

HALF-YEAR FINANCIAL REPORT TO 30 SEPTEMBER 2021

APPENDIX 4D – ASX Listing Rule 4.2A

Aroa Biosurgery Limited
ARBN 638 867 473

1. Details of the reporting period and the previous corresponding period

Reporting period	30 September 2021
Previous corresponding period	30 September 2020

2. Results for announcement to the market

			6 months ended 30 September 2021 NZ\$000	6 months ended 30 September 2020 NZ\$000
2.1 Revenue from ordinary activities – Product sales	up	96%	17,661	9,002
Revenue from ordinary activities – Project fees	up	7%	191	178
2.2 Loss before tax from ordinary activities	down	63%	(5,027)	(13,431)
Normalised* loss before tax from ordinary activities	down	9%	(3,682)	(4,049)
2.3 Loss after tax attributable to members	down	62%	(5,089)	(13,493)
2.4 Dividends			Nil	Nil
2.5 Record date for dividend entitlement			Not applicable	Not applicable

2.6 Brief explanation of figures 2.1 to 2.3:

Explanation of Revenue (Appendix 4D item 2.1)

Product sales of \$17.7 million for the half-year were up 96% (110% on a constant currency basis), compared to H1 FY21 (\$9.0 million), reflecting strong growth in both the Myriad and Ovitex product sales.

Explanation of Loss (appendix 4D item 2.2 and 2.3) Normalised loss before tax from ordinary activities excludes expenses totalling \$1.3 million (H1 FY21: \$9.4 million) during the reporting period. These expenses included one-off transaction costs of \$50,000 (H1 FY21: \$1.4 million), fair value losses of \$nil (H1 FY21: \$8.0 million) financing losses and share based payments of \$1.3 million (2020: \$nil). The decrease in normalised loss before tax from ordinary activities of \$3.7 million was down by 9%, compared to H1 FY21 (\$4.0m), primarily attributable to the large increase in product sales.

Loss after tax attributable to members is inclusive of the expenses relating to financing activities undertaken by the company during H1 FY21 and H1 FY22 and share based payments. The loss after tax attributable to members of \$5.1 million was down 62%, compared to H1 FY21 (\$13.5m), attributable to the strong increase in product sales and the large one-off costs in H1 FY21 linked to the Company's IPO in July 2020.

* Normalised loss removes any distortion from NZ GAAP accounting treatment specific to one-off transaction costs associated with financing activities. The impact of non-cash share-based payments expense has also been removed.

3. Net tangible assets

	30 September 2021	30 September 2020
Net tangible assets* (NZ\$000)	79,323	37,433
Total number of securities on issue**	341,862,816	300,074,925
Net tangible assets per security (NZ\$)	0.23	0.12

* Net tangibles assets exclude all Intangible assets and Right of Use assets, as reported within the Consolidated Statement of Financial Position.

**Total number of securities on issue excludes all share options on issue. In the comparative period the total number of securities includes all classes of shares on issue.

4. Details of entities over which control has been gained or lost during the period: Not applicable

5. Details of dividends paid: Not applicable

6. Details of dividend reinvestment plans: Not applicable

7. Details of associates and joint venture entities: Not applicable

8. Set of accounting standards used in compiling: NZ equivalent to International Financial Reporting Standards

This report is based on the half-year consolidated financial statements as at 30 September 2021, which have been reviewed by BDO Auckland (the Company's auditor) with the Independent Auditor's Review Report included in the 30 September 2021 half-year consolidated financial statements.

This report should be read in conjunction with the annual report for the year ended 31 March 2021 and any public announcements made by Aroa Biosurgery Limited during the reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

Dated 24 November 2021



James Agnew
Company Secretary

ARO A BIOSURGERY LIMITED
HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS
30 September 2021



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DIRECTORS' REPORT

The Board of Directors of Aroa Biosurgery Limited (the "Company" or "AROA") are pleased to present this report in respect of the half-year ended 30 September 2021 (the "Reporting Period").

DIRECTORS

The Company's Directors are detailed below. All Directors were in office for the entire Reporting Period.

James McLean	Independent Non-executive Director and Chairman
Brian Ward	Managing Director
Steven Engle	Independent Non-executive Director
Philip McCaw	Non-executive Director
John R. Pinion	Independent Non-executive Director
John Diddams	Independent Non-executive Director

REVIEW OF OPERATIONS

AROA entered FY22 with momentum and has delivered a strong result despite the challenges presented by a resurgence of COVID-19. To date, AROA's products have been used in more than four and a half million procedures globally.

RESULTS

Sales performance in H1 FY22 gathered momentum, with product sales of NZ\$17.2 million on a constant currency basis,¹ reflecting growth (on a constant currency basis) of 110% on H1 FY21 and 39% on H2 FY21. Product gross margins also improved, with 75% in H1 FY22 on a constant currency basis. This represents an increase on a constant currency basis of 13% on H1 FY21 and 5% on H2 FY21. Finally, the Company ended the Reporting Period in a strong financial position, with cash on hand, including term deposits, of NZ\$65.3 million and no debt.

This result reflects the Company's implementation of the targeted growth strategies it outlined at the start of FY22.

As previously communicated, AROA expects its innovative and proprietary Myriad™ family of products to help deliver strong growth in FY22 and underpin growth in the medium term. The Company launched Myriad Morcells™, in the United States ("US") in May 2021. Myriad Morcells is a powder format of Myriad Matrix™ that easily conforms to optimise contact with irregular wound beds and delivers a bolus of biologically important extracellular matrix proteins known to 'kick start' healing. The Company is continuing to invest in building out its US commercial operations, to drive Myriad growth and capitalise on the opportunities presented by its expanded product portfolio. The Company currently has 26 field and 8 inside sales representatives and is adding further sales representatives as new access is established in large accounts.

In October, Myriad Matrix and Myriad Morcells were added to the Company's agreement with HealthTrust. HealthTrust is the third largest group purchasing organisation in the US. This opens up access to approximately 1,500 new US hospitals and healthcare systems.²

AROA's H1 FY22 results also reflect strong sales by TELA Bio, Inc. ("TELA Bio"), AROA's US commercial partner for hernia and breast reconstruction products (selling OviTex™ and OviTex PRS™).³ TELA Bio reported US\$7.6 million in revenue for Q2 CY21, an increase of 116% compared to the prior year period and up 29% compared to Q1 CY21.⁴ TELA Bio's Q3 CY21 revenue was US\$7.7 million, a 44% increase compared to the corresponding period in CY20.⁵ AROA receives 27% of TELA Bio's net product sales.

¹ Constant currency removes the impact of exchange rate movements. This approach is used to assess the AROA group's underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the US dollar. The NZD/USD exchange rate of 0.72 has been used in the constant currency analysis, representing the AROA group's budget rate for FY22. All references in this Director's Report to 'constant currency' are as set out in this footnote.

² Refer to the Company's ASX announcement of 6 October 2021 for more information.

³ TELA Bio, OviTex and OviTex PRS are trademarks of TELA Bio, Inc.

⁴ TELA Bio press release, 11 August 2021.

⁵ TELA Bio press release, 10 November 2021.

DIRECTORS' REPORT (Continued)

CLINICAL VALIDATION

The Company has continued to build clinical evidence during the Reporting Period, with three studies published in leading peer-reviewed scientific journals.

The "Retrospective Real World Comparative Effectiveness of Ovine Forestomach Matrix and Collagen/ORC in the management of Diabetic Foot Ulcers" was published in the International Wound Journal.⁶ It is the first large clinical study comparing advanced extracellular matrix technology to a reconstituted collagen product (collagen/oxidized regenerated cellulose "ORC"), and the first large retrospective study of real-world data, comparing the healing efficacy of Endoform™ Natural to collagen/ORC. The study analysed 'real-world' use of both products from 2,222 qualifying Diabetic Foot Ulcers ("DFU") from 1,590 patients treated in US based wound care centers. The study showed significantly improved wound closure times (between 1.9 and 3.5 weeks faster) and a greater probability of wound healing (between 18% and 38%) for DFUs in wounds treated with Endoform Natural compared to wounds treated with collagen/ORC. Up to one-third of the half billion people with diabetics worldwide will develop a DFU over the course of their lifetime.⁷ The DFU related cost and burden to the US health care system has been estimated at \$9-13 billion.^{8,9}

A study published in the Journal of Biomaterials Applications¹⁰ deepens understanding of the role AROA's gentle manufacturing process plays in preserving the unique structural and biological characteristics of AROA ECM™. It also describes how these features can translate into better healing outcomes for patients.

TELA Bio completed the BRAVO study, a multi-center post market study designed to evaluate the clinical performance of OviTex Reinforced Tissue Matrix for the treatment of ventral hernia. The study has reported low hernia recurrence rates, with 2.7% in 12-month analysis and less than 5% in 24-month follow up.¹¹

OTHER HIGHLIGHTS

Following limited selling by existing shareholders post 12-month escrow release, the Company received strong inbound demand from institutional investors and elected to complete a capital raise. The capital raise included an oversubscribed A\$47 million institutional placement (approximately NZ\$50 million) and ensures that AROA is well positioned to respond to emerging opportunities for faster growth.

The Company previewed its new dead space management platform technology during the Reporting Period. This is a new system to close dead space at a surgical site created by surgical dissection or tissue removal. It is comprised of a specially designed AROA ECM implant that is coupled to an external single-use negative pressure pump. When commercialised, the company expects that this product will be used to prevent surgical site complications in a wide range of procedures.

AROA has filed three new patents relating to key aspects of this technology and intends to launch a new class of products based on it to address an unmet need in a number of surgical specialties. Management estimates that the market opportunity for this new class of products is more than US\$2.5 billion.¹² The Company is targeting CY23 for commercialisation of the first product based on this technology for linear cavities, with final verification and testing currently underway.

⁶ Bosque, B. A., C. Frampton, A. E. Chaffin, G. A. Bohn, K. Woo, C. DeLeonardis, B. D. Lepow, M. M. Melin, T. Madu, S. G. Dowling and B. C. H. May (2021). "Retrospective real-world comparative effectiveness of ovine forestomach matrix and collagen/ORC in the treatment of diabetic foot ulcers." Int Wound J 2021 Aug 6 (Epub ahead of print).

⁷ Armstrong, D.G., et al., Five year mortality and direct costs of care for people with diabetic foot complications are comparable to cancer. J Foot Ankle Res, 2020. 13(1): p. 16.

⁸ Rice, J.B., et al., Burden of diabetic foot ulcers for medicare and private insurers. Diabetes Care, 2014. 37(3): p. 651-8.

⁹ Barshes, N.R., et al., The system of care for the diabetic foot: objectives, outcomes, and opportunities. Diabet Foot Ankle, 2013.

¹⁰ Smith, M. J., S. G. Dempsey, R. W. Veale, C. G. Duston-Fursman, C. A. F. Rayner, C. Javanapong, D. Gerneke, S. G. Dowling, B. A. Bosque, T. Karnik, M. J. Jerram, A. Nagarajan, R. Rajam, A. Jowsey, S. Cutajar, I. Mason, R. G. Stanley, A. Campbell, J. Malmstrom, C. H. Miller and B. C. H. May (2021). "Further structural characterization of ovine forestomach matrix and multi-layered extracellular matrix composites for soft tissue repair." J Biomater Appl: 8853282211045770.

¹¹ DeNoto, G., E. P. Ceppa, S. J. Pacella, M. Sawyer, G. Slayden, M. Takata, G. Tuma and J. Yunis (2021). "A Prospective, Single Arm, Multi-Center Study Evaluating the Clinical Outcomes of Ventral Hernias Treated with OviTex® 1S Permanent Reinforced Tissue Matrix: The BRAVO Study 12-Month Analysis." J. Clin. Med. 10(21): 4998.

¹² Data on file.

DIRECTORS' REPORT

(Continued)

OUTLOOK

Following a strong first half and a review of internal forecasts, the Company upgraded its FY22 product revenue guidance (on a constant currency basis) to NZ\$34-37 million. This reflects a 58% - 71% forecasted increase on FY21 product revenue on a constant currency basis. The Company also announced that it expects product gross margins to continue to improve, to be between 73-75%. EBITDA is expected to be negative as previously forecasted. Given the dynamic and evolving impact of COVID-19, this guidance is subject to there being no material decline in US medical procedure numbers. The guidance assumes an average NZD/USD exchange rate of 0.72.

The Company is pleased to report that it maintains that guidance and plans to continue investing in its US commercial operations to help drive that growth.

Additional operational highlights expected in H2 FY22 include the following:

- Limited commercial launch in early CY22 of the Company's new Symphony™ product. Symphony is developed from the AROA ECM platform technology and is applied as a graft and surgically fixed at the margins. It is designed to support healing during the proliferative phase to reduce time to wound closure, particularly in patients whose healing is severely impaired or compromised due to disease. Symphony has an estimated market size in the US of US\$1.15 billion.¹³ The Company is targeting full commercial launch in CY23 following completion of clinical studies.
- Construction of AROA's second manufacturing facility is expected to complete in CY21, with qualification for use in Q1 CY22. This will provide a three-fold increase in the Company's manufacturing capacity, supporting approximately NZ\$100 million in annual sales.

¹³ SmartTRAK BiomedGPS data 2020.

DIRECTORS' REPORT (Continued)

FINANCIAL RESULTS

NORMALISED PROFIT OR LOSS¹

	Reported H1 FY2022 NZ\$000	Reported H1 FY2021 NZ\$000	Reported YoY %	CC ² H1 FY2022 NZ\$000	CC ² H1 FY2021 NZ\$000	CC ² YoY %
Product sales	17,661	9,002	96	17,204	8,176	110
Other revenue	191	178	7	186	162	15
Total revenue	17,852	9,180	94	17,390	8,338	109
Gross profit	13,469	6,035	123	13,007	5,192	151
Product gross margin %	75%	65%	10 bps	75%	62%	13 bps
Other income	94	1,869	(95)	94	1,869	(95)
Normalised selling and administrative expenses ³	(12,647)	(8,561)	48	(12,449)	(8,150)	53
Research and development	(3,618)	(2,791)	30	(3,618)	(2,791)	30
Normalised other losses ⁴	-	(2)	(100)	-	(2)	(100)
Total normalised operating expenses	(16,265)	(11,354)	43	(16,067)	(10,943)	47
Normalised EBIT	(2,702)	(3,450)	22	(2,966)	(3,882)	24
Add back: Depreciation & amortisation	1,546	1,509	2	1,546	1,509	2
Normalised EBITDA	(1,156)	(1,941)	40	(1,420)	(2,373)	40
Net finance expenses	(980)	(599)	64	(869)	(1,087)	(20)
Normalised loss before income tax	(3,682)	(4,049)	(9)	(3,835)	(4,969)	(23)

1. The normalised profit or loss is non-conforming financial information, as defined by the NZ Financial Markets Authority. It has been provided to assist users of financial information to better understand and assess the Group's comparative financial performance without any distortion from NZ GAAP accounting treatment specific to one-off transaction costs associated with financing activities (AROA's IPO on the ASX in July 2020 and its secondary capital raising on the ASX in August 2021). The impact of non-cash share-based payments expense has also been removed from the profit or loss. This approach is used by management and the Board to assess the Group's comparative financial performance.
2. Constant currency ('CC') removes the impact of exchange rate movements. This approach is used to assess the Group's underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the USD. The USD/NZD exchange rate of 0.72 has been used in the constant currency analysis, representing the average rate for Q4 FY21 and the base rate for FY22 budget.
3. These items have been normalised by the amounts outlined within the section headed 'Reconciliation of Normalised Profit or Loss to NZ GAAP Profit or Loss' below.

Product sales

Product sales of \$17.7 million for the half-year were up 96%, compared to H1 FY21 (\$9.0 million). On a constant currency basis, Product sales of \$17.2 million for the half year were up 110%, compared to H1 FY21 (\$8.2 million) and up 39% compared to H2 FY21 (\$12.3 million).

Other revenue

Other revenue represents project fees income, received for product development projects undertaken with TELA Bio.

Product gross margin %

On a constant currency basis, gross margin % of 75% for the half-year was up 13%, compared to H1 FY21 (62%), primarily due to the increase in sales in H1 FY22, but also supported by an increase in sales of Myriad products and efficiency improvements in manufacturing.

Normalised operating expenses

Selling and administrative expenses of \$12.6 million for the half-year were up \$4.1 million, compared to H1 FY21, primarily reflecting the increased investment into the Company's US based sales operations.

Research and development expenses for the half-year were up \$0.8 million, compared to H1 FY21, reflecting the increase in staffing on pipeline products.

DIRECTORS' REPORT (Continued)

FINANCIAL RESULTS (Continued)

CASH FLOWS

Net cash outflow from operating activities of \$5.8 million for H1 FY22 compared to a net cash outflow from operating activities of \$3.0 million in H1 FY21, primarily reflecting the Group's increased working capital from higher sales. Net cash outflow from operating activities for H1 FY22 included an interest payment of \$1.5 million (H1 FY21: \$0.9 million) due on the debt outstanding to Hollister Inc.

Purchases of property, plant and equipment of \$2.0 million for H1 FY22 compared to \$0.5 million in H1 FY21, reflecting the current investment into the expansion of the Group's manufacturing facility.

Net cash inflow from financing activities of \$37.9 million, reflecting the net proceeds from the Company's capital raise in August 2021 of \$47.9 million, less full repayment of the debt outstanding to Hollister of \$9.5 million. As a result of this payment, the Company is now debt free. The Group ended H1 FY22 with cash on hand and term deposits of NZ\$65.3 million, providing adequate cash reserves to further invest in expanding its US commercial operations and to accelerate and broaden its research and development pipeline.

RECONCILIATION OF NORMALISED PROFIT OR LOSS TO NZ GAAP PROFIT OR LOSS

	Unaudited 30 September 2021 NZ\$000	Unaudited 30 September 2020 NZ\$000
Normalised loss before income tax	(3,682)	(4,049)
Share based payments	(1,295)	-
Transaction costs	(50)	(1,369)
Other losses	-	(8,013)
Loss before income tax (NZ GAAP)	(5,027)	(13,431)

Share Based Payments

Share based payments of \$1.3 million relate to the vesting of the share options issued to Directors and employees of the Group on IPO in FY21 and during H1 FY22. New share options were granted to certain employees of the Group during H1 FY22.

Transaction costs

Transaction costs reflect one-off costs including the costs associated with the capital raise in August 2021. The costs in H1 FY21 relate to costs associated with the IPO in July 2020.

Other Losses

Other losses of \$8.0 million for H1 FY21 are a non-cash, one-off expense attributable to the fair value adjustment of pre-offer shares issued in February and May 2020, which were classified as financial liabilities as opposed to equity in accordance with NZ IAS 32. During the reporting period, these financial liabilities at fair value through profit or loss were fully reclassified as equity, following the successful IPO in July 2020.

DIVIDENDS

No dividends have been paid or proposed.

EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.



Jim McLean - Chairman



Brian Ward – CEO

Dated this 24th November 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 30 September 2021

	Notes	Unaudited 30 September 2021 NZ\$000	Unaudited 30 September 2020 NZ\$000
Revenue	3	17,852	9,180
Cost of sales		(4,383)	(3,145)
Gross profit		13,469	6,035
Other income		94	1,869
Selling and administrative expenses		(13,992)	(9,930)
Research and development		(3,618)	(2,791)
Other losses	6	-	(8,015)
Operating loss before net financing costs	4	(4,047)	(12,832)
Finance income	5	86	519
Finance expenses	5	(1,066)	(1,118)
Net finance expenses		(980)	(599)
Loss before income tax		(5,027)	(13,431)
Income tax expenses		(62)	(62)
Loss for the period attributable to shareholders		(5,089)	(13,493)
Other comprehensive income			
Items that will or maybe reclassified to profit or loss			
Exchange losses arising on translation of foreign operations		(57)	(1)
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	13	(107)	892
Total other comprehensive (losses)/income		(164)	891
Total comprehensive loss for the period attributable to shareholders		(5,253)	(12,602)
Earnings per share during the period:			
Basic earnings per share (cents)	12	(1.6)	(11.7)
Diluted earnings per share (cents)	12	(1.6)	(11.7)

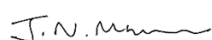
The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	Notes	Unaudited 30 September 2021 NZ\$000	Audited 31 March 2021 NZ\$000
Current assets			
Cash and cash equivalents	7	45,291	15,381
Term deposits	7	20,000	20,000
Derivative assets		-	31
Trade and other receivables	9	11,658	8,106
Inventories		3,521	3,608
Tax receivable		-	39
Financial assets at fair value through other comprehensive income	13	1,477	1,584
Total current assets		81,947	48,749
Non-current assets			
Property, plant and equipment		8,179	6,707
Other receivable		160	171
Right of use assets	8	5,669	5,951
Intangible assets		17,562	18,077
Total non-current assets		31,570	30,906
Total assets		113,517	79,655
Current liabilities			
Trade and other payables		2,575	2,744
Employee benefits		2,149	2,030
Interest-bearing loans and borrowings	10	-	9,952
Lease liabilities	8	607	566
Tax liabilities		35	-
Total current liabilities		5,366	15,292
Non-current liabilities			
Provisions		164	161
Lease liabilities	8	5,504	5,716
Total non-current liabilities		5,668	5,877
Total liabilities		11,034	21,169
Net assets		102,483	58,486
Equity			
Share capital	14	145,516	97,316
Share based payment reserve	15	3,180	2,130
Foreign currency translation reserve		141	198
Equity investment reserve		1,477	1,584
Accumulated losses		(47,831)	(42,742)
Total equity		102,483	58,486

On behalf of the Board: 24 November 2021



Jim McLean - Chairman



Brian Ward – CEO

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

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the half-year ended 30 September 2021

	Notes	Share Capital \$000	Accumulated Losses \$000	Foreign Currency Translation Reserve \$000	Equity Investment Reserve \$000	Share Based Payment Reserve \$000	Total Equity \$000
Balance as at 1 April 2021		97,316	(42,742)	198	1,584	2,130	58,486
Losses for the period		-	(5,089)	-	-	-	(5,089)
Other comprehensive loss for the period		-	-	(57)	(107)	-	(164)
Total comprehensive loss for the period		-	(5,089)	(57)	(107)	-	(5,253)
Transactions with shareholders							
Shares issued	14	47,740	-	-	-	-	47,740
Employee shares exercised		400	-	-	-	(244)	156
Employee shares forfeiture		-	-	-	-	(20)	(20)
Share based payments		60	-	-	-	1,314	1,374
Total transactions with shareholders		48,200	-	-	-	1,050	49,250
Balance as at 30 September 2021 unaudited		145,516	(47,831)	141	1,477	3,180	102,483
Balance as at 1 April 2020		29,353	(23,771)	(134)	969	951	7,368
Comprehensive income							
Losses for the period		-	(13,493)	-	-	-	(13,493)
Other comprehensive (loss)/income for the period		-	-	(1)	892	-	891
Total comprehensive (loss)/income for the period		-	(13,493)	(1)	892	-	(12,602)
Transactions with shareholders							
Reclassification of financial liabilities to equity	14	33,832	-	-	-	-	33,832
Shares issued from IPO		30,554	-	-	-	-	30,554
Shares issued from Share & Option Plans		3,445	-	-	-	(796)	2,649
Share based payments		-	-	-	-	529	529
Total transactions with shareholders		67,831	-	-	-	(267)	67,564
Balance as at 30 September 2020 unaudited		97,184	(37,264)	(135)	1,861	684	62,330

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 30 September 2021

	Notes	Unaudited 30 September 2021 NZ\$000	Unaudited 30 September 2020 NZ\$000
Cash flows from operating activities			
Cash receipts from sales revenue		13,363	9,930
Cash receipts from license fees, project fees, and grant income		1,711	1,704
Cash paid to suppliers and employees		(19,395)	(14,071)
Interest received		93	3
Interest paid		(1,548)	(853)
Income tax received		12	314
Net cash (outflow) from operating activities		(5,764)	(2,973)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,020)	(463)
Purchase of intangible assets		(95)	(172)
Term deposits		-	(20,000)
Net cash (outflow) from investing activities		(2,115)	(20,635)
Cash flows from financing activities			
Proceeds from issue of shares	14	50,116	34,829
Proceeds from borrowings		-	265
Proceeds from financial liabilities at FVTPL		-	19,804
Transaction costs related to issue of equity securities or convertible debt securities		(2,214)	(4,355)
Repayment of borrowings/deferred consideration	10	(9,514)	(12,570)
Lease liability payments – Principal payments		(282)	(95)
Lease liability payments – Interest payments		(199)	(207)
Net cash inflow from financing activities		37,907	37,671
Net increase in cash and cash equivalents		30,028	14,063
Effect of exchange rate fluctuations on cash and cash equivalents		(118)	770
Cash and cash equivalents at beginning of the period		15,381	3,850
Cash and cash equivalents at end of the period		45,291	18,683

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

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 30 September 2021

1. Basis of preparation

These condensed interim consolidated financial statements of Aroa Biosurgery Limited ("the Company") and its subsidiaries (together "the Group") for the half-year ended 30 September 2021 have been prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the audited 2021 Annual Report. For the purposes of complying with generally accepted accounting practice in New Zealand, the Group is a for-profit entity.

The condensed interim consolidated financial statements are presented in New Zealand dollars, rounded to the nearest thousand, unless otherwise stated.

The Group is a leading regenerative medicine company which develops, manufactures and sells medical devices for wound and soft tissue repair using its proprietary extracellular matrix (ECM) technology.

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

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

The condensed interim consolidated financial statements of the Group for the half-year ended 30 September 2021 comprise the Company and its two subsidiaries, Aroa Biosurgery Incorporated and Mesynthes Nominee Limited. All subsidiary entities have a reporting date of 31 March.

There is no effect of seasonality or cyclicity of interim operations.

Equity holding	Principal Activity	Place of Business	30 September 2021	30 September 2020
			%	%
Aroa Biosurgery Incorporated	Sales & Distribution	US	100	100
Mesynthes Nominee Limited	Nominee Shareholder	NZ	100	100

These unaudited condensed interim financial statements were authorised for issue by the Board of Directors on 24 November 2021.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

2. Significant accounting policies

The Group has applied the same accounting policies and methods of computation in its condensed interim consolidated financial statements as in its 2021 annual financial statements.

Use of estimates and judgements

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, the likely term of leased premises, which impacts leasehold improvements assets and right of use assets capitalised, TELA Bio Incorporated ("TELA Bio") accrued revenue, the value of share-based payments, the impairment of intangible assets, the estimated fair value of financial assets at fair value through other comprehensive income.

In December 2019, a new virus, COVID-19 was detected in Wuhan, China. The virus was soon common in other countries and on 11 March 2020 the World Health Organization declared that the outbreak should be considered a pandemic.

The result of this pandemic has been a substantial reduction in economic activity throughout the world, as governments have introduced measures (such as the closure of national borders, the closure of non-essential businesses, the cancellation of public events and the imposition of restrictions on individuals) in an attempt to reduce transmission of the virus.

In August 2021, the New Zealand Government ordered a level 4 lockdown, during which non-essential businesses and organisations were not allowed to operate and individuals (other than essential workers or those undertaking essential business) were required to stay at home. In October 2021, the level 4 lockdown period ended and the New Zealand Government started gradually easing the restrictions that had been placed on businesses, organisations and individuals.

The Group continued to experience reduced demand from certain countries but overall trading activity, particularly in the USA, has been stronger than expected.

An assessment of the impact of COVID-19 on the Group's interim financial statements as at 30 September 2021 is set out below, based on information available at the time of preparing the interim financial statements.

- Going concern: The Directors have concluded that the Company is a going concern.
- Trade receivables: The Group has undertaken a review to ensure that the provision for expected credit losses reflects the current estimated exposure of defaults. Impairment provision has been managed effectively since the year-end through proactive debt management efforts. No material risks are deemed to exist as of the reporting date.
- Inventory: Management considers that any risks caused by COVID-19 as of reporting date is not material given the average remaining shelf life for inventories on hand being more than 12 months, apart from those already provided for obsolescence.
- Investments: The Group's financial assets include listed equity (refer to Note 13). Management is satisfied that there is no impairment to the value as of reporting date as the quoted price in the active market has not significantly deteriorated post reporting date.
- Intangible assets: The Group measured the recoverable amounts of assets by assessing the recoverable amount based on value in use calculations for goodwill. No impairment was noted.

The Group has undertaken no new steps to reduce the impact of COVID-19 on its operations since 31 March 2021.

Going concern

The Group posted a net loss before tax of \$5,027,000 for the half-year ended 30 September 2021 (unaudited) (H1 FY2021 (unaudited): loss before tax of \$13,431,000). The Group posted total operating cash outflow of \$5,764,000 for the half-year ended 30 September 2021 (unaudited) (H1 FY2021 (unaudited): outflow of \$2,973,000).

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

In reaching their conclusion that the going concern assumption is appropriate, the Directors have considered the ability to achieve financial performance and cash flow forecasts prepared by management and the sufficiency of the cash on hand as at the reporting date.

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

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

3. Revenue and segment information

	Unaudited 30 September 2021 \$000	Unaudited 30 September 2020 \$000
Sales of goods (USA)	17,212	8,353
Sales of goods (Rest of world)	449	649
Project fees (USA)	191	178
Total revenue	17,852	9,180
Revenue recognised point in time	17,661	9,002
Revenue recognised over time	191	178
Total revenue	17,852	9,180

Segment information

Revenues from external customers are from sales of goods and project fees as noted above.

The Group sells its products and services to external customers who are largely located in the United States of America ("the USA") as noted above.

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

Revenues of \$10,761,000 (H1 FY2021: \$3,782,000) are derived from a single external customer, being sales of products and services to TELA Bio, which is the Group's USA sales and distribution partner.

The Group held all of its non-current assets in New Zealand with an exception of the right-of-use assets of \$134,000 (H1 FY21: \$184,000) for the leasehold property and property, plant and equipment of \$47,000 (H1 FY21: \$nil) in the USA as of the reporting date.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

4. Operating income/(loss) before net financing costs

		Unaudited 30 September 2021 \$000	Unaudited 30 September 2020 \$000
Operating income/(loss) before net financing costs includes the following:			
Fair value adjustments to financial liabilities at FVTPL	6	-	8,013
Transaction costs		50	1,369
Employee salaries and share-based payments benefits		13,451	8,273
Auditor's fees relating to audit or review of financial statements		120	134
Raw materials and consumables		1,984	1,259
Depreciation:			
Research and development		183	173
Right of use assets		386	375
Administration and manufacturing		367	355
Directors' fees	11	205	183
Insurance		408	326
Low-value and short-term leases		61	68
Amortisation:			
Patents		29	25
Customer relationships and reacquired rights		581	581
Research and development		3,377	2,618

5. Net finance expenses

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

	Unaudited 30 September 2021 \$000	Unaudited 30 September 2020 \$000
Finance income		
Interest received on bank balances	86	32
Foreign currency gain	-	487
Total finance income	86	519
Finance expenses		
Interest expenses – borrowings	-	(23)
Interest expenses – deferred consideration	(748)	(890)
Interest expenses – lease liabilities	(205)	(205)
Foreign currency losses	(111)	-
Finance cost – make good provision	(2)	-
Total finance expenses	(1,066)	(1,118)
Net finance expenses	(980)	(599)

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

5. Net finance expenses (continued)

Interest expenses on deferred consideration of \$747,141 (H1 FY2021 (unaudited): \$890,061) relates to the deferred consideration owing to Hollister for the purchase of the Wound Care business.

Foreign currency gains on deferred consideration of \$10,785 (H1 FY2021 (unaudited): gain of \$1,197,080) relates to the deferred consideration owing to Hollister for the purchase of the Wound Care business.

6. Other losses

	Unaudited 30 September 2021 \$000	Unaudited 30 September 2020 \$000
Fair value adjustments to financial liabilities at FVTPL	-	(8,013)
Finance cost – make good provision	-	(2)
Total other losses	-	(8,015)

Fair value adjustments to financial liabilities at FVTPL reflects the fair value adjustments of pre-offer shares issued in FY20 and H1 FY21, which were classified as financial liabilities as opposed to equity in accordance with NZ IAS 32 and NZ IFRS 13. The adjustment reflects the change in fair value of the financial liabilities at FVTPL between the issuance date and the final valuation date.

On the final valuation date, being the successful IPO in July 2020, these liabilities were converted to equity.

7. Cash and cash equivalents & term deposits

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

	Unaudited 30 September 2021 \$000	Audited 31 31 March 2021 \$000
Bank balances	45,291	15,381
Total cash and cash equivalents	45,291	15,381

During the year, the Group entered into short-term deposit arrangements with the Bank of New Zealand and ASB Bank for \$10 million each at the average rate of 1.1% per annum with a maturity of up to 6 months from the reporting date.

	Unaudited 30 September 2021 \$000	Audited 31 31 March 2021 \$000
Term deposits	20,000	20,000
Total term deposits	20,000	20,000

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

8. Leases

Right of use assets

	Properties \$000	Equipment \$000	Total \$000
Balance 1 April 2021 – Audited	5,951	-	5,951
Addition	-	-	-
Depreciation	(386)	-	(377)
Modification adjustment	104	-	95
Balance 30 September 2021 - Unaudited	5,669	-	5,669

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

Lease liabilities

	Properties \$000	Equipment \$000	Total \$000
Balance 1 April 2021 – Audited	6,282	-	6,282
Additions	-	-	-
Interests	205	-	205
Lease payments	(482)	-	(482)
Modification adjustment	106	-	106
Balance 30 September 2021 - Unaudited	6,111	-	6,111
Current	607	-	607
Non-current	5,504	-	5,504
Total	6,111	-	6,111

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

There was no rent forgiveness or rent deferral outside of the period and no rent payment was overdue as of 30 September 2021. As a result, the Company did not apply any practical expedient introduced by the amendments to NZ IFRS 16 to all rent concessions that satisfy the criteria.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the half-year ended 30 September 2021

9. Trade and other receivables

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

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

	Unaudited 30 September 2021 \$000	Audited 31 31 March 2021 \$000
Trade receivables	4,885	2,790
Less provision for impairment of trade receivables	(19)	(10)
Net trade receivables	4,866	2,780
Prepayments	1,109	918
Other receivables	699	573
Other receivables – Revenue share	4,930	3,116
Other receivables – Grant accrual	54	719
Total current trade and other receivables	11,658	8,106

	Unaudited 30 September 2021 \$000	Audited 31 31 March 2021 \$000
Prepayments	160	171
Total non-current prepayments	160	171

Trade receivables amounting to \$4,866,000 (March 2021: \$2,780,000) are shown net of impairment losses. Provisions have been made appropriately after considering the impact of COVID-19. Trade receivables are interest free. Trade receivables of a short-term duration are not discounted. Other receivables include accrued revenue share from TELA Bio which is based on the historical performance and trends. The Group has a high probability of receiving this revenue share.

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

(i) **Impaired receivables**

As at 30 September 2021, current trade receivables with a nominal value of \$19,000 (2021: \$10,000) were impaired and provided for.

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

As at 30 September 2021, trade receivables of \$813,000 (2021: \$135,000) were past due but not impaired.

The ageing analysis of trade receivables is as follows:

	Unaudited 30 September 2021 \$000	Audited 31 31 March 2021 \$000
Current	4,053	2,645
1 - 30 days overdue	546	88
30 - 60 days overdue	233	49
60 - 90 days overdue	33	2
90+ days overdue	20	6
Total trade receivables	4,885	2,790

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the half-year ended 30 September 2021

10. 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.

	Unaudited 30 September 2021 \$000	Audited 31 March 2021 \$000
Interest-bearing loans and borrowings	-	-
Deferred consideration	-	9,952
Total interest bearing liabilities – current	-	9,952

During the reporting period, the Group fully repaid its borrowing with Hollister.

Bank Loan

During the reporting period, the Credit Plus facility from Bank of New Zealand ("BNZ") was cancelled as it is no longer required by the Group.

11. Related parties

(i) Transactions with related parties

There were no related party transactions outside of key management compensation for the half 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 total key management compensation excluding the compensation for Directors is \$1,334,000 (H1 FY2021 (unaudited): \$966,000). (excluding share based payments of \$277,000 (H1 FY2021 (unaudited): \$396,000)). The total compensation for Directors, excluding share based payments of \$87,000 (H1 FY2021 (unaudited): \$161,000), are \$205,000 (H1 FY2021 (unaudited): \$183,000).

(iv) Period end balances

There were no related party receivables and related party payables as at 30 September 2021 (unaudited) (March 2021: nil).

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

12. Earnings per share

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

	Unaudited 30 September 2021 000	Unaudited 30 September 2020 000
Numerator		
Loss for the half-year after tax ("N") in \$	5,089	13,493
Denominator		
Weighted average number of ordinary shares used in basic EPS ("D1")	321,295	114,915
Effects of:		
Employee share options *	15,011	112
Preference shares	-	1,367
Period end number of shares used in diluted EPS ("D2")	321,295	114,915
	Cents	Cents
Basic earnings per share (N/D1 x 100)	(1.6)	(11.7)
Diluted earnings per share (N/D2 x 100)	(1.6)	(11.7)

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

The weighted average number of ordinary shares as at the reporting date was significantly higher than that as at 30 September 2020 due to the weighted average of the comparative period including the shares prior to the share split at the ratio of 75:1 that took effect upon the completion of the IPO in July 2020.

13. Financial assets at fair value through other comprehensive income

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

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

Financial assets measured at FVTOCI include the following:

	Unaudited 30 September 2021 NZ\$000	Audited 31 March 2021 NZ\$000
US listed equity securities	1,477	1,861
Total financial assets at FVTOCI	1,477	1,861

The US listed equity securities comprise of the Group's investment in TELA Bio. In November 2020, TELA Bio listed on the NASDAQ. The Group held 74,316 shares at a value of US\$13.66 per share as at the reporting date (March 2021: US\$14.90).

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

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

14. 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

All preference shares were converted to ordinary shares during the year ended 31 March 2021.

	Unaudited 30 September 2021 \$000	Audited 31 March 2021 \$000
Share capital at beginning of the period	97,316	29,353
Reclassification of financial liabilities at FVTPL to equity	-	33,832
Shares issued	47,740	30,554
Shares issued from Share Plan and Option Plan	460	3,577
Share capital at end of the period	145,516	97,316

	# of Series C preference shares	# of Series B preference shares	# of Series A preference shares	# of ordinary shares	Total shares
At 1 April 2020	257,715	798,088	1,079,610	650,233	2,785,646
Issue of share capital	-	-	-	602,407	602,407
Conversion of Series C(2) & C(3) shares	-	-	-	366,474	366,474
Converted to ordinary shares	(257,715)	(798,088)	(1,079,610)	2,135,413	-
Impact of share split				296,320,398	296,320,398
Issue of share capital post IPO				651,489	651,489
At 31 March 2021	-	-	-	300,726,414	300,726,414
Issue of share capital	-	-	-	41,136,402	41,136,402
At 30 September 2021	-	-	-	341,862,816	341,862,816

In August 2021, the Group raised additional capital of AU\$45,435,000 net of acquisition costs and issued 40,684,305 ordinary shares in addition to 452,097 shares issued under the share purchase and share option scheme for \$460,000.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

15. Share based payments

Share option plan

During the year ended 31 March 2019 the Group implemented a share option plan for selected employees to provide an 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 was issued to employees with an exercise price equal to the market valuation of shares at the time of offer. The grant of share options is split into three tranches vesting over a three year period.

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

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

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

Key valuation assumptions for the share option plan are:

Parameters	Assumptions for Share Options				
	Issued on July 2020	Issued on September 2020	Issued on April 2021	Issued on June 2021	Issued on August 2021
Valuation date	Grant date				
Beginning stock price	The Group's stock price was assumed to be \$0.75 at the Valuation Date per management's guidance	The Group's stock price was based on the publicly traded share price at the valuation date.			
Risk free rate	The risk-free rate was based on the rate of treasury securities with the same term as the estimated time for the projection period.				
Volatility	The volatility (standard deviation) was estimated based on an analysis of the historical and implied volatility for the Group's guideline publicly traded competitors.				
Dividend yield	The dividend yield was assumed to be nil.				

	Unaudited 30 September 2021 \$000	Audited 31 March 2021 \$000
Opening balance	2,130	951
Share based payment expense	1,314	2,011
Employee shares exercised	(244)	(807)
Forfeited of shares	(20)	(25)
Closing balance	3,180	2,130

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

15. Share based payments (continued)

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

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

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

	H1 FY22 Average exercise price per option NZ\$	H1 FY22 # of options	FY21 Average exercise price per option NZ\$	FY21 # of options
Opening balance	0.10	3,919,575	7.42	131,695 *
Granted during the period	-	-	-	-
Exercised during the period	0.10	(196,875)	7.47	(79,434)
Impact of share split	-	-	-	3,867,314
Forfeited during the period	-	-	-	-
Closing balance	0.11	3,722,700	0.10	3,919,575

* The opening balance of share options and the share options exercised during FY21 are prior to the 75:1 share split, which took effect upon the initial public offering.

Vested and exercisable at reporting date	0.10	1,975,200	0.10	1,660,220
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Share options outstanding at the end of the year have the following expiry dates:

Grant date	Expiry date	Share options Unaudited 30 September 2021	Share options Audited 31 March 2021
1 October 2018	1 October 2028	1,891,150	2,009,275
1 July 2019	1 October 2028	393,750	472,500
1 December 2019	30 November 2029	1,437,800	1,437,800
Total		3,722,700	3,919,575

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

15. Share based payments (continued)

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

During the half-year ended 30 September 2021, the Group offered its senior and key employees new share options. These options were issued in April, June and August 2021.

Grants under the Option Plan comprised 6.41 million share options with various vesting conditions including non-market service conditions and non-market performance conditions.

Key assumptions and variables used in the calculation of share based payments relating to these grants are as follows:

	22 April 2021	28 June 2021	9 August 2021
Fair Value (AU\$)	0.58	0.52	0.49
Option Pricing Model	Black-Scholes	Black-Scholes	Black-Scholes
Exercise price (AU\$)	1.15	1.06	1.165
Term	5 years	5 years	5 years
Expected volatility	60%	57%	55%
Risk-free interest rate	0.70%	0.73%	0.66%

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

	H1 FY22 Average exercise price per option NZ\$	H1 FY22 # of options	FY21 Average exercise price per option NZ\$	FY21 # of options
Opening balance	0.93	7,950,200	-	-
Granted during the period – 24 July grant	-	-	0.81	6,177,000
Granted during the period – 29 September grant	-	-	1.45	1,873,200
Granted during the period – 22 April grant	1.20	350,000	-	-
Granted during the period – 28 June grant	1.11	2,535,000	-	-
Granted during the period – 9 August grant	1.22	3,525,000	-	-
Exercised during the year	0.56	(402,425)	-	-
Forfeited during the period	1.28	(120,000)	1.45	(100,000)
Closing balance	1.04	13,837,775	0.93	7,950,200
Vested and exercisable at reporting date	0.88	1,940,970	0.82	1,828,550

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

Grant date	Expiry date	Share options Unaudited 30 September 2021	Share options Audited 31 March 2021
24 July 2020	23 July 2025	5,774,575	6,177,000
29 September 2020	28 September 2025	1,703,200	1,773,200
22 April 2021	31 March 2026	350,000	-
28 June 2021	28 June 2026	2,485,000	-
9 August 2021	8 August 2026	3,525,000	-
Total		13,837,775	7,950,200

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the half-year ended 30 September 2021

16. Events occurring after the reporting date

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

17. Other disclosures

Capital commitment

As at 30 September 2021, the Group had capital commitments of \$456,376 (unaudited) (H1 FY2021 (unaudited): \$289,615).

Contingent liabilities

As at 30 September 2021, the Group had no material contingent liabilities (unaudited) (H1 FY2021 (unaudited): \$nil).

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

Report on the Review of the Interim Condensed Consolidated Financial Statements

Conclusion

We have reviewed the interim condensed consolidated financial statements of Aroa Biosurgery Limited ("the Company") and its controlled entities (collectively, "the Group"), which comprise the consolidated statement of financial position as at 30 September 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of movements in equity and consolidated statement of cash flows for the six month period ended on that date and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Aroa Biosurgery Limited do not present fairly, in all material respects, the financial position of the Group as at 30 September 2021, and of its financial performance and its cash flows for the six month period ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Interim Condensed Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. Other than in our capacity as assurance practitioner we have no relationship with, or interests in, Aroa Biosurgery Limited or its controlled entities.

Directors' Responsibilities for the Interim Condensed Consolidated Financial Statements

The Directors of the Group are responsible, on behalf of the Group, for the preparation and fair presentation of the interim condensed consolidated financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Condensed Consolidated Financial Statements

Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*.

A review of interim condensed consolidated financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on those interim condensed consolidated financial statements.

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

A handwritten signature in blue ink that reads 'BDO Auckland'.

BDO Auckland
Auckland
New Zealand
24 November 2021

DIRECTORY



ARBN 638 867 473

Non-Executive Director and Chairman

Jim McLean

Non-Executive Directors

Steve Engle

Phil McCaw

John Pinion

John F Diddams

Chief Executive Officer and Managing Director

Brian Ward

Company Secretaries

James Agnew

Tracy Weimar

Registered Office and Address for Service

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Mangere

Auckland 2022

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Auditor

BDO Auckland

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Auckland 1010

Banker

Bank of New Zealand

Deloitte Centre

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Boardroom Pty Limited

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Sydney NSW 2000