (Germany) and was a research scientist at the University of Amsterdam (The Netherlands) and University of Oldenburg (Germany) on the basis of different programs of the European Union. She has degrees in Public Health and Laboratory Technology.

FINANCIAL STATEMENTS



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

Opinion

We have audited the consolidated financial statements of Aroa Biosurgery Limited ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ("NZ IFRS RDR") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

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

Our firm carries out other assignments for the Group in the area of accounting advisory services. The firm has no other relationship with, or interests in, the Company or any of its subsidiaries.

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information contained in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.

Who we Report to

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

BDO Auckland

BDO Auckland
Auckland
New Zealand
19 July 2019

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Notes	2019 NZ\$000	2018 NZ\$000
Revenue	3	24,189	11,100
Direct cost of sales		(3,388)	(2,446)
Gross margin before indirect cost of sales		20,801	8,654
Indirect cost of sales		(3,614)	(3,184)
Gross profit		17,187	5,470
Other income		189	109
Selling and administrative expenses		(11,857)	(3,897)
Research and development	4	(4,643)	(3,353)
Operating income/(loss) before net financing costs	4	876	(1,671)
Finance income	6	3	156
Finance expenses	6	(3,926)	(69)
Net finance income		(3,923)	87
Loss before income tax		(3,047)	(1,584)
Income tax credit	7	4,007	308
Income/(Loss) for the year		960	(1,276)
Other comprehensive income			
Foreign currency translation reserve		(16)	-
Total comprehensive income/(loss) for the year		944	(1,276)
Total comprehensive income for the year is attributable to:			
The owners of Aroa Biosurgery Limited		944	(1,276)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 NZ\$000	2018 NZ\$000
Current assets			
Cash and cash equivalents	8	4,457	3,878
Derivative assets	9	10	-
Trade and other receivables	10	5,920	3,436
Inventories	11	2,677	1,787
Tax receivable		88	356
Total current assets		13,152	9,457
Non-current assets			
Property, plant and equipment	12	6,087	5,416
Other receivable	10	216	-
Intangible assets	14	20,084	335
Total non-current assets		26,387	5,751
Total assets		39,539	15,208
Current liabilities			
Trade and other payables	16	2,037	1,027
Employee benefits	17	971	593
Provisions	18	-	87
Interest-bearing loans and borrowings	19	5,067	132
Deferred revenue	20	79	555
Total current liabilities		8,154	2,394
Non-Current Liabilities			
Provisions	18	154	150
Interest-bearing loans and borrowings	19	19,231	1,391
Deferred revenue	20	-	9,393
Total non-current liabilities		19,385	10,934
Total liabilities		27,539	13,328
Net assets		12,000	1,880
Equity			
Share capital	21	28,889	19,915
Share based payment reserve	22	702	500
Retained earnings		(17,591)	(18,535)
Total equity		12,000	1,880

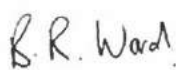
The above consolidated statement of financial position should be read in conjunction with the accompanying notes

On behalf of the Board

19 July 2019



Jim McLean - Chairman



Brian Ward - CEO

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 31 March 2019

	Note	Share Capital NZ\$000	Retained Earnings NZ\$000	Share Based Payment Reserve NZ\$000	Total Equity NZ\$000
Balance as at 1 April 2017		19,849	(17,259)	421	3,011
Comprehensive income					
Loss for the year		-	(1,276)	-	(1,276)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	(1,276)	-	(1,276)
Transactions with shareholders					
Employee shares exercised		66	-	(20)	46
Share based payments	22	-	-	99	99
Total transactions with shareholders		66	-	79	145
Balance as at 31 March 2018		19,915	(18,535)	500	1,880
Balance as at 1 April 2018		19,915	(18,535)	500	1,880
Comprehensive income					
Profit for the year		-	960	-	960
Other comprehensive income for the year		-	(16)	-	(16)
Total comprehensive income for the year		-	944	-	944
Transactions with shareholders					
Issue of Series C preference shares	21	8,672	-	-	8,672
Employee shares exercised	21	302	-	(112)	191
Share based payments	22	-	-	314	314
Total transactions with shareholders		8,974	-	202	9,176
Balance as at 31 March 2019		28,889	(17,591)	702	12,000

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	Note	2019 NZ\$000	2018 NZ\$000
Cash flows from operating activities			
Cash receipts from sales revenue		16,039	8,543
Cash receipts from license fees, project fees, and grant income		5,418	1,524
Cash paid to suppliers and employees		(21,500)	(13,369)
Interest received		3	170
Dividends received		1	1
Interest paid		(188)	(69)
Income tax received / (paid)		220	164
Net cash (outflow) from operating activities	27 a	(7)	(3,036)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,559)	(1,567)
Investment / divestment in term deposits		-	7,000
Purchase of intangible assets		(79)	(113)
Payment for acquisition of wound care business		(2,067)	-
Net cash inflow/(outflow) from investing activities		(3,705)	5,320
Cash flows from financing activities			
Proceeds from issue of shares		8,865	48
Proceeds from borrowings		344	1,608
Repayment of borrowings/deferred consideration		(5,074)	(1,212)
Net cash inflow from financing activities	27 b	4,135	444
Net increase/(decrease) in cash and cash equivalents		423	2,728
Effect of exchange rate fluctuations on cash and cash equivalents		156	80
Cash and cash equivalents at beginning of year		3,878	1,070
Cash and cash equivalents at end of year		4,457	3,878
Composition of cash and cash equivalents			
Cash and cash equivalents	8	4,457	3,878
Closing cash and cash equivalents		4,457	3,878

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

Table of Contents

1.	CORPORATE INFORMATION	21
2.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	21
3.	REVENUE	22
4.	OPERATING LOSS BEFORE FINANCE COSTS	23
5.	EMPLOYEE ENTITLEMENTS.....	23
6.	NET FINANCE COSTS.....	23
7.	INCOME TAXES.....	24
8.	CASH & CASH EQUIVALENTS	26
9.	DERIVATIVE ASSETS	26
10.	TRADE AND OTHER RECEIVABLES	26
11.	INVENTORIES.....	27
12.	PROPERTY, PLANT & EQUIPMENT.....	28
13.	HOLLISTER DISTRIBUTION TRANSITION AGREEMENT	29
14.	INTANGIBLE ASSETS	30
15.	INTEREST IN JOINT OPERATION.....	31
16.	TRADE AND OTHER PAYABLES	31
17.	EMPLOYEE BENEFITS	31
18.	PROVISIONS.....	31
19.	INTEREST BEARING LOANS AND BORROWINGS	32
20.	DEFERRED REVENUE	33
21.	SHARE CAPITAL	33
22.	SHARE BASED PAYMENTS RESERVE.....	35
23.	RELATED PARTIES.....	37
24.	FINANCIAL RISK MANAGEMENT.....	37
25.	FINANCIAL INSTRUMENTS BY CATEGORY.....	39
26.	UNRECOGNISED ITEMS.....	41
27.	OTHER DISCLOSURES	41

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

1. Corporate information

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

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 2 Kingsford Smith Place, Airport Oaks, Auckland.

Aroa Biosurgery Incorporated is a subsidiary of Aroa Biosurgery Limited and is incorporated and domiciled in the United States. The address of its registered office is 2225 East Bayshore Rd, Suite 210, Palo Alto, CA 94303

The consolidated financial statements of Aroa Biosurgery Limited and its subsidiaries (the "Group") for the year ended 31 March 2019 comprise the Company and its two subsidiaries, Aroa Biosurgery Incorporated and Mesynthes Nominee Limited. All subsidiary entities have a balance date of 31 March.

Equity holding	Principal Activity	Place of Business	2019	2018
			%	%
Aroa Biosurgery Incorporated	Sales & Distribution	US	100	100
Mesynthes Nominee Limited	Nominee Shareholder	NZ	100	100

The consolidated financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. These consolidated financial statements were authorised for issue by the Board of Directors on 19 July 2019.

2. Summary of significant accounting policies

Statement of compliance and basis of preparation

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

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

Functional and presentation currency

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

Use of estimates and judgements

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

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

Estimates and judgements were made in respect of the value of development expenditure capitalised (refer note 4), the likely term of leased premises, which impacts leasehold improvements assets, TelaBio accrued revenue (refer note 10), the value of share-based payments (refer Note 22), purchase price allocation (refer note 13) and interest in joint operation (refer note 15).

Going Concern

The Group posted a net loss before tax of \$3,046,507 for the year (2018: loss before tax of \$1,584,688). The Group posted total operating cash outflow of \$7,142 (2018: \$3,035,465).

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

In reaching their conclusion that the going concern assumption is appropriate, the Directors have considered the ability to achieve the approved 2020 financial performance and cash flow forecasts prepared by management and the sufficiency of the cash and bank facilities. The forecasts reviewed and approved by the Directors are considered achievable and the cash and bank facilities considered appropriate.

The Directors are confident that the deferred consideration of the purchase price due to Hollister can be met in accordance with the contractual terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

2. Summary of significant accounting policies (continued)

Principles of consolidation

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

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

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

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

3. Revenue

Sales of goods

The Group develops, manufactures and sells soft tissue repair products. The performance obligation is supply of goods to the customers. The payment term for most customers is 30 days. All shipments of products are free on board (FOB).

Consideration is as per the price agreement with each customer. The Group offers rebates to certain customers. Rebates are recognised as a reduction of revenue as the sales are recognised.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue at the time sales are recognised.

Sales of goods are recognised at a point in time when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location and the risks have been transferred to the customers.

Royalties

Royalties received are recognised at the point in time when the operational and revenue milestones are completed under the royalty agreement. The payment term is upon receipt.

Project fees

Project fees received are recognised at the point in time when the milestones are completed under the project development agreement. Any project fees received for which the requirements under the project agreement have not been completed are carried as income in advance (liability) until all the conditions have been fulfilled. The payment term is upon receipt.

Grant income

Grants received are recognised at point in time when the requirements under the grant agreement have been met.

	2019 NZ\$000	2018 NZ\$000
Sales of goods (USA)	18,766	8,922
Sales of goods (ex USA)	75	-
Royalties	3,703	1,236
Project fees income	770	302
Grant income	875	640
Total revenue	24,189	11,100
Revenue recognised point in time	24,189	11,100
Total revenue recognised point in time	24,189	11,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

4. Operating loss before finance costs

	Notes	2019 NZ\$000	2018 NZ\$000
Operating loss before finance costs includes the following:			
Auditor's fees:			
Statutory audit		63	37
Raw materials and consumables		3,329	1,869
Depreciation:			
Research and development *	12	281	225
Other	12	576	464
Directors' Fees		272	212
Insurance		336	257
Rental and operating lease costs		615	465
Relocation costs		-	9
Amortisation - Patents	14	42	45
Amortisation - Customer relationships and reacquired rights	14	1,161	-
Research and development *		4,362	3,128

* Total research & development expenditure is \$4,643,440 (2018: \$3,353,457). It includes an amount of \$823,017 (2018: \$163,203) funded by third parties outside of the Group. The balance of \$3,820,423 (2018: \$3,190,254) has been recognised in accordance with the Ministerial Direction/New Zealand Gazette, No 146. All research & development has been expensed in accordance with New Zealand Equivalent to International Accounting Standard 38 – Intangible Assets ('NZ IAS 38').

5. Employee entitlements

	2019 NZ\$000	2018 NZ\$000
Salaries & wages (including bonuses)	7,897	5,982
Employer contributions defined contribution superannuation scheme inclusive of tax	205	152
Share Based Payments - employee share ownership plan	21	-
Share Based Payments - share options plan	290	99
Total employee salaries & benefits	8,413	6,233

Employee entitlements includes an amount of \$2,185,651 (2018: \$1,612,076) disclosed as part of research and development expenditures in Note 4 and includes an amount of \$102,465 (2018: \$4,402) relating to share based payments for shares issued to the Directors as disclosed in Note 22.

6. Net finance costs

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

	2019 NZ\$000	2018 NZ\$000
Finance income - loans and receivables		
Interest received on bank balances	3	156
Total finance income	3	156
Finance costs - liabilities at amortised costs		
Interest expenses - borrowings	(98)	(68)
Interest expenses - deferred consideration	(2,567)	-
Foreign currency gain	172	3
Foreign currency losses on deferred consideration	(1,343)	-
Finance cost - bank borrowings	(86)	-
Finance cost - make good provision	(4)	(4)
Total finance costs	(3,926)	(69)
Net finance (expenses)/income	(3,923)	87

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

6. Net finance costs (continued)

Foreign currency losses and interest expenses on deferred consideration relates to the deferred consideration of \$19,446,060 (2018: Nil) owing to Hollister for the purchase of the Wound Care business (note13).

7. Income taxes

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

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

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

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

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

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

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

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

Income tax recognised in profit or loss and other comprehensive income

Reconciliation of income tax expense

	2019 NZ\$000	2018 NZ\$000
Accounting loss before income tax	(3,047)	(1,584)
Income Tax @ 28%	(853)	(444)
Impact of tax rates in overseas jurisdictions	20	-
Expenses not deductible for tax purposes	1,092	46
Income not subject to tax	(49)	18
Recognition of previously unrecognised deferred tax on temporary differences	(981)	27
Recognition of previously unrecognised deferred tax on tax losses	(3,236)	45
Income Tax (Credit)	(4,007)	(308)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

7. Income taxes (continued)

	2019 NZ\$000	2018 NZ\$000
Current tax expense/(credit)		
Current period	287	-
R&D tax credit	-	(308)
Total current tax benefit	287	(308)
Deferred tax (income)/expense	(4,294)	-
Total tax (income)/expenses	(4,007)	(308)

As at the 31 March 2019 the Company had a tax losses of \$9,796,659 (2018: \$11,646,609). Utilisation of these tax losses is dependent upon the Group meeting the continuity of ownership provisions of the Income Tax Act 2007 and carrying forward and offsetting the net losses against net taxable income earned in subsequent years by the Group.

The Group has elected to defer expenditure relating to research and development allowed under section DB34 of the Income Tax Act 2007. As at 31 March 2019 the Group had \$4,890,228 (2018: \$3,735,419) of expenditure available to offset against subsequent years income subject to section EJ23 of the Income Tax Act 2007.

Deferred tax has been recognised to the extent it offsets deferred tax liabilities. No additional deferred tax has been recognised on tax losses or deferred research and development expenditure in 2019 on the basis that large tax profits are not foreseeable in the year ending 31 March 2020.

Deferred tax assets (liabilities) recognised	2019 NZ\$000	2018 NZ\$000
Accrued revenue	(347)	-
Deferred R&D expenditure	1,369	-
Intangible assets	(3,969)	-
Other	25	-
Provision	241	-
Unused tax losses	2,681	-
Total deferred tax asset (liability) recognised	-	-

Movement in deferred tax assets (liabilities) recognised	2019 NZ\$000	2018 NZ\$000
Opening balance	-	-
Arising on acquisitions	(4,294)	-
Credited to profit or loss for previously unrecognised temporary difference and tax losses	4,294	-
Total deferred tax asset (liability) unrecognised (tax effected)	-	-

Deferred tax assets (liabilities) unrecognised (tax effected)	2019 NZ\$000	2018 NZ\$000
Temporary differences	310	-
Unused tax losses	25	3,261
Total deferred tax asset (liability) unrecognised (tax effected)	335	3,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

8. Cash & cash equivalents

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

	2019 NZ\$000	2018 NZ\$000
Bank balances	4,457	3,878
Total cash & cash equivalents	4,457	3,878

The cash balances include an amount held within a Deposit Control Account where the Group is permitted to withdraw 70% of the value of the deposits to such account, leaving 30% of the deposit value to serve as security for the payment toward deferred consideration (note 9). The 30% deposit value is equivalent to \$2,087,851 as at 31 March 2019.

The Group has an overdraft facility of \$2,000,000. As at 31 March 2019 the total available funds is \$2,000,000 under this facility (2018: Nil).

9. Derivative assets

The Group had foreign exchange swaps contracts of \$4,400,000 as at March 2019. The following amount was recognised in profit or loss in relation to foreign exchange currency swaps.

	2019 NZ\$000	2018 NZ\$000
Derivative assets	10	-
Total derivative asset	10	-

	2019 NZ\$000	2018 NZ\$000
Unrealised foreign exchange gain	10	-
Total unrealised foreign exchange gain	10	-

10. Trade and other receivables

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

Trade and other receivables are assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Trade and other receivables are impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be measured reliably. Objective evidence that trade and other receivables are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

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

	2019 NZ\$000	2018 NZ\$000
Trade receivables	3,486	1,371
Prepayments	542	1,151
GST receivables	72	142
Other receivables	1,820	772
Total current trade and other receivables	5,920	3,436

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

10. Trade and other receivables (continued)

	2019 NZ\$000	2018 NZ\$000
Other receivables	216	-
Total non-current other receivables	216	-

Trade receivables amounting to \$3,486,476 (2018: \$1,370,711) are shown net of impairment losses. Trade receivables have been reviewed for impairment and no adjustments have been made. Trade receivables are interest free. Trade receivables of a short-term duration are not discounted. Other receivables include Callaghan Innovation grant accrual, accrued quarterly revenue share from Telabio and year-end accrued revenue share which is based on the historical performance and revenue forecast of Telabio. The Group has a high probability of receiving this revenue share.

(i) **Impaired receivables**

As at 31 March 2019, current trade receivables with a nominal value of \$Nil (2018: \$Nil) were impaired and provided for.

(ii) **Past due but not impaired receivables**

As at 31 March 2019, trade receivables of \$1,513,752 (2018: \$278,160) were past due but not impaired.

The ageing analysis of trade receivables is as follows:

	2019 NZ\$000	2018 NZ\$000
Current	1,696	1,093
1 - 30 days overdue	1,435	278
30 - 60 days overdue	77	-
60 - 90 days overdue	3	-
90+ days overdue	(1)	-
Total trade receivables	3,210	1,371

11. Inventories

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

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

	2019 NZ\$000	2017 NZ\$000
Raw materials	465	225
Work in progress	718	1,128
Finished goods	1,576	566
Provision for Obsolescence	(82)	(132)
Total inventories	2,677	1,787

As at 31 March 2019, inventories of \$81,673 (2018: \$131,820) value were impaired and provided for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

12. Property, plant & equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

Leasehold improvements	6-7 years
Plant & equipment	10 years
Fixtures & fittings	10 years
Computer equipment & software	3 years

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

	Leasehold Improvements	Capital Work in Progress	Plant & Equipment	Fixtures & Fittings	Computer Equipment & Software	Total
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Cost						
Balance 1 April 2018	1,489	313	5,436	192	379	7,809
Additions	92	880	394	37	190	1,593
Transfers in/ (out)	10	(526)	516	-	-	-
Disposals	(1)	-	(33)	-	-	(34)
Balance 31 March 2019	1,590	667	6,313	229	569	9,368
Accumulated Depreciation						
Balance 1 April 2018	(721)	-	(1,370)	(53)	(250)	(2,394)
Depreciation	(100)	-	(615)	(22)	(120)	(857)
Disposals	-	-	(30)	-	-	(30)
Balance 31 March 2019	(821)	-	(2,015)	(75)	(370)	(3,281)
Net Book Value						
Balance 1 April 2017	842	281	3,309	113	120	4,665
Balance 1 April 2018	768	313	4,066	139	129	5,415
Balance 31 March 2019	769	667	4,298	154	199	6,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

13. Hollister Distribution Transition Agreement

The Group entered into a Distribution Transition Agreement ("Agreement") with Hollister Incorporated ("Hollister") which was considered a business combination which settled on 2 April 2018. The agreement cancelled the Marketing and Distribution Agreement ("MDA") between the Group and Hollister, with the Group reacquiring the rights under the MDA.

Details of the purchase consideration, settlement of the existing MDA, the net assets acquired and goodwill are as follows:

	NZ\$000
Cash paid	2,776
Deferred consideration	23,572
Total consideration	26,348

The timing of part of the deferred consideration is contingent on various possible scenarios detailed in the Agreement.

The deferred consideration has been discounted using a weighted average cost of capital ("WACC") of 16.3% and by applying a probability weighting to each of the potential payment scenarios.

(a) Settlement of the existing MDA

On the date of settlement, the Group had income in advance of \$9,947,873 realisable over the life of the MDA. On the cancellation of the MDA, \$9,947,873 being fair value of the reacquired rights was consideration, with the balance recognised in the P&L as follows:

	NZ\$000
Deferred revenue	9,948
Consideration Paid	(2,777)
Deferred consideration	(6,995)
Gain on settlement of the existing MDA	176

The statement of cash flows includes the following amount relating to settlement of the existing MDA

Investing activities	(2,067)
Net cash from settlement of the existing MDA	(2,067)

(b) Business combination

No tangible assets were acquired as part of the transaction and the full consideration has been allocated to intangible assets as follows:

	NZ\$000
Customer relationships	5,563
Reacquired rights	9,772
Deferred tax liability	(4,294)
Goodwill	5,538
Total purchase consideration (deferred)	16,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

14. Intangible assets

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

Trademarks have finite useful lives and are measured at cost without amortisation.

Goodwill, customer relationships and reacquired rights are attributable to the transaction entered into between the Group and Hollister Incorporated (refer note 13). Goodwill is not amortised.

Patent costs are amortised on a straight line basis over the life of the patents.

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

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

Patents – 8-17 years

Customer relationships – 9 years

Reacquired rights – 18 years

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

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

	Patent \$000	Customer Relationships \$000	Reacquired rights \$000	Goodwill \$000	Total \$000
Cost					
Balance 1 April 2018	445	-	-	-	445
Additions	79	5,563	9,772	5,538	20,952
Balance 31 March 2019	524	5,563	9,772	5,538	21,397
Accumulated Amortisation					
Balance 1 April 2018	(110)	-	-	-	(110)
Amortisation	(42)	(618)	(543)	-	(1,203)
Balance 31 March 2019	(152)	(618)	(543)	-	(1,313)
Net Book Value					
Balance 1 April 2017	267	-	-	-	267
Balance 1 April 2018	335	-	-	-	335
Balance 31 March 2019	372	4,945	9,229	5,538	20,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

15. Interest in Joint Operation

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

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

Under NZ IFRS 11, this joint arrangement is classified as a joint operation.

The Group has recognised the shared assets, liabilities, revenue and expenses in the consolidated accounts.

16. Trade and other payables

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

	2019 NZ\$000	2018 NZ\$000
Trade payables	454	717
Accrued expenses	1,299	215
Other payables	284	95
Total Trade and Other Payables	2,037	1,027

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

17. Employee benefits

(i) Short term employee benefits

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

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

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

	2019 NZ\$000	2018 NZ\$000
Employee benefits	971	593

18. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

18. Provisions (continued)

	Make good provision	Customer expired products provision	Total
	NZ\$000	NZ\$000	NZ\$000
Opening Balance as at 1 April 2018	150	86	236
Current year provision	4	-	4
Provision used during the year	-	(86)	(86)
Closing Balance as at 31 March 2019	154	-	154

	Make good provision	Restructure provision	Provision for samples	Customer expired products provision	Total
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Opening Balance as at 1 April 2017	146	55	13	-	214
Current year provision	4	-	69	86	159
Provision used during the year	-	(55)	(82)	-	(137)
Closing Balance as at 31 March 2018	150	-	-	86	236

Make good provision

Provision is made for the estimated cost to make good premises at 2 Kingsford Smith Place, occupied by the Group under an operating lease. The estimated cost is based on estimate provided by an external builder.

All provisions are classified as current liabilities with the exception of the make good provision.

	2019 NZ\$000	2018 NZ\$000
Provisions – current	-	87
Provisions - non-current	154	150
Total provisions	154	237

19. Interest bearing loans and borrowings

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

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

	2019 NZ\$000	2018 NZ\$000
Interest-bearing loans and borrowings	685	132
Deferred consideration	4,382	-
Total interest bearing liabilities – current	5,067	132
Interest-bearing loans and borrowings	431	1,391
Deferred consideration	18,801	-
Total interest bearing liabilities – non-current	19,231	1,391

At year end the weighted average interest rate of interest-bearing loan is 6.44% p.a. (2018: 6.5% p.a.).

As at 31 March 2019, deferred consideration of US\$17.5 million is due on the settlement of the Distribution Transition Agreement between the Group and Hollister Incorporated. An amount of US\$3 million is due on 30 June 2019. The balance of the deferred consideration incurs interest compounding annually from 1 July 2019 at a rate equal to the Wall Street Journal prime rate plus 3% and is repayable by 31 March 2021. The deferred consideration is secured by a Deposit Control Amount as described in note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

19. Interest bearing loans and borrowings (continued)

Bank Loan

Total interest bearing loans and borrowings include secured liabilities of \$1,672,220 (2018: \$2,422,763). Bank borrowings are secured by the plant and equipment of the Group (refer to Note 12).

i) Unused lines of credit

As at 31 March 2019 a total facility limit of \$1,672,220 (2018: \$2,422,763) was available, of which \$761,386 (2018: \$1,031,929) was unused and \$910,835 (2018: \$1,390,834) was used, secured by assets owned by the Group.

There has been an increase in its existing credit plus facility to \$2,266,952 in May 2019.

The Group has an overdraft facility of \$2,000,000. As at 31 March 2019 the total available fund is \$2,020,402 (2018: Nil).

The Group also has a committed cash advance facility of \$4,000,000 as at 31 March 2019 (2018: Nil). The Group has not drawn down the facility as at 31 March 2019.

ii) Fair value

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

20. Deferred revenue

	2019 NZ\$000	2018 NZ\$000
Deferred Revenue – current	79	555
Deferred Revenue - non-current	-	9,393
Total deferred revenue	79	9,948

In April 2018 the Group entered into a Distribution Transition Agreement cancelling the Marketing and Distribution Agreement. The deferred revenue was reversed as a result of this transaction (Note 13).

21. Share capital

(i) Ordinary shares

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

(ii) Preference share capital

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

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

	2019 NZ\$000	2018 NZ\$000
Share capital at beginning of the year	19,915	19,849
Issue of share capital	8,672	-
Employee share ownership plan	302	66
Share capital at end of the year	28,889	19,915

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the year ended 31 March 2019

21. Share capital (continued)

	# of Series C preference shares \$000	# of Series B preference shares \$000	# of Series A preference shares \$000	# of ordinary shares \$000	Total shares \$000
At 1 April 2017	-	798,088	1,079,610	594,543	2,472,241
Issue of share capital	-	-	-	-	-
Forfeiture of shares	-	-	-	-	-
Increase of share capital	-	-	-	6,587	6,587
Forfeiture of shares	-	-	-	(2,927)	(2,927)
Balance 31 March 2018	-	798,088	1,079,610	598,203	2,475,901
Increase of share capital	-	-	-	-	-
Issue of share capital	257,715	-	-	20,283	277,998
Forfeiture of shares	-	-	-	(585)	(585)
Balance 31 March 2019	257,715	798,088	1,079,610	617,901	2,753,314

Ordinary shares

During the year 20,283 (2018: 6,587) ordinary shares were issued to employees and 585 (2018: 2,927) shares were forfeited under the current employee share ownership plan. Please also refer to Note 22.

Unallocated and unpaid ordinary shares reserved for issue under the employee share ownership plan is 137,112 shares (2018: 156,810).

All classes of shares

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

Series C preference shares

In the event of liquidation, the holders of Series C shares have the first preference and shall receive the greater of: (a) a proportion of the available funds based on the proportion of the amount invested in the company in respect of its Series C preference shares against the total investment in the Company made in respect of all Series C preference shares; or b) a proportion of funds based on the proportion of their shareholding to the total shares in the Company.

Series B preference shares

In the event of liquidation, the holders of Series B shares have the second preference and shall receive the greater of: (a) a proportion of the available funds based on the proportion of the amount invested in the company in respect of its Series B preference shares against the total investment in the Company made in respect of all Series B preference shares; or b) a proportion of funds based on the proportion of their shareholding to the total shares in the Company.

Series A preference shares

In the event of liquidation, the holders of Series A shares have the third preference and shall receive the greater of: (a) a proportion of the available funds based on the proportion of the amount invested in the company in respect of its Series A preference shares against the total investment in the Company made in respect of all Series A preference shares; or b) a proportion of funds based on the proportion of their shareholding to the total shares in the Company.

Warrants

There were 51,538 share warrants issued or exercised during the 2019 financial year (2018: Nil).

There was one warrant offered for every five shares subscribed for Series C investment round. The warrants will have a term of 5 years and be exercisable at the issue price of Series C preference shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

22. Share based payments reserve

During the 2018 year the Group offered selected employees the opportunity to participate in an employee share ownership plan (ESOP).

Under the terms of the plan a parcel of unpaid ordinary shares were issued to employees with an exercise price of \$29.50. Shares vest in 3 equal parcels annually over a 3 year period from the grant date. To participate in the plan, employees must contribute at least 1% of their gross monthly salary towards the payment of shares, immediately following the issue of shares. Employees have 10 years from issue date to fully pay for the vested shares. Only employees that remain in service at the vesting date will obtain the right of non-forfeiture to those shares.

Employees who cease their employment before the expiry of 3 years from grant date will have their unvested shares cancelled. The Board may accelerate the vesting of the shares at its sole discretion.

The fair value of share purchase plan has been measured using the Black-Scholes-Merton (closed form) model. Measurement inputs include share price on the measurement date (at the date of grant the instrument is considered to be issued at the money), the exercise price of the instrument, expected volatility (based on the average historical volatility of the peers' stock, particularly over the historic period commensurate with the expected term), expected terms of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on New Zealand government bonds). Service conditions attached to the arrangement were not taken into account in measuring fair value.

The Black-Scholes-Merton (closed form) model was used following a cost benefit analysis as it gives a reasonable estimate for share purchase plans with relatively short contractual lives.

During the year ended 31 March 2019 the Group offered selected employees the opportunity to participate in a Share Option Plan. This is an offer of options to acquire ordinary shares. Under the terms of the plan, a parcel of options were issued to employees with an exercise price of \$7.34. The grant of share options is split into four tranches, with the first tranche vesting immediately on the date of grant. The Company's board has discretion to allow employees to exercise all or part of the options if a) the employee is no longer employed on a vesting date; or b) the employee ceases to be employed before the termination date but the employee has not yet exercised the options.

The fair value of the options has been measured using the Revenue Ruling 59-60 and standard practice. Revenue Ruling 59-60 is the definitive source outlining the standard of value, approach, methods, and factors to be considered in valuing shares of the stock of the a closely held entity similar to the Company.

See Note 5 for the total expense recognised in the profit and loss.

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

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

	2019 NZ\$000	2018 NZ\$000
Balance as at 1 April	500	421
Share based payment expense	314	99
Employee shares exercised	(112)	(20)
Balance as at 31 March	702	500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

22. Share based payments reserve (continued)

a) Share ownership plan

Summary of shares granted under the share ownership plan

	2019 Average exercise price per option	2019 # of options	2018 Average exercise price per option	2018 # of options
Balance as at 1 April	11.81	110,096	10.74	110,942
Granted during the year	-	-	29.50	6,587
Exercised during the year	15.44	(4,041)	10.59	(4,506)
Forfeited during the year	13.15	(585)	13.15	(2,927)
As at 31 March	11.60	105,470	11.81	110,096

Vested and excisable as at 31 March		123,124		119,940
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Shares outstanding at the end of the year have the following expiry dates:

Grant date	Expiry date	Share options 2019	Share options 2018
1 April 2014	31 March 2024	50,445	52,238
1 October 2014	30 September 2024	6,624	6,935
1 April 2015	31 March 2025	12,734	12,989
1 October 2015	30 September 2025	21,447	22,671
1 April 2016	31 March 2026	7,795	8,732
1 October 2016	30 September 2026	6,425	6,531
Total		105,470	110,096

b) Share option plan

Summary of options granted under the share option plan

	2019 Average exercise price per option	2019 # of options	2018 Average exercise price per option	2018 # of options
Balance as at 1 April	-	-	-	-
Granted during the year	11.88	152,694	-	-
Exercised during the year	11.84	(20,283)	-	-
As at 31 March	11.88	132,411	-	-

Vested and excisable as at 31 March		56,369		-
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Share options outstanding at the end of the year have the following expiry dates:

Grant date	Expiry date	Share options 2019	Share options 2018
1 October 2018	30 September 2028	132,411	-
Total		132,411	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

23. Related parties

(i) **Transactions with related parties**

There were no other related party transactions during the year.

(ii) **Subsidiaries**

Interests in subsidiaries are set out in note 1.

(iii) **Key management compensation**

Key management includes Directors (Executive and Non-Executive) and the senior leadership team. The compensation paid for and payable to key management for directorship services is disclosed within the Corporate Governance & Statutory section of the Annual Report. The total key management compensation excluding Director fees is \$1,296,011 (2018: \$1,118,126) (inclusive of the value of all benefits).

(iv) **Employee compensation**

The compensation paid for employees includes shares based payment of \$105,066 (2018:\$77,007)

(v) **Year end balances**

There were no related party receivables and related party payables at year end (2018: nil).

24. Financial risk management

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

Market risk

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

Foreign exchange risk

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

After allowing for natural hedges for exposure in USD and retention of USD proceeds with the deposit control account, the Group uses forward foreign exchange contracts to manage its estimated foreign currency exposure in respect of forecasted revenue receipts from international customers.

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

Foreign currency risk on net monetary assets/ (liabilities)

	USD \$000	AUD \$000	EUR \$000
31 March 2019	(10,798)	(26)	(-)
31 March 2018	1,952	(53)	(8)

The following significant exchange rates applied during the year:

	Average rate 2019	Average rate 2018	Closing rate 2019	Closing rate 2018
NZD/USD	0.6814	0.7149	0.6785	0.7203

Sensitivity analysis – underlying exposures

A 5% weakening/ strengthening of the NZ dollar against the US dollar at 31 March 2019 would have increased/decreased equity and the net result for the period by the amounts shown below. Based on historical movements a 10% increase or decrease in the NZ dollar is considered to be a reasonable estimate. This analysis assumes that all other variables remain constant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

24. Financial risk management (continued)

US dollar

The Group's net result and equity for the period would have been \$346,132 higher on a 5% weakening of the NZ dollar, and \$382,567 lower on a 5% strengthening of the NZ dollar as at 31 March 2019.

Interest rate risk

The Group's cash flow interest rate risk arises from borrowings at floating rates and/or fixed rates as at 31 March 2019.

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

	2019 NZ\$000	2018 NZ\$000
3 months or less	207	79
3 - 12 months	4,860	53
1-2 years	19,231	676
2 - 5 years	-	715
Total interest bearing loans and borrowings	24,298	1,523

Sensitivity analysis

If interest rates on borrowings had been 100 basis points higher during the year, the Group's net result and equity would have been \$2,368,490 higher (2018: \$12,052 higher).

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

Credit risk

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

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in Note 25. The Group does not see any foreseeable losses on trade receivables over the next 12 months. The Group does not hold any collateral as security.

Liquidity risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

24. Financial risk management (continued)

Liquidity risk (continued)

		Less than 3 months	3-12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying amounts liabilities
At 31 March 2019	Note	\$000	\$000	\$000	\$000	\$000	\$000
Non-derivative financial liabilities							
Trade and other payables	16	2,037	-	-	-	2,037	2,037
Interest bearing liabilities	19	220	4,927	25,082	-	30,229	24,298
Total		2,257	4,927	25,082	-	32,266	26,335
		Less than 3 months	3-12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying amounts liabilities
At 31 March 2018	Note	\$000	\$000	\$000	\$000	\$000	\$000
Non-derivative financial liabilities							
Trade and other payables	16	1,027	-	-	-	1,027	1,027
Interest bearing liabilities	19	102	121	828	751	1,802	1,523
Total		1,129	121	828	751	2,829	2,550

Capital adequacy

The Board's aim is to maintain a strong capital base to sustain future development of the business and to maintain investor and creditor confidence. The combination of shareholder funds raised to date, and the funding from the Bank of New Zealand gives the Group a sufficient capital base to continue to grow the business.

The Group has been subject to externally imposed capital requirements regarding the level of debt to equity since 11 June 2014 in relation to the facility with the Bank of New Zealand as described in Note 19. The Group has complied with these requirements for the entire period.

25. Financial instruments by category

(i) Non-derivative financial liabilities

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

25. Financial instruments by category (continued)

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, assets at amortised costs. No financial assets were categorized as financial assets at fair value through the profit and loss during the year ended 31 March 2019 (2018: nil).

(ii) (a) Assets at amortised costs

Assets at amortised costs comprise cash and cash equivalents and trade and other receivables (excluding prepayments and GST receivable).

	Assets at amortised costs NZ\$000	Total NZ\$000
At 31 March 2019		
Assets as per consolidated Statement of Financial Position		
Cash and cash equivalents	4,457	4,457
Trade and other receivables	5,306	5,306
Total	9,763	9,763

	Other Financial Liabilities at Amortised Cost NZ\$000	Total NZ\$000
At 31 March 2019		
Liabilities as per consolidated Statement of Financial Position		
Trade and other payables	2,037	2,037
Interest-bearing loans and borrowings - current	5,067	5,067
Interest-bearing loans and borrowings - non current	19,231	19,231
Total	26,335	26,335

	Loans and Receivables NZ\$000	Total NZ\$000
At 31 March 2018		
Assets as per consolidated Statement of Financial Position		
Cash and cash equivalents	3,878	3,878
Term deposits	-	-
Trade and other receivables	3,436	3,436
Total	7,314	7,314

	Other Financial Liabilities at Amortised Cost NZ\$000	Total NZ\$000
At 31 March 2018		
Liabilities as per consolidated Statement of Financial Position		
Trade and other payables	1,027	1,027
Interest-bearing loans and borrowings - current	132	132
Interest-bearing loans and borrowings - non current	1,391	1,391
Total	2,550	2,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

26. Unrecognised Items

(i) Events occurring after balance date

There have been no other events subsequent to balance date which required disclosure in or adjustment to the consolidated financial statements, other than following:

Share Options

6,300 share options were awarded to employees.

Capital commitments

As at 31 March 2019 the Group had equipment capital commitments of \$334,436 (2018: \$nil).

(ii) Operating lease arrangements

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The Group had no finance leases in the current and comparative year.

Non-cancellable operating lease payables

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Operating leases are not recognised in the Group's consolidated statement of financial position.

	2019 NZ\$000	2018 NZ\$000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	440	532
Between one and five years	575	957
More than five years	-	-

27. Other Disclosures

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities.

Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified to conform to the current year's presentation.

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

	2019 NZ\$000	2018 NZ\$000
Profit/(loss) after tax	960	(1,276)
Add (deduct) non-cash items:		
Royalties	-	(555)
Depreciation of property, plant and equipment	857	687
Loss on disposal of assets	30	-
Amortisation of intangibles	1,203	45
Share based payments	311	99
Accrued financing expense/(income)	-	14
Unrealised foreign exchange loss - deferred consideration	1,343	-
Gain on settlement of termination of marketing and distribution agreement	(176)	-
Interest - deferred consideration	2,566	-
Foreign currency translation	(172)	(82)
Deferred tax	(4,294)	-
Movement in working capital:		
Movement in provisions	(83)	22
Movement in tax receivable	268	(113)
Trade and other receivables	(2,661)	(1,633)
Movement in inventory	(889)	(500)
Trade and other payables	730	256
Net cash flows from operating activities	(7)	(3,036)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

27. Other Disclosures (continued)

b. Reconciliation cash inflow from financing activities

	Interest bearing loans and borrowings - Current Note 19 \$000	Interest bearing loans and borrowings - Non current Note 19 \$000	Deferred Consideration Note 19 \$000	Paid Up Shares Capital Note 21 \$000	Total \$000
At 1 April 2018	(132)	(1,391)	-	(19,915)	(21,438)
Cash flow	(553)	960	4,322	(8,864)	(4,135)
Non-cash flow:					
Purchase consideration	-	-	(16,579)	-	(16,579)
FX on deferred consideration	-	-	(1,364)	-	(1,364)
Interest - deferred consideration	-	-	(2,567)	-	(2,567)
Settlement of the existing MDA	-	-	(6,995)	-	(6,995)
Share based payments	-	-	-	(110)	(110)
As 31 March 2019	(685)	(431)	(23,183)	(28,889)	(53,188)

	Interest bearing loans and borrowings - Current Note 19 \$000	Interest bearing loans and borrowings - Non current Note 19 \$000	Paid Up Shares Capital Note 21 \$000	Total \$000
As 1 April 2017	(109)	(1,018)	(19,849)	(20,976)
Cash flow	(24)	(373)	(47)	(444)
Non-cash flow:				
Share based payments	-	-	(19)	(19)
As 31 March 2018	(132)	(1,391)	(19,915)	(21,439)

c. Foreign currency transactions

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

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

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

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

d. Goods and services tax (GST)

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

e. Changes in accounting policies

New standards impacting the Group that are adopted in the annual financial statements for the year ended 31 March 2019, and which have given rise to changes in the Group's accounting policies are:

- NZ IFRS 9 Financial Instruments (NZ IFRS 9); and
- NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

27. Other Disclosures (continued)

Impact on the financial statements:

NZ IFRS 15

NZ IFRS 15 has replaced NZ IAS 18 Revenue (NZ IAS 18) and various interpretations issued by the NZ IFRS Interpretations Committee.

The Group has adopted IFRS15 from 1 April 2018 on a full retrospective basis. The new accounting policies in accordance with NZ IFRS 15 are set out in note 3. No adjustments or restatements were made on the adoption of IFRS 15 as it did not have a material impact on the Group's financial statements.

NZ IFRS 9

NZ IFRS 9 has replaced NZ IAS 39 Financial Instruments: Recognition and Measurement (NZ IAS 39).

The Group has applied IFRS 9 with a transition date of 1 April 2018. The new accounting policies in accordance with NZ IFRS 9 are set out in note 25. No adjustments or restatements were made on the adoption of IFRS 9 as it did not have a material impact on the Group's financial statements.

The measurement of the Group's financial assets and financial liabilities at initial recognition and subsequent to initial recognition did not change on adoption of NZ IFRS 9. The only change in the classification of financial assets is that trade and other receivables and cash and cash equivalents have changed from "loans and receivables" to "amortised cost". Therefore the adoption of this standard did not have a recognition or measurement impact on the Group's financial statements.

CORPORATE GOVERNANCE AND STATUTORY INFORMATION

The Board recognises the importance of good corporate governance, particularly its role in delivering improved corporate performance, ensuring a high level of quality and regulatory compliance, maintaining a safe workplace and protecting the interests of shareholders.

The Board currently consists of five Directors, of which four of the five are Non-Executive Directors. The group considers that, three of the five current Directors are independent. As at the reporting date the Board consisted of:

Jim McLean	Chairman (Independent)
Brian Ward	CEO & Managing Director
Phil McCaw	Non-Executive
John Pinion	Non-Executive (Independent)
Steve Engle	Non-Executive (Independent)

The biography of each Board member, including each Director's skills, experience, expertise and the term of office held by each Director at the date of this Annual Report, is set out in the "Our Board of Directors" section of this Annual Report.

Directors' Remuneration

The maximum total monetary sum payable by the group by way of Directors' fees is \$475,000 per annum as approved by shareholders at the 2018 annual shareholders' meeting. With the exception of the Chairman, Non-Executive Directors receive an annual fee of NZ\$50,000 for New Zealand based Directors and US\$50,000 for Directors based outside of New Zealand. The Chairman receives an annual fee of \$75,000. In addition to fees, each of the Independent Directors have been issued unpaid ordinary shares that vest evenly over a three year period.. Share based payments attributable to these shares are recognised as Directors' Remuneration.

Details of Directors' remuneration and value of other benefits received for services to the Group for the year ended on 31 March 2019 are as follows:

	NZ\$000	Nature of remuneration
Jim McLean	98	Directors' Fees and Share Based Payments
Phil McCaw	93	Director's Fees
Steve Engle	92	Directors' Fees and Share Based Payments
John Pinion	92	Directors' Fees and Share Based Payments
Total Directors' Remuneration	375	

The Chief Executive Officer, in his capacity as an Executive Director, does not receive remuneration acting as a Director of the Group. However, acting in his capacity as an employee of the group, the Chief Executive Officer receives remuneration and this is included within the total compensation paid to key management personnel disclosed in Note 23 (ii) of the Consolidated Financial Statements.

Directors' Shareholdings

Directors held interests in the following ordinary shares in the Company as at 31 March 2019:

	Relevant Interest	Series C Preference Shares	Series B Preference Shares	Series A Preference Shares	Ordinary Shares
Phil McCaw (1)	Beneficial	74,302	398,050	566,556	15,993
Phil McCaw (4)	Non beneficial	7,142	15,103	44,362	200,199
Brian Ward (2)	Beneficial	1,486	18,551	22,485	410,856
Jim McLean (3)	Beneficial	1,100	-	-	29,075
Jim McLean (4)	Non beneficial	7,142	15,103	44,362	171,124
Steve Engle	Beneficial	-	-	-	5,488
John Pinion	Beneficial	422	125	-	5,488

1. Relevant interest in shares held by Movac Fund 3 LP as a result of a limited partnership interest and shares held by Cavom Nominee No.1 Ltd. MOVAC Fund 3 Limited Partnership and Movac Fund 3 Sidecar Limited Partnership as a result of a shareholding interest.
2. Relevant interest in shares held as registered holder and shares held as registered holder and trustee for family trust.
3. Relevant interest in shares held by Mesynthes Nominee Ltd as a result of appointment of Mesynthes Nominee Ltd as nominee of shareholding.
4. Relevant interest in shares are non-beneficial as a result of being a Director of Mesynthes Nominee Ltd (nominee company that is the registered holder for shares issued under the employee ownership plan).

CORPORATE GOVERNANCE AND STATUTORY INFORMATION (CONTINUED)

Directors' Share Dealings

During the year, per the disclosure required under section 148 of the Companies Act 1993, the Directors neither acquired nor disposed of any relevant interest in shares issued by the Company:

Employee Remuneration

During the year, the number of employees, not being Directors of the Group, who received remuneration and the values of other benefits exceeding \$100,000 were as follows:

Remuneration range \$	Number of employees
100,000 - 109,999	2
120,000 - 129,999	5
140,000 - 149,999	1
150,000 - 159,999	2
160,000 - 169,999	1
180,000 - 189,999	1
270,000 - 279,999	1
280,000 - 289,000	1
Above 300,000	2

Principal Shareholders

The names and holdings of the twenty largest registered shareholders in the group as at 31 March 2019 were:

Name	Number of Shares	%
Cavom Nominee No.1 Ltd	744,888	25.4%
Arawai Trust No.2	441,304	15.0%
MOVAC Fund 3 LP	338,819	11.6%
NZVIF Investment Ltd	152,431	5.2%
Sparkbox Investments	143,364	4.9%
Mesynthes Nominee Limited	266,806	9.1%
Hollister Inc	112,722	3.8%
K One W One Ltd	69,529	2.4%
Cure Kids Ventures Ltd	57,037	1.9%
Movac Sidecar Fund LP	51,530	1.8%
BNP Paribas Noms Pty Ltd - <DRP>	80,931	2.8%
K One W One (No 3) Ltd	77,363	2.6%
Milne, Chris	38,233	1.3%
Watt Land Co Ltd	21,106	0.7%
Harman, John	16,885	0.6%
Jacob, John & Harris, Kristina	14,359	0.5%
MIG Nominee No 1 Limited	18,112	0.6%
Quay, Caroline & Chin, Kenneth	14,642	0.5%
Collins Family Trustee Ltd	10,266	0.4%
Corey Wright, Philip & Forster, Douglas	9,915	0.3%
Total Top 20 Holders of Shares	2,680,242	91.4%
Total Remaining Holders Balance	73,072	8.6%

CORPORATE GOVERNANCE AND STATUTORY INFORMATION (CONTINUED)

Distribution of Shareholders and Holdings

Range	Sum of Units	Sum of % of Units	Sum of Holder Count	Sum of % of Holder Count
1 to 999	818	0.0%	1	2.7%
1,000 to 4,999	30,783	1.1%	11	29.7%
5,000 to 9,999	36,526	1.3%	5	13.5%
10,000 to 49,999	148,463	5.4%	8	21.6%
50,000 to 99,999	336,390	12.2%	5	13.5%
100,000 to 499,999	1,455,446	52.9%	6	16.2%
500,000 and over	744,888	27.1%	1	2.7%
Grand Total	2,753,314	100%	37	100%

DIRECTORY



Registered office and address for service

2 Kingsford Smith Place
Mangere
Auckland 2022
Telephone: +64 9 869 3035

Auditor

BDO Auckland

Banker

Bank of New Zealand