



ARO A™

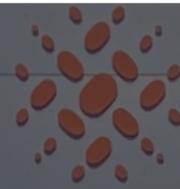


ANNUAL REPORT **2022**

ARO A BIOSURGERY LIMITED
ASX: ARX



We are passionate about our mission to unlock regenerative healing for everybody. It drives everything we do.



A R O A

2022 HIGHLIGHTS



81% in product revenue



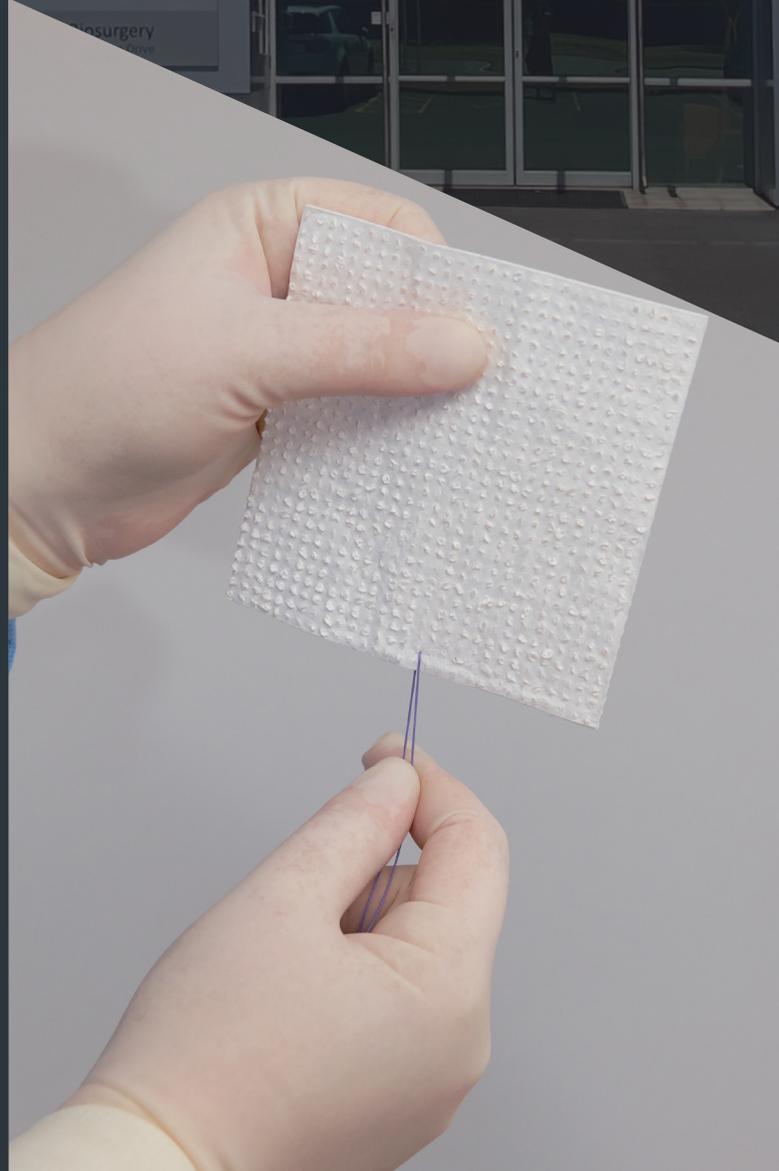
NZ\$39.7 million total revenue



8% in product gross margin, to 76%



2 new products commercialised



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KEY DATES

10 August 2022	Annual Shareholders Meeting
30 September 2022	Financial Half Year End
30 November 2022*	Half Year Results Announcement
31 March 2023	Financial Year End

*Indicative date

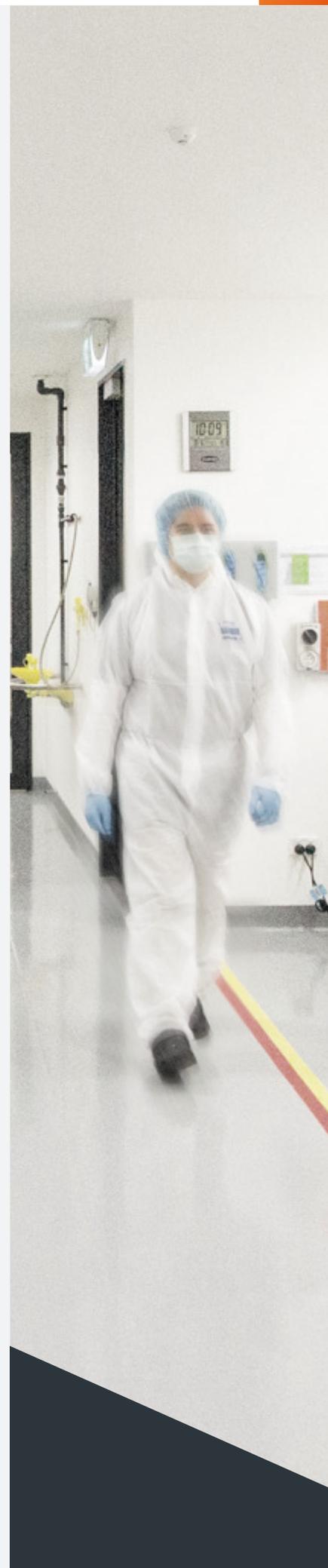
This Annual Report is dated 27 June 2022 and is signed on behalf of Aroa Biosurgery Limited by Jim McLean (Independent Chair of the Board) and Brian Ward (Founder, CEO and Managing Director).



Jim McLean
Independent Chair of
the Board of Directors



Brian Ward
Founder, CEO and
Managing Director



OUR BUSINESS



> five million AROA devices applied in treating patients



> US\$2.5b¹ potential US total addressable market for existing products



6 patented product families selling in the US



33 US field sales representatives & 7 US inside sales representatives



Key partnership with TELA Bio



Regulatory approval in >50 countries



> 20 distributors (ex US)



> 220 employees worldwide



Pipeline products (including line extensions & AROA's Dead Space Management platform)



19 registered patents, 38 pending applications and 10 applications filed



RESULTS IN BRIEF

NZ
\$39.7m

total revenue
(↑ 78% on FY21)

↑ 81%

product revenue
(↑ 84% in constant
currency)

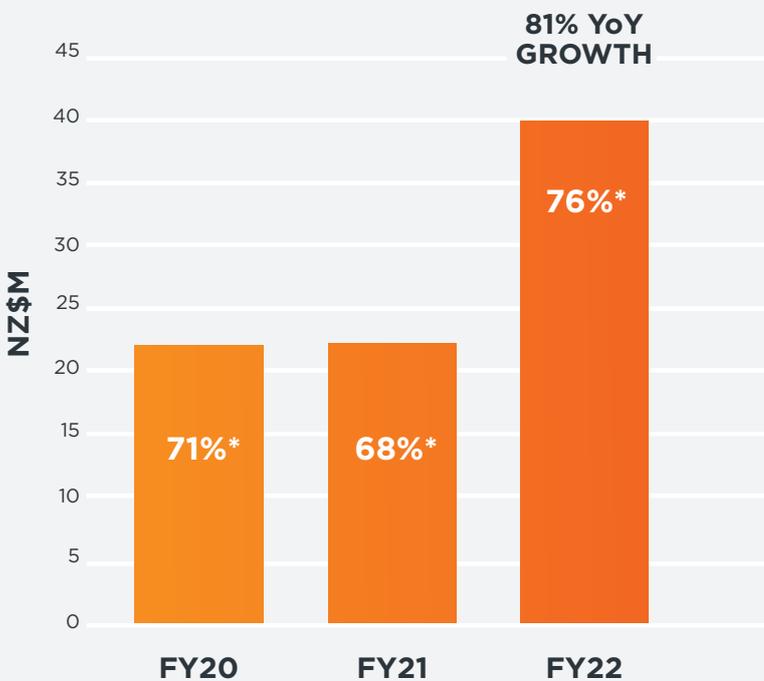
8%

improvement
in product
gross margin

NZ
\$56.2m

cash balance
as at end of FY22

TOTAL PRODUCT REVENUE

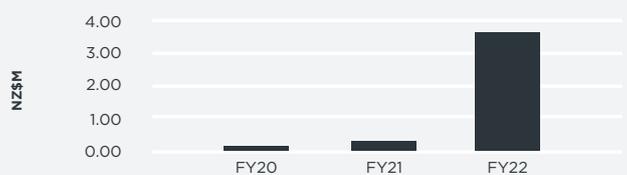


*Product gross margin

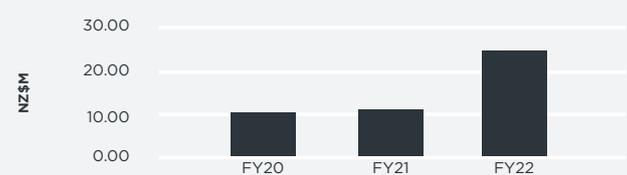
ENDOFORM™ SALES



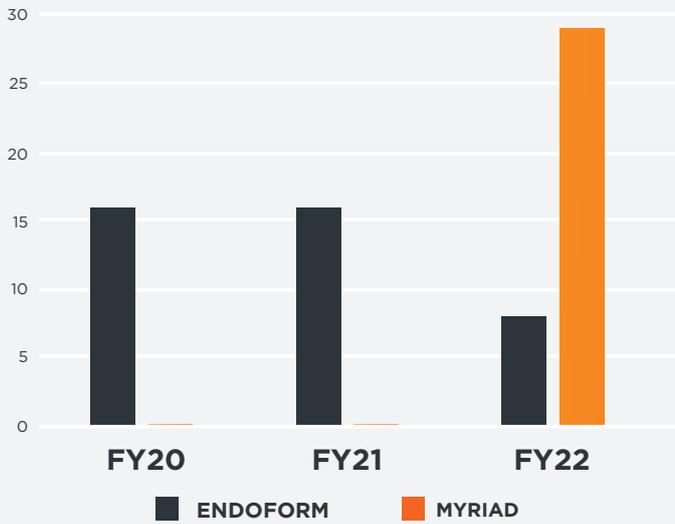
MYRIAD™ SALES



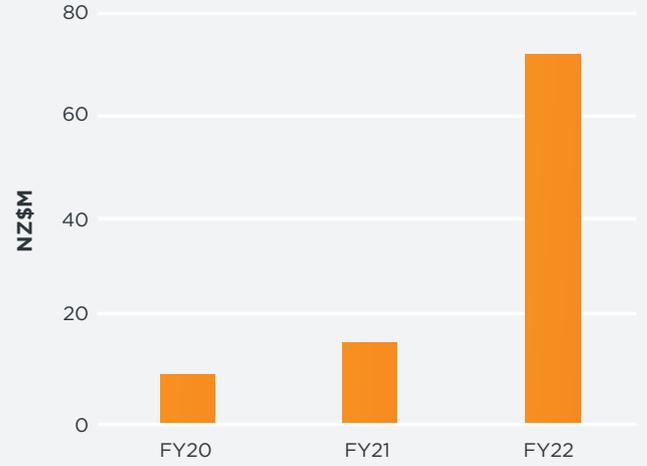
SALES TO TELA BIO™



US SALESPEOPLE

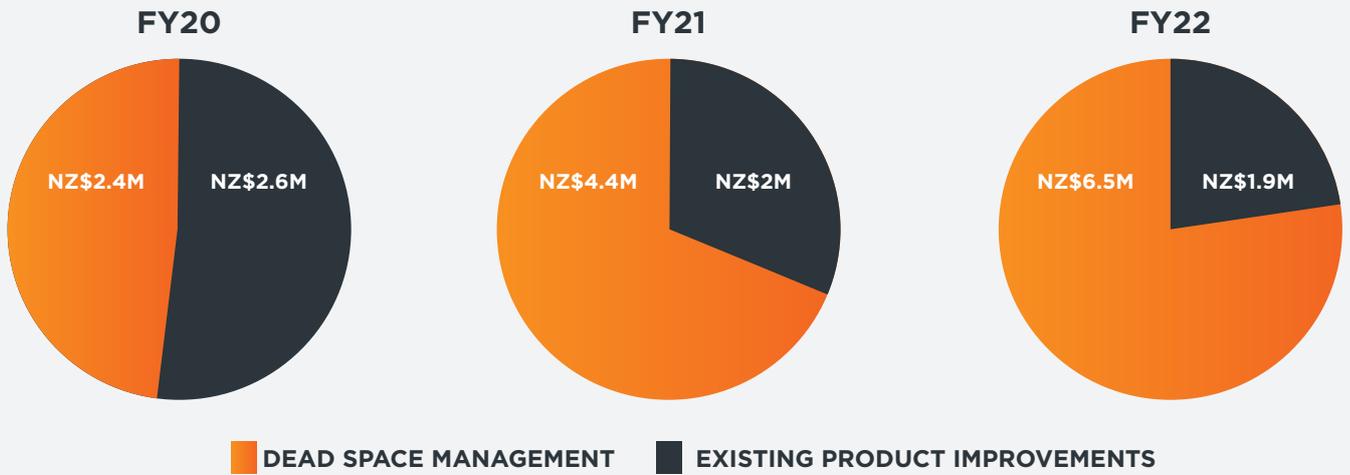


MYRIAD ACTIVE* ACCOUNTS



*Represents accounts to which sales were made in Q4 of the relevant financial year

R&D SPEND





CHAIR'S REVIEW

We are delighted to present AROA's Annual Report for the 2022 financial year. As outlined in Brian's CEO Report, we undertook a number of steps this year to accelerate our growth. AROA's FY22 performance validated those actions, and we are pleased to have delivered on our goals.

AROA's product revenue for the year was NZ\$39,154,000 (NZ\$37.7 million in constant currency), representing 81% growth over the previous year. This result also exceeds AROA's constant currency guidance of NZ\$30-33 million and then upgraded to NZ\$34-37 million.

We remain focused on improving earnings growth into the future. With that goal in mind, AROA implemented several strategies to grow our product gross margins by 8% compared to the prior year. These included introducing higher-margin products and increasing operational efficiency. We are pleased to report that our FY22 product gross margin was 76%, exceeding our published guidance (initially 70%, and then upgraded to 73%-75%). AROA reported a loss before tax of NZ\$8.3 million (normalised EBITDA loss of NZ\$1.5 million) for FY22, despite substantially increasing investment in our US commercial operations and products pipeline.

AROA ended FY22 with a strong cash balance of NZ\$56.2 million. These funds include proceeds remaining from our institutional placement and share purchase plan capital raisings in July/August 2021 which raised approximately A\$47.4 million. AROA is now debt-free, having used part of the capital raising proceeds to repay Hollister Inc. for the remaining debt relating to the 2018 re-acquisition of global rights for wound care products.

We are also proud to report that Myriad Matrix™ was awarded the Gold Award for "Most Innovative Dressing or Device" at the Journal of Wound Care's World Union of Wound Healing Societies Awards 2022.

On behalf of the Board, I would like to acknowledge the exceptional efforts of our people and partners in delivering these outstanding results. This was despite another year of COVID-19 outbreaks and associated disruptions, and their continued impact on hospital access and procedure volumes in the US. Whilst we look ahead to the 2023 financial year with optimism, it is important to recognize the impact successive years of public health crises and lockdowns have had.



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MES1592
KAYE
FREEZE DRYER

Looking ahead, we believe the Company is well-positioned for strong growth in FY23 and beyond. Total revenue has grown from approximately NZ\$22.3 million in FY21 to approximately NZ\$39.7 million in FY22. As outlined in Brian’s CEO Report, AROA has also successfully implemented strategic and operational objectives designed to further accelerate growth. We expect these objectives to continue delivering results as the effects of COVID-19 wane.

The AROA ECM™ platform technology, which underpins our range of products, offers disruptive value. As countries encounter increasingly ageing populations, obesity rates and incidence of diabetes, the growing pressure on healthcare dollars is fuelling demand for products that improve the efficiency and effectiveness of care. Our platform technology is well placed in this environment and has unique features which have been shown to aid the healing process and help reduce wound closure times.^{2,3,4}

We are continuing to extend the body of clinical evidence to demonstrate that our products can improve healing outcomes. Coupled with our accessible pricing structure, we consider that our products represent an attractive offering for clinicians and healthcare providers around the world.

Over five million AROA devices have been applied in treating patients to date. We expect that this is the start and that our products have the potential to unlock regenerative healing for every *body*. Thank you for your continued support as we continue working towards that mission.

J. N. McLean

Jim McLean



Independent Chair of the Board of Directors



Myriad Matrix™ was awarded the Gold Award for “Most Innovative Dressing or Device”

CEO'S REPORT

The strategic re-alignments we initiated in the previous financial year have delivered results. As Jim outlined, we have exceeded our financial goals for the 2022 financial year. I am pleased to report that we have also successfully executed our strategic and operational objectives for FY22.



Myriad Morcells™

Expanding salesforce and US opportunities

In our FY21 Annual Report, we signalled that sales of our Myriad products would underpin AROA's medium-term growth. These products are typically used in an inpatient and operating room setting, and our key focus in FY22 was on growing our US direct field sales team to target hospital accounts and ambulatory surgical centres. We now have 33 direct field sales representatives in the US, expanding our overall US commercial operations resource by 54% to 54.

This investment has begun delivering returns. The direct field salesforce has furnished a strong pipeline of clinical evaluations, value committee approvals and hospital conversions for our Myriad Matrix and Myriad Morcells™ products (commercially launched in the US in the 2020 and 2021 calendar years respectively). We are pleased to report that in FY22, the US team delivered a 350% year-on-year increase in the number of active accounts⁵ purchasing our Myriad products, to 72. During the year, the Company also signed a contract extension adding Myriad Matrix and Myriad Morcells products to our pre-existing purchase agreement with HealthTrust. HealthTrust is the third largest group purchasing organization in the US, and this extension enables HealthTrust's members to access our Myriad products.⁶

AROA also commenced a limited US commercial launch of our Symphony™ products during the year, focused on US Department of Veterans Affairs hospitals and clinics. Symphony has an estimated US market size of US\$1.15 billion⁷ and so it represents significant potential value within our product portfolio.

Symphony requires a unique reimbursement code within the US health system, so a key area of focus over the next 18 months will be to execute our reimbursement strategy and secure coding coverage and payment to support a full commercial launch in the US.

TELA Bio performance

TELA Bio, our sales and distribution partner licensed for abdominal wall reconstruction/hernia and breast reconstruction, performed strongly in CY21 reporting a full year total revenue of US\$29.5 million (a 62% increase on CY20).

This result followed positive results from TELA Bio's prospective, single-arm, multicentre, post-market BRAVO study.⁸ The study evaluated 75 patients at 12 months and found that only two (2.7%) patients had a recurrence, both adjacent to the original hernia repair and with the OviTex repairs remaining intact. The 12-month analysis showed low surgical site occurrence and surgical site infection rates, and the 24-month follow-up assessed hernia recurrence rates of below 5%. In comparison, a large prospective study of porcine acellular dermal matrix reported recurrence rates of 19% and 28% at 12- and 24-months respectively,⁹ while studies of resorbable synthetic meshes have reported recurrence rates of up to 21%.^{10,11,12}

Clinical studies building confidence

Clinical evidence is an important element to drive the adoption of our products. We are pleased to report that several studies were published or commenced during the year to demonstrate that our products can improve healing outcomes.

In August 2021, a positive study of real-world data was published in the prestigious 'International Wound Journal'.¹³ The study retrospectively analysed data from 2,222 diabetic foot ulcer wounds from 1,590 US patients. It is the first large analysis of its kind comparing the healing efficacy of AROA's Endoform product to traditional collagen/oxidized regenerated cellulose. The study found that wounds treated with AROA's Endoform Natural product showed a significantly improved probability of wound closure (18% to 38%) and wound closure rate (11.3% to 21.4% reduction in time to closure) compared to wounds treated with a traditional collagen dressing.

AROA currently has four clinical studies underway, assessing our Endoform, Myriad and Symphony products.

Product pipeline

We continued to grow our product portfolio during the year, with work on line extensions to existing products and new products utilising our AROA ECM platform technology for different procedures and stages of healing.

In particular, AROA sees significant potential¹⁴ in our Dead Space Management platform technology (ENIVO™) which we previewed during the year. We increased our investment in ENIVO during the year to accelerate commercialization. Further investment into this new range is planned for FY23, with AROA targeting FDA 510(k) submission and publication of a peer-reviewed pre-clinical study in the coming year.

Manufacturing

We are pleased to report that AROA is well placed to meet the growing demand for our products. We completed construction of our second manufacturing facility during the year, and commercial manufacturing is now underway there. Our two manufacturing facilities are designed to support approximately NZ\$100 million in aggregate annual sales, with operating capacity for the second facility coming online in phases as necessary to support demand.

Acknowledgments

As we reflect on our FY22 achievements, I want to re-iterate AROA’s appreciation to our people and partners for their commitment, resilience and agility in another gruelling year of COVID-19. In particular, our NZ staff persevered through almost four months of lockdown in Auckland and our manufacturing and other critical staff continued coming to work amid a community outbreak. We could not have delivered our FY22 outcomes without your hard work and dedication. Our US sales team also went above and beyond to ensure that patients continued to receive our existing products and to uncover new sales opportunities.

I would also like to take this opportunity to thank our outgoing Chief Operations Officer, Simone von Fircks. Simone has been with AROA for over eight years and was instrumental to the Company’s development. She has decided to step away from AROA to focus on other ventures, and we wish her the very best in this next chapter of her journey.

Rod Stanley, our VP – Manufacturing, has joined AROA’s Executive Team and will be taking over Simone’s responsibilities. Rod has been with the Company for over nine years and was previously our Director of Manufacturing.

FY23 Outlook

AROA is cognisant of the global economic outlook for FY23 and associated increasing inflationary pressures, and is actively managing these risks. We are instituting measures to safeguard our operations to meet the growing demand for our products in the coming year and limit our exposure to global supply chain disruptions. The Company also expects a larger proportion of higher-value Myriad products in the sales mix to mitigate exposure to inflationary pricing pressures.



AROA’s newly completed additional manufacturing facility.

Our key area of focus for FY23 will be to continue expanding our US commercial operations, with plans to add up to 15 direct field sales representatives to the US team. Our US direct field sales representatives have established a strong foundation for Myriad sales and we expect to build further momentum throughout FY23.

We are also encouraged by TELA Bio’s strong results for the first quarter of the current calendar year, as well as their full-year revenue projections.

We are forecasting strong growth in FY23 with product revenue guidance of NZ\$51-55 million, reflecting a 30-40% increase on FY22. AROA also expects product gross margins to improve to 77% due to increased sales of higher-margin Myriad products and improving manufacturing efficiencies (despite increased indirect overheads from the new manufacturing facility). Given the dynamic and evolving impact of COVID-19, this guidance is subject to there being no material decline in US medical procedure numbers or sustained disruption to AROA’s manufacturing or transportation activities and TELA Bio delivering on its own revenue guidance of US\$40-45 million in CY22 (representing 36- 53% growth on CY21).¹⁵ It also assumes an average NZD/USD exchange rate of 0.70.

Concluding remarks

At its core, AROA’s strategy is to drive better patient healing by offering products that improve the effectiveness and efficiency of care at a price that expands access. We believe this delivers on the values driving healthcare spending decisions and progresses our mission to unlock regenerative healing for every *body*.

B. R. Ward

Brian Ward



Founder, CEO and Managing Director

OUR BOARD



James McLean

Chairman and Independent, Non-Executive Director, Member
(Audit Committee, Risk Committee and Remuneration & Nomination Committee)

First appointed 10 August 2011

James (Jim) is a resident of New Zealand. He has over 25 years' experience serving as Chair, Director, or an executive of research and technology businesses for both commercial and New Zealand Government organisations. In addition to AROA, current appointments include Chair of Prevar Limited and R J Hill Laboratories Limited.

He was Chair of the New Zealand Institute of Plant & Food Research and Chair of its predecessor HortResearch, as well as several private businesses and start-up companies. He served on the board of the then Foundation for Research, Science, and Technology including five years as deputy Chair. Jim was an executive and director of Genesis Research & Development Corporation Limited during its early stages through public listing.

Before specialising in science and technology businesses, Jim held management positions with an international manufacturing business and spent thirteen years as a partner at chartered accountants, EY. His time at EY was focused on business strategy and included two years' secondment to EY's Washington DC office.

Jim has a BSc (Hons) in Chemistry from University of Otago and a Post Graduate Diploma in Accounting from Victoria University of Wellington.



Brian Ward

Managing Director (and Founder & CEO)

First appointed 21 September 2007

Brian is the founder of AROA and a resident of New Zealand. He has held senior corporate roles in life sciences and health care companies for more than 25 years. 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, and has sat on a number of government and industry expert panels.

Brian has been responsible for leading the Company's growth from start-up through to the present.

As Founder, CEO and Managing Director of the Company, and a substantial shareholder in the Company, he is considered by the Board to not be an independent Director.

Brian is a graduate of 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.



Steven Engle

Independent, Non-Executive Director, Chair (Remuneration & Nomination Committee), Member (Risk Committee)

First appointed 1 April 2015

Steve is a resident of the US. He has over 20 years of executive leadership experience with public biotech companies developing breakthrough products in metabolic, autoimmune, oncologic and infectious disease areas.

Steve is the CEO and an Executive Director of Gradalis Inc., a late-stage biopharmaceutical company focused on the development and commercialization of novel personalized therapeutics to treat cancer. He is also the non-executive Chairman of the Board of Prescient Therapeutics Ltd., an ASX listed clinical stage oncology company and Executive Chairman of Author-it Software Corporation, a developer of authoring information solutions for pharmaceutical and biotechnology companies. Steve also runs Averigon, an advisory firm to the life sciences industry on matters ranging from business development to management team coaching.

He was previously the CEO of CohBar, a clinical stage biotechnology company developing mitochondria-based therapeutics to treat age-related diseases and extend healthy lifespan. Prior to that, he held roles as Chairman and CEO of XOMA Corporation, a leader in the development of therapeutic antibodies and antibody technologies, and 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. 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.

Steve holds M.S.E.E. and B.S.E.E. degrees from the University of Texas with a focus in biomedical engineering.



Philip McCaw

Non-Executive Director, Member (Remuneration & Nomination Committee)

First appointed 5 March 2008, last re-elected 20 July 2021

Phil is a resident of New Zealand and is the Founding Partner of Movac, one of New Zealand's leading Venture Capital funds. He led the original investment round into AROA in 2008, has worked closely with the Company and has served on the Board since then. Phil has also been appointed Chair of the New Zealand Government's recently established Startup Advisors' Council, to help identify and address the opportunities and challenges facing high growth start-up businesses.

Phil has over 20-years' experience investing into New Zealand technology companies and helping to guide their growth. He was an early investor in Trade Me, New Zealand's leading on-line trading community, which was sold to Fairfax in 2006. Phil was also an early investor into PowerByProxi, a wireless power technology spin-out from Auckland University, which was sold to Apple in 2018.

Outside of Movac, Phil remains an active angel investor and maintains a personal angel investment portfolio. He is a strong advocate for the development of the entrepreneurial and early-stage investment eco-system in New Zealand and was the past Chair of the Angel Association of New Zealand.

Prior to starting Movac Phil spent 10 years with Deloitte Consulting working in New Zealand and the US.

Due to his relationship with ongoing substantial shareholders in AROA, Phil is considered by the Board to not be an independent Director.

Phil has a Bachelor of Business Studies (Senior Scholar) from Massey University.



John Pinion

Independent, Non-Executive Director, Chair (Risk Committee),
Member (Audit Committee)

First appointed 1 February 2015, last re-elected 20 July 2021

John is a resident of the US. He has over 30 years of global experience leading biologic, small molecule pharmaceutical, gene therapy and device operations across Asia, Europe and the Americas. His expertise and leadership spans engineering, quality, manufacturing and translational sciences. He joined Ultragenyx in July 2015 and currently holds the role of EVP, Translational Sciences and Chief Quality Operations Officer. He provides leadership for Ultragenyx's translational sciences functions which includes Pharmacology and Toxicology, Research and Bioanalytical Development, as well as GxP Quality and Compliance and CMC Analytical 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, commercial and strategic planning activities.

John is also an Advisory Board Member for Celestial Therapeutics, Inc., a biopharmaceutical company focused on the development and commercialization of next-generation novel and groundbreaking mRNA vaccines and therapeutics for the treatment and prevention of a variety of infectious diseases, rare diseases and cancers.

John has previously held operational and senior leadership roles in Genentech (subsequently Roche post Genentech acquisition, as Senior Vice President and Global Head of Quality and Compliance for Pharma Technical Operations) and Baxter International's Renal, Bioscience, Parenterals and Device divisions.

He holds a B.S. in Mechanical Engineering from West Virginia University.



John Diddams

Independent, Non-Executive Director, Chair (Audit Committee)

First appointed 21 November 2019

John is a resident of Australia and has over forty years' experience as a CFO, CEO and director of both private and publicly listed companies. John is currently Chairman of the Board of xReality Group Limited (ASX:XRG) as well as a non-executive director of New Zealand based Volpara Health Technologies Limited (ASX:VHT), Surf Lakes Holdings Limited and DIT AgTech Limited.

John has extensive knowledge and experience in the practical application of ASX Listing Rules, Australian corporations' law, international accounting standards and corporate governance principles. He heads a CPA firm providing corporate advisory services to SME and mid-cap companies and has managed the listing process, secondary capital raisings and ASX listings in a number of diverse industry sectors, including oil and gas, food

and retail, telecommunications, adventure tourism, biotechnology, and the dental and medical sectors.

John holds a Bachelor of Commerce from University of NSW, is a Fellow of the Australian Society of CPAs and a Fellow of the Australian Institute of Company Directors.

OUR EXECUTIVE MANAGEMENT TEAM



Brian Ward

Founder and Chief Executive Officer, Managing Director

See previous section.



Brad Adams

VP – Commercial (USA)

Brad joined AROA in November 2019. He has over 20 years of experience in the strategic sales and marketing of medical devices within the United States medical system and in other jurisdictions. Prior to AROA, he served as Vice President, Sales at ACell Inc., a Columbia, Maryland based regenerative medicine company. Brad also has more than 15 years within both the Smith+Nephew, and, Johnson & Johnson families of companies, much of the time spent in senior global commercial roles. Brad has a proven record of accelerating revenue growth across multiple platforms including medical device, pharmaceutical, biologic, wound/tissue repair and regenerative medicine.

Brad holds a Master of Health Administration (Medical College of Virginia), a Bachelor of Arts in Economics with distinction (Virginia Military Institute) and has undertaken professional courses at Harvard Business School and The Wharton School, University of Pennsylvania. He is a long-standing member of the American College of Healthcare Executives.



James Agnew

Chief Financial Officer and Joint Company Secretary

James joined AROA's management team over 8 years ago. He has over 20 years' 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 in public practice providing accounting and business advisory services to a diverse range of successful New Zealand companies. In 2011 James was a finalist in the Young Financial Manager of the year at the Annual CFO Awards. James holds a Bachelor of Laws and Bachelor of Commerce from Auckland University.



Rod Stanley

VP – Manufacturing

Rod Stanley joined AROA 9 years ago and has 15 years' experience in medical device design and manufacturing. Prior to joining AROA, Rod worked in development of novel polymer coatings for microfluidic devices at Industrial Research Limited. Rod's professional expertise includes chemical processing of biomaterials, and implementation of sterilization processes. During his time at AROA, Rod's focus has been on process design and transfer into manufacturing, redevelopment and scale-up activities for the Auckland site, as well as overseeing routine production activities. Rod holds Master of Science and Bachelor of Science degrees in Chemistry from the University of Otago.

Simone von Fircks, AROA's Chief Operations Officer, has resigned and her last day with AROA is 30 June 2022. Rod Stanley will be taking over Simone's responsibilities.



Dr. Barnaby May

Chief Scientific Officer

Barnaby joined AROA's management team over 13 years ago. He completed his doctoral thesis on the design and synthesis of novel HIV protease inhibitors at the University of Canterbury, New Zealand. He subsequently undertook postdoctoral studies in 2000 at the University of California San Francisco (UCSF). During this time, he established and led a drug discovery program targeting human prion diseases, and successfully identified a compound that underwent immediate clinical studies. Barnaby developed additional related research programs in the areas of protein misfolding diseases, parasitic diseases, computational and structural biology. In 2003, he accepted an invitation to a faculty role at UCSF where he built and led a drug discovery program. This program spanned target and lead identification, high-throughput screening, medicinal chemistry, and pre-clinical pharmacokinetics. In 2004, Barnaby joined InPro Biotechnology as Scientific Director to lead product development of prion-related medical devices and diagnostics. After 8 years abroad, he returned to New Zealand in 2008 and joined AROA.



DIRECTORS' REPORT

The Directors present their report on the Group for the financial year ended 31 March 2022.

Principal activities

AROA is in the business of soft tissue regeneration. During the year, the Group's principal activity was the development, manufacture and distribution of products to improve healing in complex wounds and soft tissue reconstruction.

Review of operations and activities

Commentary on the Group's operations and activities during the year is set out in the Chair's Review and CEO's Report. Other than as set out there, the Directors are not aware of any matters or circumstances that have arisen since the end of the financial year which have significantly affected, or may significantly affect, the Group's operations, the results of those operations, or the Group's state of affairs in subsequent financial years.

Financial results for the year

Normalised Profit or Loss¹

	Reported 2022 NZ\$000	Reported 2021 NZ\$000	Reported YoY %	CC 2022 NZ\$000	CC YoY %
Product revenue	39,154	21,575	81	37,731	84
Other revenue	526	767	(31)	507	(30)
Total revenue	39,680	22,342	78	38,238	80
Gross profit	30,303	15,524	95	28,861	100
Product gross margin %	76%	68%	800 bps	75%	800 bps
Other income	1,116	2,682	(58)	1,116	(58)
Normalised selling and administrative expenses ²	(27,693)	(18,142)	53	(27,032)	53
Research and development	(8,354)	(6,425)	30	(8,354)	30
Total normalised operating expenses	(36,047)	(24,567)	47	(35,386)	47
Normalised EBIT	(4,628)	(6,361)	27	(5,409)	22
<i>Add back: Depreciation & amortisation</i>	3,131	3,071	2	3,131	2
Normalised EBITDA	(1,497)	(3,290)	55	(2,278)	41
Net finance expenses	(618)	(1,111)	(44)	(749)	(57)
Normalised loss before income tax	(5,246)	(7,472)	(30)	(6,158)	(29)

- The normalised profit or loss 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 AROA Group's comparative financial performance without any distortion from NZ GAAP accounting treatment specific to one-off, non-cash fair value adjustment of pre-offer shares issued in February and May 2020; and one-off transaction costs associated with AROA's successful IPO on the ASX in July 2020 and capital raise 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.
- 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'.

Product Revenue

Product revenue for the year was NZ\$39.2 million (NZ\$37.7 million in constant currency) representing growth of 81% on the previous year (84% in constant currency). Myriad™, OviTex™¹⁶ and OviTex PRS products were the major contributors to the growth whereas Endoform™ grew modestly as expected. Endoform and Myriad sales contributed 27% and 10% respectively to total product sales, with sales of OviTex and OviTex PRS contributing to the balance.

Other Revenue

Other revenue represents project fees income received for product development projects undertaken with TELA Bio. TELA Bio is AROA's sales and distribution partner licensed for abdominal wall reconstruction/hernia and breast reconstruction.

Gross Margin %

Product gross margin % increased by 8% to 76% (75% in constant currency) in the current year, as a result of increasing economies of scale, manufacturing efficiency improvements and the growth in sales of high margin Myriad products.

Other Income

Other income represents government grants, subsidies, rent and other sundry income. In the current year, the Group recognised a tax credit of NZ\$1.0 million under the Research & Development Tax Incentive program, which is expected to be received during FY23. In FY21, the Group received NZ and US Government wage subsidies of NZ\$1.3 million and Government research & development grants of NZ\$1.2 million.

Normalised Operating Expenses

Selling and administrative expenses were NZ\$27.7 million, representing a 53% increase (53% in constant currency) from NZ\$18.1 million in FY21. This reflects the increased investment into the Company's US-based sales operations.

Research and development expenses increased (from NZ\$6.4 million in FY21) to NZ\$8.4 million, representing a 30% change (no currency impact). This was largely attributable to the increased investment into the Company's Dead Space Management platform.

Reconciliation to NZ GAAP profit or loss

	Reported 2022 NZ\$000	Reported 2021 NZ\$000
Normalised loss before income tax	(5,246)	(7,472)
Share based payments	(2,965)	(2,010)
Transaction costs	(50)	(1,607)
Other losses	-	(8,013)
Loss before income tax (NZ GAAP)	(8,261)	(19,102)

Share Based Payments

Share based payments of NZ\$3.0 million relate to the vesting of share options issued to employees and Directors of the Company on IPO and to the vesting of "one-off" grants to certain employees, including the US based sales team.

Transaction Costs

Transaction costs of NZ\$0.1 million in the current year relate to the costs associated with the capital raise in August 2021. Transaction costs in FY21 of NZ\$1.6 million relate to the IPO on ASX in July 2020 and include lead manager fees, legal fees, accounting and audit fees, ASX listing fees and road show expenses.

Other Losses

Other losses of NZ\$8.0 million in 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 FY21, these financial liabilities at fair value through profit or loss were fully reclassified as equity, following the successful IPO.

Cashflows

Despite a decrease in the Normalised EBITDA loss in FY22 compared to FY21, net cash outflow from operating activities in FY22 was NZ\$11.5 million compared to NZ\$5.0 million in FY21. This increase in net cash outflow from operations is primarily the result of the timing of OviTex and OviTex PRS sales during the final quarter and the respective receipts of those sales falling in Q1 FY23. Investment in working capital also increased during the current year as a result of the year-on-year sales growth.

Cash on hand and term deposits increased to NZ\$56.2 million as at 31 March 2022 (from NZ\$35.4 million as at 31 March 2021), largely as a result of the Company's successful capital raising in July/August 2021 which netted NZ\$47.7 million. Repayment of borrowings totalled NZ\$10.8 million (inclusive of NZ\$1.3 million in interest) during the year, leaving the Company debt-free at the end of FY22. Purchases of property, plant and equipment of NZ\$4.5 million compared to NZ\$1.3 million in FY21, reflects the investment during the current year into expanding the Company's manufacturing facility.

Dividends

No dividends were paid, declared or recommended during the financial year.

Corporate Governance Statement

While the Board is ultimately responsible for AROA's corporate governance, the Audit Committee, Risk Committee and Remuneration & Nomination Committee support the Board by working with management on relevant issues at a suitably detailed level and then reporting back to the Board. Please refer to AROA's Corporate Governance Statement (available at <https://aroabio.com/nz/investors/>) for a summary of each Committee's responsibilities and functions. A copy of each Committee's charter is also available at <https://aroabio.com/nz/investors/>.

Indemnification and insurance of Directors and Officers

The Company has arranged, as provided for under its Constitution, insurance policies for Directors' and Officers' liability which, with a deed of indemnity entered into with each Director, are intended to ensure (to the extent permitted by applicable law) that the Directors and Officers will not incur monetary losses as a result of actions undertaken by them as a director or officer (as applicable) of any Group company. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of the law. Under the deeds of indemnity with the Directors, AROA must (subject to its Constitution and the Companies Act) maintain such insurance during the Director's directorship and for such period of time following the directorship as determined by the Board.

Director re-elections

Phil McCaw and John Pinion offered themselves up for re-election, and were re-elected, at the Company's annual general meeting on 20 July 2021.

Jim McLean and Steve Engle are offering themselves up for re-election at the Company's annual general meeting on 10 August 2022.

Board and Committee meetings

The table below shows attendances by each Director at Board and Committee meetings during the year.

Name	Board of Directors		Audit Committee		Risk Committee		Remuneration & Nomination Committee	
	Eligible	Attended	Eligible*	Attended	Eligible*	Attended	Eligible*	Attended
Jim McLean	8	8	3	3	4	4	3	3
Brian Ward	8	8	-	3	-	4	-	3
Steve Engle	8	8	-	-	4	3	3	3
Phil McCaw	8	8	-	-	-	-	3	3
John Pinion	8	8	3	3	4	4	-	-
John Diddams	8	8	3	3	-	-	-	-

*To attend as a member of that Committee

Environmental and social risks

AROA's manufacturing activities involve the controlled storage, use and disposal of hazardous materials. The Company has in place policies and procedures designed to facilitate compliance with applicable environmental regulations and to mitigate the risks associated with the Company's handling of such materials.

For more information on the Company's assessment of environmental and social risks, please refer to our Corporate Government Statement.

The Company is cognisant of its environmental and social impact as reflected in two of its five business objectives for FY23 (being (1) mitigating AROA's impact on the planet, and (2) ensuring a safe, healthy and productive workplace).

AROA is actively assessing its environmental and social sustainability footprint and intends to commence a comprehensive review of its exposure to environmental and social risks in the current financial year.

Non-audit services

AROA's auditor is BDO Auckland Limited. The Group's statutory audit fee for the financial year ended 31 March 2022 was NZ\$113,000.

During the year ended 31 March 2022, BDO Auckland Limited, or entities associated to it, provided the following non-audit services to the Group.

Description of services	Fees (NZ\$)
Review of interim consolidated financial statements	55,000

The Board is satisfied that the services noted above do not impair BDO's independence as auditor on the basis that such services were not in conflict with BDO's audit procedures or adequate safeguards were put into place to mitigate any independence risks.



REMUNERATION REPORT (UNAUDITED)

This Remuneration Report, which forms part of the Directors' Report, outlines the Group's approach to remuneration for the financial year ended 31 March 2022.

Overview

AROA's remuneration policies and practices are designed to attract, retain, motivate and reward talent by offering compensation and benefits which are (amongst others) competitive within industry, motivate management to pursue the Group's business objectives, growth and success and which align management's interests with the interests of shareholders.

AROA's remuneration programme comprises of:

- a fixed wage or salary, and legislative superannuation. This is set at a level to attract and retain high calibre employees and is reviewed annually taking into account individual, Company and market conditions;
- a discretionary component providing the potential for an annual cash or share-based bonus based on predetermined corporate and individual performance targets; and
- discretionary long term variable remuneration in the form of share options. The Group operated two employee and executive incentive plans during the financial year ended 31 March 2022; the NZ Option Plan and the US Option Plan. For further details relating to share options issued during the year, refer to note 21 to the consolidated financial statements.

In accordance with corporate governance best practice, the structure of Non-Executive Director remuneration is separate and distinct from that for the CEO and Executive Management.

For completeness, AROA operated an employee incentive share plan from 2014 which was wound up prior to AROA's admission to the ASX in July 2020. Under this plan, to maintain incentive alignment, employees (but not Directors) who held such shares were offered an interest-free loan from AROA to pay up their shares prior to the plan being wound-up. The loan facility was for a maximum amount of NZ\$0.8 million and was initially due to expire on 31 March 2022. Following consideration of a range of factors including employee retention, the Board approved an extension to the loan repayment date but only for individuals who remained employed by AROA as at 31 March 2022. Employees who are entitled to the loan extension must repay their loan by the earlier of (a) 28 February 2024, (b) the last date of their employment with AROA or (c) upon sale of the relevant shares. As at 1 April 2022, the aggregate amount outstanding under the loan facility was NZ\$408,000 (compared to NZ\$654,000 as at 1 April 2021).

Employee remuneration

Outlined below is remuneration (inclusive of the value of other benefits) totalling NZ\$100,000 or more received by employees or former employees of the Group during the financial year ended 31 March 2022. This does not include the CEO, who is also a Director of the Company.

Offshore remuneration amounts have been converted into New Zealand dollars.

The table includes salary, wages and discretionary annual variable remuneration paid during the 2022 financial year. It also includes the fair value of long-term variable remuneration as expensed in this period.

Remuneration range (NZ\$)			Number of employees
100,000	to	110,000	7
110,001	to	120,000	5
120,001	to	130,000	4
130,001	to	140,000	6
140,001	to	150,000	7
150,001	to	160,000	3
160,001	to	170,000	4
170,001	to	180,000	3

Remuneration range (NZ\$)			Number of employees
180,001	to	190,000	4
190,001	to	200,000	5
200,001	to	210,000	2
210,001	to	220,000	1
230,001	to	240,000	1
240,001	to	250,000	1
250,001	to	260,000	1
260,001	to	270,000	1
270,001	to	280,000	1
280,001	to	290,000	1
300,001	to	310,000	4
330,001	to	340,000	1
350,001	to	360,000	1
370,001	to	380,000	1
410,001	to	420,000	1

Overview of Non-Executive Director remuneration

The Remuneration & Nomination Committee assists the Board in establishing remuneration and nomination policies and practices that satisfy AROA's remuneration framework.

To achieve this, the Remuneration & Nomination Committee's responsibilities include reviewing and recommending to the Board the structure of remuneration to be paid to the Company's Non-Executive Directors and any changes to the structure of such payments. The Committee assesses and reviews each Non-Executive Director's compensation annually having regard to the time commitment and responsibilities of that Director (and having regard to market comparatives every two years). Where appropriate, the Committee engages external consultants to provide independent advice.

The Board has determined that Non-Executive Directors shall be compensated by way of cash fees and share options, but that no performance-based compensation shall be offered in order to ensure that objectivity in decision making is not compromised.

As approved by shareholders at AROA's 2021 Annual General Meeting, the maximum aggregate annual cash-based remuneration payable to all of the Company's Non-Executive Directors for their services as a Director is NZ\$650,000. The Company may also grant its Non-Executive Directors equity-based compensation in the form of share options.

Please refer to section headed 'Director remuneration details' for information on the Non-Executive Directors' remuneration for the 2022 financial year. AROA does not provide superannuation arrangements or retirement allowances to its Non-Executive Directors. Each Non-Executive Director is entitled to be paid for all reasonable travel, accommodation and other expenses incurred by that Director in connection with their attendance at meetings or otherwise in connection with AROA's business.

No share options were issued to the Company's Non-Executive Directors during the year. Please refer to the section headed 'Equity instrument disclosures; FY22 option vestings' for information relating to share options previously granted to the Non-Executive Directors which vested in the 2022 financial year.

Overview of Executive Management remuneration

The Remuneration & Nomination Committee reviews the performance and remuneration of Executive Management annually, and provides the Board with recommendations on the same. In designing its recommendations, the Committee reviews market remuneration levels for comparable roles.

Please refer to the table below for an overview of the remuneration components provided to the Company's Executive Management.

Component	Description	Link to strategy & performance
Fixed remuneration	<ul style="list-style-type: none"> • Base salary • Legislative superannuation 	Annual reviews take into account individual factors such as performance and behaviours
Discretionary annual variable remuneration	<ul style="list-style-type: none"> • At-risk component set at between 25% - 40% of base salary • Paid in cash • Designed to remunerate Executive Management relative to AROA's performance targets and individual performance targets that are aligned with AROA's performance objectives • Company performance targets comprise both financial targets and non-financial objectives • The targets are set at the beginning of each financial year and are approved by the Board • Performance against targets is determined by the Board at the end of each financial year after review by the Remuneration & Nomination Committee 	Rewards delivery of key strategic and financial objectives in line with AROA's annual business plan
Discretionary long term variable remuneration	<ul style="list-style-type: none"> • At-risk component in the form of share options • Designed to align Executive Management with shareholder interests over the longer term • Vesting is subject to continuing employment (unless the Board determines otherwise), so provides a longer-term employee benefit • Subject to the terms of the grant, vesting may also be subject to satisfaction of specified performance conditions 	Rewards delivery against longer term strategy and provides alignment between shareholder and Executive Management outcomes

As noted previously, members of the Executive Management team (other than the CEO, who is also a Director) may choose to utilise the loan provided by AROA in connection with the 2014 employee incentive share plan which was wound up in 2020.

Overview of CEO and Managing Director remuneration

Brian Ward's remuneration structure is consistent with the Executive Management structure outlined above. Please refer to the section headed 'Director remuneration details' for information on Brian's remuneration for the 2022 financial year. Brian does not receive additional remuneration in his capacity as a Director of the Company or any other Group company.

Brian was not granted share options in the year ended 31 March 2022. Please refer to the section headed 'Equity instrument disclosures; FY22 option vestings' for information relating to share options previously granted to Brian which vested in the 2022 financial year.

Director remuneration details

The Directors' remuneration (in NZ\$) for the year ended 31 March 2022 is set out below.

	Short term benefits		Post-employment benefits	Long term incentives	Total (NZ\$)
	Cash salaries and fees (NZ\$)	Discretionary annual variable remuneration (cash bonus) (NZ\$)	Superannuation (NZ\$)	Options* (NZ\$)	
Jim McLean	\$95,000	-	-	\$49,035	\$144,035
Steven Engle	\$85,887	-	-	\$39,123	\$125,010
Philip McCaw	\$70,000	-	-	\$39,123	\$109,123
John Pinion	\$85,887	-	-	\$39,123	\$125,010
John Diddams	\$74,316	-	-	\$6,666	\$80,982
Brian Ward	\$541,688	\$206,850**	\$22,456	\$331,362	\$1,102,356
TOTAL	\$952,778	\$206,850	\$22,456	\$504,432	\$1,686,516

* These amounts reflect the non-cash accounting cost of share options granted prior to FY22 based on NZ IFRS 2 - Share-based Payment. No cash payments are made in relation to these.

** Brian achieved 98.5% against target for AROA's FY22 performance. Brian had received discretionary annual variable remuneration of NZ\$140,000 for AROA's performance in the previous financial year (representing 100% achievement against target).¹⁷

Equity instrument disclosures

Options holdings

The number of share options held by each Director during FY22 is set out below.

	Balance as at 1 April 2021	Exercised	Balance at the end of the year	Vested and exercisable	Unvested
Jim McLean	307,200	(102,400)	204,800	102,400	102,400
Steven Engle	879,000	-	879,000	797,075	81,925
Philip McCaw	245,775	(81,925)	163,850	81,925	81,925
John Pinion	879,000	-	879,000	797,075	81,925
John Diddams	330,000	(165,000)	165,000	-	165,000
Brian Ward	3,132,525	-	3,132,525	2,088,350	1,044,175
TOTAL	5,773,500	(349,325)	5,424,175	3,866,825	1,557,350

FY22 option vestings

The following share options previously granted to the Directors vested in FY22:

	Financial year in which granted	Number of options vested	Exercise price (A\$)	Option expiry
Jim McLean	FY21	102,400	0.75	23 July 2025
Steven Engle	FY21	81,925	0.75	23 July 2025
Philip McCaw	FY21	81,925	0.75	23 July 2025
John Pinion	FY21	81,925	0.75	23 July 2025
John Diddams	FY20	165,000	0.11	30 November 2029
Brian Ward	FY21	1,044,175	0.75	23 July 2025

Shareholdings

The number of Shares held during FY22 by each Director, including their personally related parties, is set out below.

	Balance as at 1 April 2021	Received during the year on exercise of options	Purchases or, as specified, other additions	Balance at the end of the year
Jim McLean ¹⁸	2,572,308	102,400*	-	2,674,708
Steven Engle	226,553	-	-	226,553
Philip McCaw ¹⁹	16,722,425	81,925*	2,864,879**	19,669,229
John Pinion	472,500	-	-	472,500
John Diddams ²⁰	812,550	165,000*	-	977,550
Brian Ward ²¹	33,125,800	-	-	33,125,800

* Shares issued to Jim McLean, Philip McCaw and John Diddams upon the exercise of 102,400 share options (exercise price of A\$0.75 each), 163,850 share options (exercise price of A\$0.75 each) and 165,000 share options (exercise price of A\$0.1075 each) respectively. The shares were issued in accordance with the exception under ASX Listing Rule 10.16(c) as the share options were issued prior to AROA's listing on the ASX and the requisite information was disclosed in AROA's IPO Prospectus.

***Received pursuant to an in-specie distribution of existing AROA shares by Movac Fund 3 LP to McSyth Capital Investment Trust and the McSyth Charitable Foundation Trust.

END OF REMUNERATION REPORT

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board.



Jim McLean
Independent Chair of the Board of Directors



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 2022, 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 2022, 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 (“NZ IFRS”).

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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company or any of its subsidiaries.

Key Audit Matters

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

Recognition of revenue - TELA Bio revenue share

Key Audit Matter

The Group’s largest customer is TELA Bio who is the Group’s USA sales and distribution partner for abdominal wall reconstruction and hernia repair and breast reconstruction in North America and Europe. The contract with TELA Bio entitles the Group to an agreed percentage of TELA Bio’s net sales. This revenue is considered to be variable consideration (“revenue share”). The consideration is variable since the quantum of TELA Bio’s

How The Matter Was Addressed in Our Audit

Our audit procedures comprised the following:

- We have obtained and evaluated Management’s TELA Bio revenue share accrual assessment as at 31 March 2022.
- We have obtained Management’s calculations prepared for the revenue share accrual and evaluated the reasonableness of key inputs and assumptions. The key inputs included sales history, expiry dates of inventory held, and average selling prices achieved by TELA



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Recognition of revenue - TELA Bio revenue share

Key Audit Matter

inventory that is eventually sold and the price that it is sold at are uncertain.

Variable consideration recognised is estimated by using the expected value method. The estimation is based on information that is reasonably available to the Group which incorporates key factors including sales history, expiry date of inventory held, and average selling prices achieved by TELA Bio. The amount of variable consideration is only recorded by the Group to the extent that it is highly probable that a significant reversal in the amount of the cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

We consider this to be a key audit matter because of the judgement involved in determining the variable consideration and the quantum of the accrued revenue of \$4.770m.

Refer to note 3 revenue and segment information and note 11 trade and other receivables of the consolidated financial statements.

How The Matter Was Addressed in Our Audit

- Bio. We considered an independent research paper which covered TELA Bio.
- We have obtained confirmation from TELA Bio, confirming the actual revenue share for their sales made in the year ended 31 March 2022.
 - We have compared the key inputs and assumptions with those used by Management last year and considered if these are indicative of Management bias.
 - We considered if the amount of variable consideration estimated is only recorded by the Group to the extent that it is highly probable that a significant reversal in the amount of the cumulative revenue recognised will not occur.
 - We have reviewed the disclosures in note 3 and 11 to the consolidated financial statements, including the revenue recognition policy, to the requirements of the accounting standard.

Goodwill impairment test

Key Audit Matter

The Group has recognised goodwill on a historical acquisition. The goodwill balance of \$5.538m at 31 March 2022 is subject to an annual impairment test in accordance with NZ IAS 36 - *Impairment of Assets*.

The Directors performed their impairment test, by considering the recoverable amount of the Group's goodwill using a value in use calculation. This calculation is complex and subject to key inputs and assumptions such as discount rates and future cash flows, which inherently include a degree of estimation uncertainty and are prone to potential bias and inconsistent application and therefore considered to be a key audit matter

Refer to note 14 intangible assets of the consolidated financial statements.

How The Matter Was Addressed in Our Audit

- Our audit procedures comprised the following:
- We have obtained and evaluated Management's goodwill impairment assessment as at 31 March 2022.
 - We obtained Management's value in use calculations prepared for the Cash Generating Unit ('CGU'). We evaluated and challenged the key inputs and assumptions. The key inputs included revenue growth rates, terminal growth rate, gross margins and discount rate.
 - We engaged our internal valuation experts to review the mechanics of the value in use calculation against the valuation methodology, and the discount rate used.
 - We reviewed Management's sensitivity analysis performed on key inputs and assumptions to determine the extent to which any changes would affect the recoverable amount of the assets. We also



Goodwill impairment test

considered and tested alternate sensitivities.

- We compared the carrying value of the CGU to the recoverable amount determined by the impairment test to identify any impairment losses.
- We have reviewed the disclosures in note 14 to the consolidated financial statements, including impairment and sensitivity analysis, to the requirements of the accounting standard.

Accounting for share based payment arrangements

Key Audit Matter

During the year, the Group issued options to certain employees, including Directors, under the share based payment arrangements. The share based payment arrangements included both market based and non-market based vesting conditions. In determining the value of the new arrangements, the Group used the services of a third-party valuation specialist.

The Group also had existing share based payment arrangements that were exercised during the year and one arrangement where the vesting conditions were modified which altered the estimate of the number of options expected to vest.

The share based payments expense recorded for the year ended 31 March 2022 is \$2.965m. Details of these share based payment arrangements are disclosed in note 5 employee benefit expenses and note 21 share based payments reserve of the consolidated financial statements.

There is judgement involved in determining the value of share based payment arrangements and subsequent recording of the fair value as an expense over the estimated vesting period. As a result and given the magnitude of the expense in the current year, the audit of the share based payment arrangements was considered a key audit matter.

How The Matter Was Addressed in Our Audit

Our audit procedures comprised the following:

- We have obtained and evaluated Management's Treatment of share based payment arrangements Assessment as at 31 March 2022.
- We agreed the terms of the share based payment arrangements issued during the year to contracts.
- We have assessed, in conjunction with our valuation specialists, the appropriateness of the valuation methodology used by management's specialist and the key input assumptions such as volatility rates, expected life and probability of achieving the market-based performance condition.
- We have assessed the Group's judgements in relation to the probability of achieving non-market based vesting conditions including those related to the modified option.
- We recalculated the share based payments expense recorded in the Statement of Profit or Loss and Other Comprehensive Income over the relevant vesting periods
- We reviewed the disclosures in note 5 and 21 in relation to the share based payment arrangements.



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Other Information

The directors are responsible for the other information. The other information comprises the Aroa Biosurgery FY22 Results and FY23 Outlook - Commentary, and Appendix 4E - ASX Listing Rule 4.2A (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

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, 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-1/>.

This description forms part of our auditor's report.



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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.

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

BDO Auckland

BDO Auckland
Auckland
New Zealand
23 May 2022

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

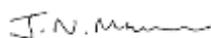
	Notes	2022 \$000	2021 \$000
Revenue	3	39,680	22,342
Cost of sales		(9,377)	(6,818)
Gross profit		30,303	15,524
Other income	3	1,116	2,682
Selling and administrative expenses		(30,708)	(21,759)
Research and development expenses		(8,354)	(6,425)
Other losses	7	-	(8,013)
Operating loss before net financing costs	4,5	(7,643)	(17,991)
Finance income	6	535	800
Finance expenses	6	(1,153)	(1,911)
Net finance expenses		(618)	(1,111)
Loss before income tax		(8,261)	(19,102)
Income tax expense	8	(125)	(107)
Loss for the year attributable to shareholders		(8,386)	(19,209)
Other comprehensive income			
Items that will or maybe reclassified to profit or loss			
Exchange (loss)/income arising on translation of foreign operations		(385)	332
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	10	(345)	615
Total other comprehensive income		(730)	947
Total comprehensive loss for the year attributable to shareholders		(9,116)	(18,262)
Earnings per share during the year:			
Basic earnings per share (cents)	22	(2.45)	(6.39)
Diluted earnings per share (cents)	22	(2.45)	(6.39)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

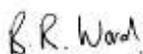
As at 31 March 2022

	Notes	2022 \$000	2021 \$000
Current assets			
Cash and cash equivalents	9	6,165	15,381
Term deposits	9	50,000	20,000
Derivative assets	25	-	31
Trade and other receivables	11	18,494	8,106
Inventories	12	3,981	3,608
Tax receivable		-	39
Financial assets at fair value through other comprehensive income	10	1,239	1,584
Total current assets		79,879	48,749
Non-current assets			
Property, plant and equipment	13	10,023	6,707
Prepayments	11	149	171
Right of use assets	18	5,333	5,951
Intangible assets	14	17,269	18,077
Total non-current assets		32,774	30,906
Total assets		112,653	79,655
Current liabilities			
Trade and other payables	15	3,089	2,744
Employee benefits	16	2,982	2,030
Interest-bearing loans and borrowings	17	-	9,952
Lease liabilities	19	589	566
Tax payables		51	-
Total current liabilities		6,711	15,292
Non-current Liabilities			
Provisions		164	161
Lease liabilities	19	5,287	5,716
Total non-current liabilities		5,451	5,877
Total liabilities		12,162	21,169
Net assets		100,491	58,486
Equity			
Share capital	20	145,755	97,316
Share based payment reserve	21	4,812	2,130
Foreign currency translation reserve		(187)	198
Equity investment reserve		1,239	1,584
Accumulated losses		(51,128)	(42,742)
Total equity		100,491	58,486

On behalf of the Board
23 May 2022



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 year ended 31 March 2022

	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
Comprehensive income							
Loss for the year		-	(8,386)	-	-	-	(8,386)
Other comprehensive income for the year		-	-	(385)	(345)	-	(730)
Total comprehensive income for the year		-	(8,386)	(385)	(345)	-	(9,116)
Transactions with shareholders							
Issue of equity securities	20	47,740	-	-	-	-	47,740
Employee shares exercised	20/21	457	-	-	-	(283)	174
Employee shares forfeited	21	-	-	-	-	(162)	(162)
Share based payments	21	242	-	-	-	3,127	3,369
Total transactions with shareholders		48,439	-	-	-	2,682	51,121
Balance as at 31 March 2022		145,755	(51,128)	(187)	1,239	4,812	100,491
Balance as at 1 April 2020		29,353	(23,533)	(134)	969	951	7,606
Comprehensive income							
Loss for the year		-	(19,209)	-	-	-	(19,209)
Other comprehensive income for the year		-	-	332	615	-	947
Total comprehensive income for the year		-	(19,209)	332	615	-	(18,262)
Transactions with shareholders							
Issue of Series C3 preference shares		33,833	-	-	-	-	33,833
Issue of equity securities	20	30,554	-	-	-	-	30,554
Employee shares exercised	20	2,601	-	-	-	(807)	1,794
Employee shares forfeited	21	-	-	-	-	(25)	(25)
Share based payments	21	975	-	-	-	2,011	2,986
Total transactions with shareholders		67,963	-	-	-	1,179	69,142
Balance as at 31 March 2021		97,316	(42,742)	198	1,584	2,130	58,486

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 2022

	Notes	2022 \$000	2021 \$000
Cash flows from operating activities			
Cash receipts from sales revenue		29,376	21,044
Cash receipts from license fees, project fees, and grant income		1,654	2,552
Cash paid to suppliers and employees		(41,329)	(28,115)
Interest received		136	134
Interest paid		(1,340)	(853)
Income tax received		-	231
Income tax paid		(19)	-
Net cash outflow from operating activities	27a	(11,522)	(5,007)
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(4,455)	(1,265)
Purchase of intangible assets	14	(416)	(235)
Term deposits	9	(30,000)	(20,000)
Net cash outflow from investing activities		(34,871)	(21,500)
Cash flows from financing activities			
Proceeds from issue of shares	27b	50,324	34,951
Proceeds from financial liabilities at FVTPL	27b	-	19,804
Transaction costs related to issues of equity securities or convertible debt securities		(2,214)	(4,329)
Repayment of borrowings/deferred consideration		(9,514)	(12,596)
Lease liability - Principal payments		(575)	(322)
Lease liability - Interest payments		(388)	(409)
Net cash inflow from financing activities	27b	37,633	37,099
Net (decrease)/increase in cash and cash equivalents		(8,760)	10,592
Effect of exchange rate fluctuations on cash and cash equivalents		(456)	939
Cash and cash equivalents at beginning of year		15,381	3,850
Cash and cash equivalents at end of year	9	6,165	15,381

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 2022

1. Corporate information

Aroa Biosurgery Limited ("the Company") together with its subsidiaries (the "Group") is a leading regenerative medicine company which develops, manufactures and distributes medical devices for wound and 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 consolidated financial statements of Aroa Biosurgery Limited and its subsidiaries (the "Group") for the year ended 31 March 2022 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	2022	2021
			%	%
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 23 May 2022.

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 ("NZ IFRS"), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, as appropriate for profit orientated entities. The consolidated financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following item (refer to individual accounting policies for details):

- Financial assets at fair value through other comprehensive income

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 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 to Note 4), the likely term of leased premises, which impacts leasehold improvements assets and right of use assets capitalised (refer to Notes 13 and 18), TELA Bio Incorporated ("TELA Bio") accrued revenue (refer to Notes 3 and 11), the value of share-based payments (refer to Note 21), and the impairment of intangible assets (refer to Note 14).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

2. Summary of significant accounting policies (continued)

Use of estimates and judgements (Continued)

As a result of the ongoing COVID-19 pandemic, management assessed its impact on financial statement areas as outlined below.

- Going concern: The Directors have concluded that the Company is a going concern. Refer below.
- Inventory: Management considers any extra risk caused by COVID-19 as of reporting date is not material given the average remaining shelf life for inventories on hand being significantly more than 12 months and a strong recovery in sales activities noted in the year. Refer to Note 12.
- Investments: The Group's financial assets include listed equities. Management is satisfied that there is no impairment to the value as of reporting date. Refer to Note 10.
- 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. Refer to Note 14.

Going concern

The Group posted a net loss before tax of \$8,261,000 for the year (2021: loss before tax of \$19,102,000). The Group posted total operating cash outflow of \$11,522,000 (2021: outflow of \$5,007,000).

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 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, in the reporting period. Management is not aware of any other event or condition that may cast significant doubt on its going concern assumptions.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at the reporting 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.

Changes in accounting policies

No new standards have been adopted in the annual financial statements for the year ended 31 March 2022.

New standards, interpretations and amendments not yet effective

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The Group does not expect these amendments issued by the IASB, but not yet effective, to have a material impact on its consolidated financial statements when applied in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

3. Revenue and segment information

The Group is in the business of developing, manufacturing and selling soft tissue repair products. Revenue from contracts with customers is recognised when performance obligations pursuant to that contract are satisfied by the Group.

The Group has identified the following main categories of revenue:

Sales of goods

The Group's revenue primarily consists of the sale of its products. Revenue is recorded when the customer takes possession of the product. All contracts with customers are standardised and satisfy the criteria of transaction approval, identification of each party's rights, payment terms, commercial substance, and probable collection based on the customer's ability and intention to pay. Revenue is recognised at a point in time when control over the product transfers to the customer, which is assessed to be at the time of receipt of goods by the customer.

The Group also sells its products via a distributor model whereby the sales are made direct to a distributor being the customer of the Group, with the distributor permitted to resell the Aroa products to an end user. The Group has assessed these arrangements to consider that control passes to the distributor at the point the distributor takes possession of the products. The Group considers itself to be acting as principal in the sale of goods to distributors and recognise revenue on a gross basis.

All contracts with distributors are standardised and satisfy the criteria of transaction approval, identification of each party's rights, payment terms, commercial substance, and probable collection based on the customer's ability and intention to pay. Revenue is recognised at a point in time when control over the product transfers to the distributor as the customer, which is assessed to be at the time of receipt of goods by the distributor.

a. Revenue share

The Group's largest customer is TELA Bio who is the Group's sales and distribution partner for abdominal wall reconstruction and hernia repair and breast reconstruction in North America and Europe. The contract with TELA Bio entitles the Group to an agreed percentage of TELA Bio's net sales. This revenue is considered to be variable consideration ("revenue share"). The consideration is variable since the quantum of TELA Bio's inventory that is eventually sold and the price that it is sold at are uncertain.

The consideration from TELA Bio is received from a transfer price for the products shipped to TELA Bio, with the balance of the consideration received on quarterly true up to the agreed percentage based on TELA Bio's net sales. The Group estimates the true up on TELA Bio's inventory at the reporting date by using the expected value method. The estimation is based on information that is reasonably available to the Group which incorporates key factors including sales history, expiry date of inventory held and average selling prices achieved by TELA Bio. The amount of variable consideration estimated is only recorded by the Group to the extent that it is highly probable that a significant amount of the cumulative revenue recognised will be received in the future.

Project fees

Project fees received are recognised over time when the performance obligations are fulfilled pursuant to 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 applicable performance obligations have been fulfilled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

3. Revenue and segment information (continued)

	2022 \$000	2021 \$000
Sales of goods (USA)	38,077	20,617
Sales of goods (Rest of the world)	1,077	958
Project fees (USA)	526	767
Total revenue	39,680	22,342
Revenue recognised point in time	39,154	21,575
Revenue recognised over time	526	767
Total revenue	39,680	22,342

Segment information

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

The Group sells its products and services to external customers who are largely located in the United States of America (the "USA") as reflected in the sales 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 approximately \$25,336,000 (2021: \$11,811,000) are derived from a single external customer, being sales of products and services to TELA Bio, which is the Group's 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 approximately \$0.1m for the leasehold property in the USA.

Other income

Other income includes research and development related grants and rent income. The Group expects to receive a tax credit payment of \$965,000 under the Research and Development Tax Incentive program. (2021: \$1.2 million under Callaghan Innovation grant). The Group received no COVID-19 related subsidies or business support measures from New Zealand and US governments during the reporting period. (2021: \$1.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

4. Operating loss before net financing costs

	Note	2022 \$000	2021 \$000
Operating loss before net financing costs includes the following:			
Fair value adjustments to financial liabilities at FVTPL	7	-	8,013
Transaction costs relating to issue of securities		50	1,607
Auditor's fees:			
Statutory audit		113	128
Other assurance engagements:			
Half-year review		55	54
Research and development review		-	5
Raw materials and consumables		4,269	2,865
Depreciation:	13/18		
Property, Plant & Equipment - Research and development *		369	367
Property, Plant & Equipment - Other		765	747
Right of use assets - Research and development *	18	115	84
Right of use assets - Other	18	658	658
Non-executive directors' fees	23	411	389
Insurance		817	756
Rental lease costs - low value and short-term leases		110	121
Amortisation:			
Patents	14	63	54
Customer relationships and reacquired rights	14	1,161	1,161
Write-down of inventory to net realisable value		118	70
Research and development *		7,847	5,974

* Total research & development expenditure is \$8,354,000 (2021: \$6,425,000). It includes an amount of \$515,000 (2021: \$660,000) funded by third parties outside of the Group. All research & development has been expensed in accordance with New Zealand Equivalent to International Accounting Standard 38 - Intangible Assets ('NZ IAS 38').

5. Employee benefit expenses

	Note	2022 \$000	2021 \$000
Salaries & wages (including bonuses)		24,071	16,166
Employer contributions defined contribution Superannuation scheme inclusive of tax		2,032	652
Share based payments - employee share ownership plan	21	30	96
Share based payments - share options plan	21	2,935	1,889
Total employee benefit expenses		29,068	18,803

Employee entitlements includes an amount of \$4,461,000 (2021: \$3,070,600) disclosed as part of research and development expenditures in Note 4 and includes an amount of \$173,000 (2021: \$305,000) relating to share-based payments for shares issued to the Directors as disclosed in Note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

6. Net finance income/(expenses)

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

	Note	2022 \$000	2021 \$000
Finance income – assets at amortised cost			
Interest received on bank balances		403	154
Foreign currency gains		132	646
Total finance income		535	800
Finance expenses – liabilities at amortised cost			
Interest expenses – borrowings		-	(23)
Interest expenses – deferred consideration		(747)	(1,478)
Interest expenses – lease liabilities	19	(403)	(406)
Finance cost – make good provision		(3)	(4)
Total finance expenses		(1,153)	(1,911)
Net finance expenses		(618)	(1,111)

Interest expenses on deferred consideration relates to the deferred consideration of \$747,000 (2021: \$1,478,000) owed to Hollister for the purchase of the Wound Care business. This balance was fully repaid in August 2021. Refer to Note 17.

7. Other losses

	2022 \$000	2021 \$000
Fair value adjustment on financial liabilities at FVTPL	-	(8,013)
Total other losses	-	(8,013)

The fair value adjustment on financial liabilities at FVTPL relates to Series C (3) Preference shares that were fully reclassified to equity upon IPO in the year ended 31 March 2021.

8. 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

8. Income taxes (continued)

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	2022 \$000	2021 \$000
Accounting loss before income tax	(8,261)	(19,102)
Income Tax @ 28%	(2,313)	(5,349)
Impact of tax rates in overseas jurisdictions	(30)	110
Expenses not deductible for tax purposes	1,141	3,225
Foreign tax credits forfeited	-	-
Income not subject to tax	(270)	-
Recognition deferred tax on temporary differences and tax losses	1,597	2,121
Tax losses not recognised in current year	-	-
Income Tax Expense	125	107

Major components of tax expense/(income)

	2022 \$000	2021 \$000
Current tax expense		
Current period	125	107
R&D tax credit	-	-
Total current tax benefit	-	-
Deferred tax (income)	-	-
Total tax expense	125	107

As at 31 March 2022, the Company had tax losses of \$9,520,482 (2021: \$14,587,081). 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 2022, the Group had \$16,993,721 (2021: \$12,100,040) of expenditure available to offset against subsequent years income subject to section EJ23 of the Income Tax Act 2007.

Deferred tax assets have been recognised to the extent they offset deferred tax liabilities. No additional deferred tax has been recognised on tax losses or deferred research and development expenditure in 2022 on the basis that large tax profits are not foreseeable in the year ending 31 March 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

8. Income taxes (continued)

Deferred tax assets/(liabilities) recognised:	2022	2021
	\$000	\$000
Accrued revenue	-	(872)
Deferred R&D expenditure	2,612	2,870
Intangible assets	(2,993)	(3,319)
Other	290	856
Provision	91	465
Unused tax losses	-	-
Total deferred tax asset/(liability) recognised	-	-

Deferred tax assets/(liabilities) unrecognised (tax effected)	2022	2021
	\$000	\$000
Temporary differences	1,043	531
Deferred R&D expenditure	2,146	519
Unused tax losses	2,666	4,084
Total deferred tax asset/(liability) unrecognised (tax effected)	5,855	5,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

9. 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.

	2022	2021
	\$000	\$000
Bank balances	6,165	15,381
Total cash and cash equivalents	6,165	15,381

During the year, the Group entered into short-term deposit arrangements with the Bank of New Zealand, ASB Bank and Westpac. The term deposits not yet matured as of the reporting date had an average rate of 1.54% (2021: 1.09%) per annum with a maturity of less than 6 months from the reporting date.

	2022	2021
	\$000	\$000
Term deposits	50,000	20,000
Total term deposits	50,000	20,000

10. 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:

	2022	2021
	\$000	\$000
US listed equity securities	1,239	1,584
Total financial assets at FVTOCI	1,239	1,584

The USA listed equity securities comprise of the Group's investment in TELA Bio. In November 2019, TELA Bio listed on the NASDAQ. The Group held 74,316 (2021: 74,316 shares) shares at a value of US\$11.63 per share as at the reporting date (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

11. 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.

	2022 \$000	2021 \$000
Trade receivables	10,385	2,790
Less provision for impairment of trade receivables	(28)	(10)
Net trade receivables	10,357	2,780
Prepayments	1,325	918
Total prepayment	1,325	918
Other receivables	682	538
Other receivables - GST	235	35
Other receivables - Revenue share	4,770	3,116
Other receivables - Grant accrual	1,125	719
Total current trade and other receivables	18,494	8,106

	2022 \$000	2021 \$000
Prepayments	149	171
Total non-current prepayments	149	171

Trade receivables amounting to \$10,357,000 (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 an accrual of tax credit income relating to the Research and Development Tax Incentive program, Callaghan Innovation grant accrual, accrued revenue share from TELA Bio which is based on the historical performance and trends. Refer to Note 3.

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 31 March 2022, current trade receivables with a nominal value of \$28,000 (2021: \$10,000) were impaired and provided for.

(ii) Past due but not impaired receivables

As at 31 March 2022, trade receivables of \$3,175,000 (2021: \$135,000) were past due but not impaired. Subsequent to the reporting date, the Group received over \$2,100,000 of these past due trade receivables.

The ageing analysis of trade receivables is as follows:

	2022 \$000	2021 \$000
Current	7,212	2,645
1 - 30 days overdue	2,733	88
30 - 60 days overdue	163	49
60 - 90 days overdue	140	2
90+ days overdue	137	6
Total trade receivables	10,385	2,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

12. 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 product is expected to expire before being sold.

	2022 \$000	2021 \$000
Raw materials	1,111	539
Work in progress	1,228	1,436
Finished goods	2,047	1,913
Provision for obsolescence	(405)	(280)
Total inventories	3,981	3,608

As at 31 March 2022, inventories of \$404,518 (2021: \$279,832) value were impaired and provided for.

13. 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	10 years
Plant & equipment	4 - 11 years
Fixtures & fittings	3 - 10 years
Computer equipment & software	3 - 4 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

13. Property, plant & equipment (continued)

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

	Lease-hold Improve- ments	Capital Work In Progress	Plant and Equipment	Fixture & Fitting	Computer Equipment & Software	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost						
Balance 1 April 2021	1,586	457	8,559	585	968	12,155
Additions	-	3,936	134	44	341	4,455
Transfers in/ (out)	45	(228)	42	-	141	-
Disposals	-	-	(169)	(5)	(163)	(337)
Balance 31 March 2022	1,631	4,165	8,566	624	1,287	16,273
Accumulated Depreciation						
Balance 1 April 2021	(999)	-	(3,559)	(207)	(683)	(5,448)
Depreciation	(77)	-	(809)	(54)	(194)	(1,134)
Disposals	-	-	164	5	163	332
Balance 31 March 2022	(1,076)	-	(4,204)	(256)	(714)	(6,250)
Net Book Value						
Balance 1 April 2021	587	457	5,000	378	285	6,707
Balance 31 March 2022	555	4,165	4,362	368	573	10,023

	Lease-hold Improve- ments	Capital Work In Progress	Plant and Equipment	Fixture & Fitting	Computer Equipment & Software	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost						
Balance 1 April 2020	1,472	807	7,506	436	698	10,919
Additions	114	458	249	149	270	1,240
Transfer in/(out)	-	(808)	808	-	-	-
Disposals	-	-	(4)	-	-	(4)
Balance 31 March 2021	1,586	457	8,559	585	968	12,155
Accumulated Depreciation						
Balance 1 April 2020	(945)	-	(2,738)	(161)	(516)	(4,360)
Depreciation	(54)	-	(825)	(46)	(167)	(1,092)
Disposal	-	-	4	-	-	4
Balance 31 March 2021	(999)	-	(3,559)	(207)	(683)	(5,448)
Net Book Value						
Balance 1 April 2020	527	807	4,768	275	182	6,559
Balance 31 March 2021	587	457	5,000	378	285	6,707

(Continued)

For the year ended 31 March 2022

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 less accumulated amortisation and accumulated impairment losses.

Patent and trademark costs are amortised on a straight-line basis over the useful life.

Goodwill, customer relationships and reacquired rights are attributable to the purchase of the wound care business entered into between the Group and Hollister Incorporated. Goodwill is not amortised.

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment charges are included in profit or loss. An impairment loss recognised for goodwill is not reversed.

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 and trademarks	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 development expenditure is capitalised (refer to Note 4)

	Patents & Trademarks \$000	Customer Relationships \$000	Reacquired rights \$000	Goodwill \$000	Total \$000
Cost					
Balance 1 April 2021	938	5,563	9,772	5,538	21,811
Additions	416	-	-	-	416
Balance 31 March 2022	1,354	5,563	9,772	5,538	22,227
Accumulated Amortisation					
Balance 1 April 2021	(251)	(1,854)	(1,629)	-	(3,734)
Amortisation	(63)	(618)	(543)	-	(1,224)
Balance 31 March 2022	(314)	(2,472)	(2,172)	-	(4,958)
Net Book Value					
Balance 1 April 2021	687	3,709	8,143	5,538	18,077
Balance 31 March 2022	1,040	3,091	7,600	5,538	17,269

(Continued)

For the year ended 31 March 2022

14. Intangible assets (continued)

	Patents & Trademarks \$000	Customer relationships \$000	Reacquired rights \$000	Goodwill \$000	Total \$000
Cost					
Balance 1 April 2020	703	5,563	9,772	5,538	21,576
Additions	235	-	-	-	235
Balance 31 March 2021	938	5,563	9,772	5,538	21,811
Accumulated Amortisation					
Balance 1 April 2020	(197)	(1,236)	(1,086)	-	(2,519)
Amortisation	(54)	(618)	(543)	-	(1,215)
Balance 31 March 2021	(251)	(1,854)	(1,629)	-	(3,734)
Net Book Value					
Balance 1 April 2020	506	4,327	8,686	5,538	19,057
Balance 31 March 2021	687	3,709	8,143	5,538	18,077

On 31 March 2022, the Group tested whether goodwill has suffered any impairment. For the purpose of impairment testing, goodwill is allocated to the Group's Wound Care business, at which goodwill is monitored for internal management purposes.

The recoverable amount is determined based on value in use calculations using the method of estimating future cash flows and determining a discount rate in order to calculate the present value of the cash flows.

A discounted cash flow ("DCF") model has been based on five-year forecast cash flow projections. The budget for the year ending 31 March 2023 was the basis for the first year's projections and projections for subsequent years have been based on the Group's long-term outlook. Other key assumptions are as follows:

	2022
Discount rate post tax	10.2%
Terminal growth rate	3.0%

No impairment was identified for the Wound Care business as a result of this review, nor under any reasonable possible change, in any of the key assumptions described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

15. Trade and other payables

Trade and other payables are initially recognised at fair value plus directly attributable transaction costs 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.

	2022 \$000	2021 \$000
Trade payables	1,333	740
Accrued expenses	1,707	1,977
Other payables	49	27
Total trade and other payables	3,089	2,744

Trade payables generally have terms of 30 days and are interest free. Trade payables of a short-term duration are not discounted.

16. 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.

	2022 \$000	2021 \$000
Leave and wages accrual	1,452	1,000
Bonus accrual	1,530	1,030
Employee benefits	2,982	2,030

17. 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.

	2022 \$000	2021 \$000
Interest-bearing loans and borrowings	-	-
Deferred consideration	-	9,952
Total interest bearing liabilities – current	-	9,952
Interest-bearing loans and borrowings	-	-
Deferred consideration	-	-
Total interest bearing liabilities – non-current	-	-

At the reporting date, no interest bearing debt facilities remain in place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

18. Right of use assets

	Properties \$000	Equipment \$000	Total \$000
As at 1 April 2021	5,951	-	5,951
Additions	-	-	-
Depreciation	(773)	-	(773)
Modification adjustment	155	-	155
As at 31 March 2022	5,333	-	5,333

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

19. Lease liabilities

	Properties \$000	Equipment \$000	Total \$000
As at 1 April 2021	6,282	-	6,282
Additions	-	-	-
Modification Adjustment	155	-	155
Interest expenses	403	-	403
Lease payments	(964)	-	(964)
As at 31 March 2022	5,876	-	5,876
Current	589	-	589
Non-current	5,287	-	5,287
Total	5,876	-	5,876

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

19. Lease liabilities (continued)

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they are dependent on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability may also include:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

19. Lease liabilities (continued)

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Nature of leasing activities (in the capacity as lessee)

The Group leases three properties in the jurisdictions in which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation and in others to be reset periodically to market rental rates. The Group also leases certain items of plant and equipment.

As standard industry practice, the Group's property leases are subject to market rent reviews. A 1% increase in these payments would result an additional \$10,000 outflow compared to the current period's cash outflow.

20. 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.

	2022 \$000	2021 \$000
Share capital at beginning of the year	97,316	29,353
Reclassification of financial liabilities at FVTPL to equity	-	33,833
Shares issued from capital raise / IPO	47,740	30,554
Shares issued from Share Plan and Option Plan	699	3,576
Share capital at end of the year	145,755	97,316

# of shares	Ordinary shares	Total
At 1 April 2021	300,726,414	300,726,414
Issue of share capital	41,734,719	41,734,719
Balance 31 March 2022	342,461,133	342,461,133

In August 2021, the Group raised additional capital of AU\$45,435,000 net of acquisition costs and issued 40,684,305 ordinary shares. During the reporting period, an additional 1,050,414 shares were issued under the share purchase and share option scheme for \$699,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

21. Share based payments reserve

Share option plan

The Group operates 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 April 2021	Issued on June 2021	Issued on August 2021
Valuation date	Grant date		
Beginning stock price	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.		

	2022 \$000	2021 \$000
Balance as at 1 April	2,130	951
Share based payment expense	3,127	2,011
Employee shares exercised	(283)	(807)
Forfeiture of shares	(162)	(25)
Balance as at 31 March	4,812	2,130

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

21. Share based payments reserve (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 since 2017.

The opening balance of share options and the share options exercised during the prior year are prior to the 75:1 share split, which took effect upon the initial public offering in July 2020.

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

	2022 Average exercise price per option NZ\$	2022 # of options	2021 Average exercise price per option NZ\$	2021 # of options
Opening balance	0.10	3,919,575	7.42	131,695
Granted during the period	-	-	-	-
Exercised during the period	0.10	(834,375)	7.47	(79,434)
Impact of share split	-	-	-	3,867,314
Forfeited during the period	-	-	-	-
Closing balance	0.10	3,085,200	0.10	3,919,575
Vested and exercisable as at 31 March	0.10	1,896,450	0.10	1,660,200

Share options outstanding at the end of the year have the following expiry dates:

Grant date	Expiry date	Share options 31 March 2022	Share options 31 March 2021
1 October 2018	01 October 2028	1,339,900	2,009,275
1 July 2019	01 October 2028	307,500	472,500
1 December 2019	30 November 2029	1,437,800	1,437,800
Total		3,085,200	3,919,575

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

The Group offered the executive employees and directors new share options upon the listing of the Group in July 2020. Additionally, certain employees received share options on 29 September 2020.

Grants under the Option Plan comprised 8 million share options with various vesting conditions including non-market service conditions, market conditions and non-market performance conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

21. Share based payments reserve (continued)

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

	2022 Average exercise price per option NZ\$	2022 # of options	2021 Average exercise price per option NZ\$	2021 # of options
Opening balance	0.93	7,950,200	-	-
Granted in July 2020	-	-	0.81	6,177,000
Granted in September 2020	-	-	1.45	1,873,200
Granted in April 2021	1.23	350,000	-	-
Granted in June 2021	1.14	2,535,000	-	-
Granted in August 2021	1.24	3,525,000	-	-
Exercised during the year	0.50	(402,425)	-	-
Forfeited during the period	1.07	(1,056,200)	1.45	(100,000)
Closing balance	1.07	12,901,575	0.93	7,950,200
Vested and exercisable at 31 March	0.99	7,620,050	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 31 March 2022	Share options 31 March 2021
24 July 2020	23 July 2025	5,338,375	6,177,000
29 September 2020	28 September 2025	1,683,200	1,773,200
22 April 2021	31 March 2026	300,000	-
28 June 2021	28 June 2026	2,405,000	-
9 August 2021	8 August 2026	3,175,000	-
Total		12,901,575	7,950,200

22. Earnings per share

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

	2022	2021
Numerator		
Loss for the year after tax ("N") in \$000	(8,386)	(19,209)
Denominator		
Weighted average number of ordinary shares used in basic EPS ("D1")	342,162	300,401
Effects of:		
Employee share options *	17,142	12,563
Weighted average number of shares used in diluted EPS ("D2")	342,162	300,401
	Cents	Cents
Basic earnings per share (N/D1 x 100)	(2.45)	(6.39)
Diluted earnings per share (N/D2 x 100)	(2.45)	(6.39)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

23. Related parties

- (i) **Subsidiaries**
Interests in subsidiaries are set out in Note 1.
- (ii) **Key management compensation**
Key management includes Directors (Executive and Non-Executive) and the executive management team.
The total compensation for the executive management team is \$2,255,000 (FY21: \$3,139,000). (excluding share based payments of \$594,000 (FY2021: \$1,255,000)). The total compensation for Non-Executive Directors, excluding share based payments of \$173,000 (FY2021: \$305,000), is \$411,000 (FY2021: \$389,000).
- (iii) **Year end balances**
There were no related party receivables and related party payables at year end (2021: \$nil).
- (iv) **Transactions with related parties**
There were no other related party transactions during the year.

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 whilst 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 currency of the Company, being NZ dollars (NZD). The currency risk arises primarily with respect to sales, expenses and the deferred consideration previously due to Hollister in US dollars (USD).

The Group has certain net monetary assets/(liabilities) that are exposed to foreign currency risk. 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.

Exposure to foreign currency risk

	USD	AUD	EUR
2022	\$000	\$000	\$000
Cash and cash equivalents	2,473	-	-
Trade and other receivables	7,367	-	-
Financial assets at FVTOCI	864	-	-
Trade and other payables	(832)	(148)	-
Interest-bearing loans and borrowings	-	-	-
Foreign currency forwards (sell foreign currency)	-	-	-
Foreign currency swaps (buy foreign currency)	-	-	-
Net exposure	9,872	(148)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

24. Financial risk management (continued)

2021	USD \$000	AUD \$000	EUR \$000
Cash and cash equivalents	4,809	-	-
Trade and other receivables	1,457	-	46
Financial assets at FVTOCI	1,107	-	-
Trade and other payables	(861)	(55)	-
Interest-bearing loans and borrowings	(6,956)	-	-
Foreign currency forwards (sell foreign currency)	-	-	-
Foreign currency swaps (buy foreign currency)	2,300	-	-
Net exposure	1,856	(55)	46

The following significant exchange rates applied during the year:

	Average rate 2022	Average rate 2021	Closing rate 2022	Closing rate 2021
NZD/USD	0.6966	0.6711	0.6975	0.6989

Sensitivity analysis – underlying exposures

A 5% weakening/strengthening of the NZ dollar against the US dollar at 31 March 2022 would have increased/decreased equity and the net result for the period by the amounts shown below. Based on historical movements a 5% increase or decrease in the NZ dollar is considered to be a reasonable estimate. This analysis assumes that all other variables remain constant.

US dollar

The Group's net result and equity for the period would have been \$744,000 higher on a 5% weakening of the NZ dollar (2021: \$140,000 higher), and \$677,000 lower on a 5% strengthening of the NZ dollar as at 31 March 2022 (2021: \$126,000 lower).

Interest rate risk

The Group's cash flow interest rate risk arises from borrowings at floating rates and/or fixed rates as at the reporting date.

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

	2022 \$000	2021 \$000
3 months or less	-	-
3 - 12 months	-	9,952
1-2 years	-	-
Total interest bearing loans and borrowings	-	9,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

24. Financial risk management (continued)

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 agreements. Aging of payments due from customers are monitored on a regular basis.

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 foresee 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 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.

		Less than 3 months	3-12 months	Between 1 and 2 years	Over 2 years	Total contractual cash flows	Total Carrying amounts
At 31 March 2022	Note	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trade and other payables	15	3,089	-	-	-	3,089	3,089
Lease liabilities	19	164	781	884	5,709	7,538	5,876
Interest bearing liabilities	17	-	-	-	-	-	-
Total		3,253	781	884	5,709	10,627	8,965
		Less than 3 months	3-12 months	Between 1 and 2 years	Over 2 years	Total contractual cash flows	Total Carrying amounts
At 31 March 2021	Note	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trade and other payables	15	2,744	-	-	-	2,744	2,744
Lease liabilities	19	158	792	931	6,395	8,276	6,282
Interest bearing liabilities	17	205	9,952	-	-	10,157	9,952
Total		3,107	10,744	931	6,395	21,177	18,978

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 shareholder funds raised to date provide the Group a sufficient capital base to continue to grow the business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

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 liability 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.

(ii) Non-derivative financial assets

The Group initially recognises financial assets at amortised cost on the date that they are originated.

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 cost.

At 31 March 2022 Assets as per consolidated Statement of Financial Position	Note	Assets at amortised cost \$000	Assets at Fair value through other comprehend- -sive income \$000	Total \$000
Cash and cash equivalents	9	6,165		6,165
Term Deposit	9	50,000		50,000
Trade and other receivables	11	16,934	-	16,934
Financial assets at FVTOCI	10	-	1,239	1,239
Total financial assets		73,099	1,239	74,338

At 31 March 2022 Liabilities as per consolidated Statement of Financial Position	Note	Liabilities at amortised cost \$000	Liabilities at fair value through profit or loss \$000	Total \$000
Trade and other payables	15	1,382	-	1,382
Lease liabilities	19	5,876	-	5,876
Interest-bearing loans and borrowings	17	-	-	-
Total financial liabilities		7,258	-	7,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

25. Financial instruments by category (continued)

At 31 March 2021	Note	Assets at amortised cost \$000	Assets at Fair value through other comprehens ive income \$000	Total \$000
Assets as per consolidated Statement of Financial Position				
Cash and cash equivalents	9	15,381	-	15,381
Term Deposit	9	20,000	-	20,000
Trade and other receivables	11	7,154	-	7,154
Financial assets at FVTOCI	10	-	1,584	1,584
Total financial assets		42,535	1,584	44,119

At 31 March 2021	Note	Liabilities at amortised cost \$000	Liabilities at fair value through profit or loss \$000	Total \$000
Liabilities as per consolidated Statement of Financial Position				
Trade and other payables	15	768	-	768
Lease liabilities	19	6,282	-	6,282
Interest-bearing loans and borrowings	17	9,952	-	9,952
Total financial liabilities		17,002	-	17,002

26. Events after the reporting date

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

27. Other Disclosures

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

	2022 \$000	2021 \$000
Loss after tax	(8,386)	(19,209)
Add (deduct) non-cash items:		
Depreciation of property, plant and equipment	1,134	1,092
Depreciation of right of use assets	773	742
Gain on disposal of assets	4	4
Amortisation of intangibles	1,224	1,215
Share based payments	2,966	1,985
Foreign exchange loss - deferred consideration	(11)	(1,742)
Interest - deferred consideration	747	1,478
Interest - lease liabilities	403	406
Foreign currency translation	212	(30)
Fair value adjustment on financial liabilities at VTPL	-	8,014
Non-Capitalised IPO costs	50	1,607
Movement in working capital:		
Movement in provisions	3	4
Movement in tax receivable	90	412
Movement in trade and other receivables	(10,388)	(489)
Movement in inventory	(323)	632
Movement in trade and other payables	1,320	(298)
Movement in interest payables	(1,340)	(830)
Net cash flows from operating activities	(11,522)	(5,007)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

27. Other Disclosures (continued)

b. Reconciliation cashflow from financing activities

	Interest bearing loans and borrowings - Current	Interest bearing loans and borrowings- Non current	Financial liabilities at fair value through profit or loss	Deferred consideration	Lease liabilities	Paid up share capital	Transaction Cost	Total
	Note 17 \$000	Note 17 \$000	Note 10 \$000	\$000	Note 19 \$000	Note 20 \$000	\$000	\$000
At 1 April 2021	-	-	-	(9,952)	(6,282)	(97,316)	-	(113,550)
Cash flow	-	-	-	9,514	963	(50,324)	2,214	(37,633)
Non-cash flow:	-	-	-	-	-	-	-	-
FX on deferred consideration	-	-	-	(155)	-	-	-	(155)
Interest - deferred consideration	-	-	-	593	-	-	-	593
Conversion of liability to equity	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	(283)	-	(283)
Lease	-	-	-	-	(154)	-	-	(154)
Interest on lease payments	-	-	-	-	(403)	-	-	(403)
Allocation of Transaction cost	-	-	-	-	-	2,168	(2,214)	(46)
At 31 March 2022	-	-	-	-	(5,876)	(145,755)	-	(151,631)

	Interest bearing loans and borrowings - Current	Interest bearing loans and borrowings- Non current	Financial liabilities at fair value through profit or loss	Deferred consideration	Lease liabilities	Paid up share capital	Transaction Cost	Total
	Note 17 \$000	Note 17 \$000	Note 10 \$000	\$000	Note 19 \$000	Note 20 \$000	\$000	\$000
At 1 April 2020	(840)	(1,119)	(6,827)	(21,682)	(2,084)	(29,353)	-	(61,905)
Cash flow	840	1,119	(19,804)	10,637	731	(34,951)	4,329	(37,099)
Non-cash flow:	-	-	-	-	-	-	-	-
FX on deferred consideration	-	-	-	1,241	-	-	-	1,241
Interest - deferred consideration	-	-	-	(148)	-	-	-	(148)
Conversion of liability to equity	-	-	33,833	-	-	(33,833)	-	-
Share based payments	-	-	-	-	-	(807)	-	(807)
Lease	-	-	-	-	(4,518)	-	-	(4,518)
Interest on lease payments	-	-	-	-	(411)	-	-	(411)
Fair value adjustment on financial liabilities at FVTPL	-	-	(8,030)	-	-	-	-	(8,030)
Allocation of Transaction cost	-	-	828	-	-	1,629	(4,329)	(1,873)
At 31 March 2021	-	-	-	(9,952)	(6,282)	(97,316)	-	(113,550)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2022

27. Other Disclosures (continued)

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. Capital commitments

As at 31 March 2022, the Group had equipment capital commitments of \$337,000 (2021: \$611,000).

f. Contingent liabilities

As at 31 March 2022, the Group had no significant contingent liabilities (2021: \$nil).



AROA

Visitor entrance ►►



AROA

ADDITIONAL INFORMATION

Aroa Biosurgery Limited

(NZ Company no. 1980577 / ARBN 638 867 473)

Aroa Biosurgery Limited is a New Zealand incorporated company and is registered with ASIC as a foreign company. The Company is accordingly principally governed by New Zealand law, rather than Australian Law. This means that the Company's general corporate activities (apart from any offering of securities in Australia and certain reporting and disclosure obligations) are not regulated under the Corporations Act by ASIC. They are instead regulated in New Zealand by New Zealand law including the Companies Act, Financial Markets Conduct Act 2013, Financial Markets Conduct Regulations 2014 and by the New Zealand Financial Markets Authority and Registrar of Companies.

Stock exchange information and on-market buy-backs

The Company's shares were officially quoted on the ASX on 24 July 2020 (ASX Code: ARX). During the year ended 31 March 2022, the Company did not seek, or rely upon, any waivers from the ASX Listing Rules. There is no current on-market buy-back of the Company's shares and the Company did not undertake an on-market buy-back of its shares during the year ended 31 March 2022.

Ordinary shares

On 31 March 2022 and as at the date of this Annual Report, the Company only has one class of shares on issue, being ordinary shares in the Company, each conferring to the registered holder the rights set out in the Company's constitution, including the right to vote on any resolution at a meeting of shareholders. Holders of ordinary shares may vote at a meeting, in person or by proxy, representative or attorney.

The total number of ordinary shares in the Company on issue as at 31 March 2022 was 342,461,133 shares and the total number of ordinary shares in the Company on issue as at 31 May 2022 was 342,724,208 shares.

The distribution of shareholdings as at 31 May 2022 is as shown in the table below:

Size of shareholding	Number of holders	%	Number of ordinary shares	%
1 to 1,000	899	23.48	570,337	0.17
1,001 to 5,000	1,317	34.40	3,771,553	1.10
5,001 to 10,000	602	15.72	4,813,818	1.45
10,001 to 100,000	873	22.80	26,028,913	7.59
100,001 and over	138	3.60	307,539,590	89.73
TOTAL	3,829	100	342,724,208	100

The number of shareholdings held in less than marketable parcels is 278, representing 85,915 Shares. As at 31 May 2022, the Company has not carried out any issues of securities approved for the purposes of Item 7 of section 611 of the Corporations Act.

Share options

As at 31 March 2022, there were 16,722,975 share options on issue (representing the same number of unissued ordinary shares) held by 78 holders under the NZ Option Plan and US Option Plan. Share options do not carry voting rights.

The distribution of share option holdings as at 31 May 2022 is as shown in the table below:

Size of holding	Number of holders	%	Number of options	%
1 to 1,000	-	-	-	-
1,001 to 5,000	-	-	-	-
5,001 to 10,000	-	-	-	-
10,001 to 100,000	46	58.97	2,981,925	18.12
100,001 and over	32	41.03	13,477,975	81.88
TOTAL	78	100	16,459,900	100

Please refer to the Remuneration Report and note 21 to the consolidated financial statements for further details of the share options outstanding.

Shares issued on exercise of options

The following ordinary Shares of the Company were issued during the year ended 31 March 2022 on the exercise of share options granted under the NZ Option Plan. Please note that under the NZ Option Plan rules, at the Board's discretion, options may be exercised by cashless settlement. This involves issuing a reduced number of Shares to the participant equivalent to: (a) an amount equal to the difference between the current value of the Company's Shares (being the VWAP for the five trading days immediately preceding the option exercise date) and the exercise price of the Shares, multiplied by the number of options being exercised, and divided by (b) the current value of the Shares.

No share options issued under the US Option Plan were exercised during the year.

Date options exercised	Number of options exercised	Average exercise price	Number of shares issued
11/06/2021	196,875	NZ\$0.0979	190,249
11/06/2021	300,025	A\$0.75	159,448
19/08/2021	102,400	A\$0.75	102,400
6/12/2021	472,500	NZ\$0.0979	433,317
25/03/2022	165,000	NZ\$0.1075	165,000

Other Share issues

In addition to the Shares issued on exercise of share options noted above, the Company issued the following Shares during the year ended 31 March 2022:

- 40,343,348 Shares were issued on 4 August 2021 pursuant to an institutional placement at an issue price of A\$1.165 each; and
- 340,957 Shares were issued on 25 August 2021 pursuant to a share purchase plan at an issue price of A\$1.165 each.

Twenty largest shareholders

The names and holdings of the 20 largest registered shareholders in the Company as at 31 May 2022 was as follows:

Shareholder name	Shareholding	Holding as a % of total ordinary shares on issue as at the date above
Mr Brian Ward & Mrs Tracey Ward <Arawai No 2 A/C>	33,125,800	9.67
Citicorp Nominees Pty Limited	28,103,599	8.20
J P Morgan Nominees Australia Pty Limited	26,974,327	7.87
National Nominees Limited	24,550,130	7.16
HSBC Custody Nominees (Australia) Limited	19,770,891	5.77
Phil McCaw <McSyth Capital Invest A/C>	19,597,251	5.72
Richard Abbott <Jester 002 Investment A/C>	13,043,020	3.81
Aspire NZ Seed Fund Ltd	12,689,627	3.70
Custodial Services Limited <Beneficiaries Holding A/C>	11,571,066	3.38
Washington H Soul Pattinson and Company Limited	9,650,000	2.82
BNP Paribas Noms Pty Ltd <DRP>	8,824,549	2.57
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	8,794,797	2.57
K One W One (No 3) Ltd	5,882,550	1.72
Sharon Bryant <OT Investment A/C>	5,123,003	1.49
BNP Paribas Noms (NZ) Ltd <DRP>	4,749,211	1.39
K One W One Ltd	3,590,250	1.05
Mark Ritcher <Richter Investment A/C>	3,320,200	0.97
Christopher David Astley Milne	3,213,022	0.94
Mesyntes Nominees Ltd	3,128,400	0.91
Total Top 20 Holders	248,522,605	72.51
Total Securities	342,724,208	

Takeovers and substantial holdings

While the ASX Listing Rules apply to the Company, certain provisions of the Corporations Act do not. The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of its shares (including takeovers and substantial holdings). The New Zealand position under the Takeovers Code (as set out in the Takeovers Regulations 2000) and the Financial Markets Conduct Act 2013 is broadly comparable to the Australian position in relation to the regulation of takeovers. The New Zealand takeovers regime, not the Australian takeovers regime, will apply to the Company as a foreign company. A 20% threshold applies (under which a person (together with their associates) is prevented from increasing the percentage of voting rights held or controlled by them in excess of that 20% threshold or from increasing an existing holding of more than 20% of the voting rights), subject to certain exceptions (including, but not limited to, full and partial takeover offers, 5% creep over 12 months in the 50% to 90% range, and acquisitions with shareholder approval). Compulsory acquisitions are permitted by persons who hold or control 90% or more voting rights in a code company.

Under New Zealand law, there is no requirement for a shareholder of the Company to issue a substantial holding notice of holdings above 5%, and because the Company is a New Zealand company the Corporations Act provisions regarding substantial shareholder notices do not apply to the Company. However, a shareholder may voluntarily disclose such information if it chooses to do so and a number of New Zealand companies listed on ASX experience shareholders lodging notices similar to a substantial shareholder notice that is required under the Corporations Act notwithstanding there is no requirement to do so. Separately, the Company has undertaken to ASX that it will inform the market immediately on becoming aware of a person becoming a Substantial Holder, a movement of at least 1% of shares in which the Substantial Holder has a relevant interest and a person ceasing to be a Substantial Holder.

Limitations on the acquisition of AROA shares

In general under applicable law, securities in the Company are freely transferrable and the only significant restrictions or limitations in relation to the acquisition of AROA shares are those imposed by the New Zealand takeovers regime (discussed above) and if applicable, the Overseas Investment Act 2005 (NZ) and the Commerce Act 1986 (NZ).

AROA's constitution also permits the Directors to (in their absolute discretion) refuse or delay the registration of any transfer of AROA shares if permitted to do so by the Companies Act or the ASX Listing Rules. This includes (without limitation) if the relevant shares are subject to a holding lock pursuant to the ASX Settlement Operating Rules or escrow.

Substantial shareholders

Set out below is, to the best of the Company's knowledge, details relating to all Substantial Holders in the Company as at 31 May 2022.

Shareholder name	Shareholding*	Holding as a % of total ordinary shares on issue as at 31 May 2022
Mr Brian Ward** & Mrs Tracey Ward <Arawai No 2 A/C>	33,125,800	9.67
Citicorp Nominees Pty Limited	28,103,599	8.20
J P Morgan Nominees Australia Pty Limited	26,974,327	7.87
National Nominees Limited	24,550,130	7.16
HSBC Custody Nominees (Australia) Limited	19,770,891	5.77
Phil McCaw <McSyth Capital Invest A/C>***	19,597,251	5.75

*of the Substantial Holder and their "associates" (within the meaning given to that term in section 12 of the Corporations Act)

** Brian Ward also holds 3,132,525 unlisted share options, expiring 23 July 2025 at an exercise price of NZ\$0.75 per option.

*** Phil McCaw also has an interest in 153,903 Shares held by McSyth Charitable Foundation Trust, a registered charity of which he is one of 2 trustees, and holds 163,850 unlisted share options expiring 23 July 2025 at an exercise price of NZ\$0.75 per option.

Securities subject to voluntary escrow as at 31 May 2022

Please refer to the table below for information relating to securities subject to voluntary escrow, as at 31 May 2022:

Number of securities	Class of securities	Date the escrow period ends
34,643,550*	Fully paid ordinary shares (24 months voluntary escrow)	23 July 2022
263,075**	Fully paid ordinary shares (voluntary escrow)	13 April 2023

*13,250,325 of these Shares are held by Brian Ward and were originally subject to a 36-month voluntary escrow period (i.e. until 23 July 2023). The escrow terms provide for early release at 24 months if at any time after the Company's admission to the ASX the 5-day VWAP is 100% above the IPO offer price. This share price condition was satisfied in August 2020, so the escrow period applying to these Shares has been adjusted to 23 July 2022.

**These Shares were issued on 12 April 2022 following the exercise of fixed price share options in the Company, and are subject to voluntary escrow.

General disclosure of interests by Directors

AROA maintains an interests register in accordance with the Companies Act. The following are general disclosures of interests (pursuant to section 140(2) of the Companies Act) noted in the Company's interests register as at 1 April 2021 which remained current as at 31 March 2022. Details on share dealings by the Directors during the 12-month period ended 31 March 2022, as disclosed to the Company, are set out in the Remuneration Report.

Name	Interest
James McLean²²	Director, Mesynthes Nominees Limited
	Chair, Prevar Limited
	Chair, R J Hill Laboratories Limited
Brian Ward	Director, Green Edge Limited
Steven Engle	Non-Executive Chairman, Prescient Therapeutics Limited (ASX: PTX)
	Director, Author-IT Labs Limited, Author-IT Holdings Limited, Authorit Software Corporation Limited and Author-IT Software Corporation
	Sole Proprietor, Averigon
Philip McCaw	Director, Mesynthes Nominee Limited
	Director, Toha Foundry Limited
	Director, Author-IT Limited and Authorit Software Corporation Limited
	Director, Kaynemaile Ltd
	Director, Shift72 Limited
	Director, Nutcracker Limited
	Director, Movac Limited
	Director, Movac Fund 4 Custodial Limited
	Director, Movac Fund 5 Custodial Limited
	Director, Movac Fund 5 General Partner Limited
	Director, Movac Fund 4 General Partner Limited
	Director, CAVOM Nominee No 1 Limited
	Director, Movac Fund 4 Custodial Limited
	Director, Calcium Investments Limited
	Director, Calcium Investment Trustee Limited
Director, PJM Management Limited	
John Pinion	-
John Diddams	Director, Volpara Health Technologies Limited (ASX: VHT)
	Director, Surf Lakes Holdings Limited
	Director, DIT AgTech Limited

The following updates were made to the Company's interests register during the year ended 31 March 2022:

Name	Interest	Nature of update to the Company's interests register
James McLean	Chair, Information Tools Limited	Removed
Steven Engle	CEO and Non-Executive Director, Gradalis Inc.	Added
Philip McCaw	Chair, Startup Advisor's Council - NZ Government	Added
John Pinion	Advisory Board Member, Celestial Therapeutics Inc.	Added
John Diddams	Non-Executive Chairman, xReality Group Limited	Added

Use of company information

AROA did not receive notice from any Director requesting to use company information received in his capacity as a director of any Group company, which would not otherwise have been available to him.

Use of cash and readily convertible assets

The Company confirms that in the period from 1 April 2021 to 31 March 2022, it used the cash and assets (in a form readily convertible to cash) that it had at the time of admission to the ASX in a manner consistent with the Company's business objectives.

Use of funds	Prospectus Estimate NZ\$m	Actual Funds Used NZ\$m	Actual as a % of Estimate	Note
Investment in sales and marketing	\$5.0	\$5.0	100%	1
Investment in additional manufacturing capacity, investment in new products, plant and equipment and other general corporate capital expenditure	\$5.0	\$5.0	100%	2
Working capital, other operating costs	\$5.0	\$5.0	100%	3
Repayment of borrowings	\$13.1	\$11.1	85%	4
Offer costs	\$3.8	\$3.9	103%	5
Total	\$31.9	\$30.0	94%	

NOTES:

- Funds fully utilised for investment in new sales and marketing initiatives including the costs of over 20 direct sales personnel hired in Q4 FY21.
- Funds fully utilised for investment in additional manufacturing capacity, capital expenditure for new products, plant and equipment and other general capital expenditure.
- Funds fully utilised in net operating cash outflows since July 2020, excluding cash outflows relating to the investment in sales & marketing.
- Full repayment of borrowings made during Q2 FY22. The variance between actual and estimate reflects the interest cost savings for early repayment and the favourable foreign exchange rate at the time of payment compared to the time of estimate.
- Includes cash outflows prior to IPO. Remains unchanged from the prior year.

Donations

No Group company made any donations during in the year ended 31 March 2022.

Subsidiary company information

All subsidiary companies in the Group are wholly owned by AROA.

The persons listed below held office as a director of the Company's subsidiaries during the year ended, and as at, 31 March 2022. They do not receive any remuneration or other benefits for their role as a director of a Company subsidiary.

Company	Directors
Aroa Biosurgery Incorporated (Delaware File number 6560549)	Brian Ward, John Pinion
Mesyntes Nominee Limited (NZBN 9429 041 350 003)	Jim McLean, Phil McCaw

Other than as disclosed in the Company's interests register, no other entries were made in the interests register of any Company subsidiary during the year ended 31 March 2022.

GLOSSARY AND OTHER INFORMATION

Glossary

Term	Description
AROA or the Company	Aroa Biosurgery Limited NZCN 1980577, ARBN 638 867 473
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
CC or Constant Currency	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 USD. The NZD/USD exchange rate of 0.72 has been used in the constant currency analysis for FY21/FY22, representing the AROA group's budget rate for FY22.
CEO	Chief Executive Officer
Companies Act	Companies Act 1993 (NZ)
Corporations Act	Corporations Act 2001 (Cth, Australia)
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Executive Management	As at the date of this Annual Report, comprises of Brian Ward, James Agnew, Dr Barnaby May, Brad Adams and Rod Stanley (noting Simone von Fircks' last day with AROA is 30 June 2022)
FDA	The Food and Drug Administration of the US
FY	Financial Year
Group	The group of companies comprising AROA, Aroa Biosurgery Incorporated (Delaware File number 6560549) and Mesynthes Nominee Limited (NZBN 9429 041 350 003)
IPO	The Company's initial public offering in July 2020 of 60,000,000 shares in the Company at a price of A\$0.75 per share
NZD	New Zealand Dollar
NZ GAAP	New Zealand Generally Accepted Accounting Practice
NZ IFRS	New Zealand Equivalents to International Financial Reporting Standards
NZ Option Plan	The Aroa Biosurgery Share Option Plan (NZ)
Shares	Ordinary shares in the Company
share options	Options to acquire Shares
Share Plan	The Aroa Employee Incentive Share Plan 2014, which was wound up in 2020
Substantial Holder	Has the meaning given to it in the Corporations Act
TELA Bio	TELA Bio, Inc
US	The United States of America
USD	United States Dollar
US Option Plan	The AROA Biosurgery 2021 US Share Option Plan
VWAP	The volume weighted average market price for Shares reported on the ASX

IP notice

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REFERENCES

1.	SmartTRAK BiomedGPS data 2020; DRG Millennium Research data; Hernia Repair Devices, 2020, AROA management estimates; DRG Millennium Research, Breast Implants & Reconstructive devices, 2018. Market data was prepared before the onset of COVID-19, the economic effect of which is currently not possible to predict with any certainty. Consequently, while the Company has no reason to believe that the market data does not remain accurate based on the relevant markets operating normally, the impact of COVID-19 on the market data that is referenced is not possible to currently predict with any certainty and investors are cautioned against placing undue reliance on such data.
2.	Bosque, B.A., et al., Retrospective real-world comparative effectiveness of ovine forestomach matrix and collagen/ORC in the treatment of diabetic foot ulcers. <i>Int Wound J</i> , 2021. 2021 Aug 6 (Epub ahead of print).
3.	Bohn, G.A. and A.E. Chaffin, Extracellular matrix graft for reconstruction over exposed structures: a pilot case series. <i>J Wound Care</i> , 2020. 29 (12): p. 742-749.
4.	Parker, M.J., et al., A novel biosynthetic scaffold mesh reinforcement affords the lowest hernia recurrence in the highest-risk patients. <i>Surg Endosc</i> , 2020. 35 (9): p. 5173-5178.
5.	Represents accounts to which sales were made in Q4 of the relevant year.
6.	The extension expires on 31 July 2024.
7.	SmartTRAK BiomedGPS data 2020. Market data was prepared before the onset of COVID-19, the economic effect of which is currently not possible to predict with any certainty. Consequently, while the Company has no reason to believe that the market data does not remain accurate based on the relevant markets operating normally, the impact of COVID-19 on the market data that is referenced is not possible to currently predict with any certainty and investors are cautioned against placing undue reliance on such data.
8.	DeNoto, G., et al., 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. <i>J. Clin. Med.</i> , 2021. 10 (21): p. 4998.
9.	Itani, K.M., et al., Prospective study of single-stage repair of contaminated hernias using a biologic porcine tissue matrix: the RICH Study. <i>Surgery</i> , 2012. 152 (3): p. 498-505.
10.	Roth, J.S., et al., Prospective evaluation of poly-4-hydroxybutyrate mesh in CDC class I/high-risk ventral and incisional hernia repair: 18-month follow-up. <i>Surg Endosc</i> , 2018. 32 (4): p. 1929-1936.
11.	Roth, J.S., et al., Prospective, multicenter study of P4HB (Phasix) mesh for hernia repair in cohort at risk for complications: 3-Year follow-up. <i>Ann Med Surg (Lond)</i> , 2021. 61 : p. 1-7.
12.	Rosen, M.J., et al., Multicenter, Prospective, Longitudinal Study of the Recurrence, Surgical Site Infection, and Quality of Life After Contaminated Ventral Hernia Repair Using Biosynthetic Absorbable Mesh: The COBRA Study. <i>Ann Surg</i> , 2017. 265 (1): p. 205-211.
13.	Bosque, B.A., et al., Retrospective real-world comparative effectiveness of ovine forestomach matrix and collagen/ORC in the treatment of diabetic foot ulcers. <i>Int Wound J</i> , 2021. 2021 Aug 6 (Epub ahead of print).
14.	AROA Management estimates a US total addressable market of over US\$1 billion. Market data was prepared before the onset of COVID-19, the economic effect of which is currently not possible to predict with any certainty. Consequently, while the Company has no reason to believe that the market data does not remain accurate based on the relevant markets operating normally, the impact of COVID-19 on the market data that is referenced is not possible to currently predict with any certainty and investors are cautioned against placing undue reliance on such data.

15.	TELA Bio press release dated 10 May 2022.
16.	OviTex is a trademark of TELA Bio, Inc.
17.	AROA's 2021 Annual Report noted that Brian received a cash bonus of NZ\$75,000. Please note that bonus was paid to Brian in FY21 in respect of the Company's FY20 performance.
18.	As a director of Mesynthes Nominee Limited, as at 31 March 2022 Jim McLean also had an interest in 4,200,500 shares held by Mesynthes Nominee Limited on bare trust for certain AROA employees until payment is received for such shares.
19.	Phil McCaw holds his interest through McSyth Capital Investment Trust, of which he is one of 3 trustees and a beneficiary. Mr McCaw also has an interest in shares held by McSyth Charitable Foundation Trust, a registered charity of which he is one of 2 trustees. Mr McCaw is a principal of Movac, which was a substantial shareholder in the Company during the year prior to undertaking an in-specie distribution of shares in the Company. As a director of Mesynthes Nominee Limited, as at 31 March 2022 Mr McCaw also had an interest in 4,200,500 shares held by Mesynthes Nominee Limited on bare trust for certain AROA employees until payment is received for such shares.
20.	This includes interests in shares held by John Diddams' related parties; Whitfield Investments Pty Ltd and Galdarn Pty Ltd.
21.	Brian Ward holds his interest through Arawai No. 2 Trust, of which he is one of 3 trustees and a beneficiary.
22.	Register corrected to reflect that Jim's position was that of Chair of Prevar Limited, RJ Hill Limited and Information Tools Limited.

CORPORATE DIRECTORY

Directors

Jim McLean,
Independent Non-Executive Director and Chair

Brian Ward,
Founder, Chief Executive Officer and Managing Director

Steven Engle,
Independent Non-Executive Director

Philip McCaw,
Non-Executive Director

John Pinion,
Independent Non-Executive Director

John Diddams,
Independent Non-Executive Director

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Chief Financial Officer and Joint Company Secretary

Tracy Weimar,
Joint Company Secretary

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