**ASX RELEASE**

**Volpara 2020 Annual Results Announcement**

**Highlights:**

- **Total revenue from customer contracts up 153% to NZ$12.6M**
- **Subscription revenue up 106% to NZ$9.1M**
- **Cash receipts from customers up 193% to NZ$16.3M**
- **Gross margin up to 86%, from 83% in FY19**
- **Total comprehensive loss for the year up 61% to NZ$18.8M**
- **Strengthened balance sheet enables Volpara to capitalise on potential acquisition opportunities emerging from Coronavirus pandemic**

Wellington, NZ, 29th May 2020: Volpara Health Technologies ("Volpara"; ASX: VHT), a medical technology company whose cancer screening software platform assists in the delivery of personalized patient care in the areas of breast and lung cancer, has today released its full-year results for the financial year ended 31 March 2020.

Dr Ralph Highnam, Volpara's CEO and Chief Scientist, said: "FY2020 was an excellent year for Volpara. We successfully conducted our first acquisition, medical software company MRS Systems in the United States, and built an installed software base covering over 27% of US women screened for breast cancer.

"Despite the current Coronavirus pandemic, we ended the year with our strongest Q4 to date and Annual Recurring Revenue (ARR) of over NZ$18M. This has set up the strong accounting revenue numbers we're presenting today, showing very significant growth year-on-year.

"Thanks to strong investor support for the share placement and Share Purchase Plan (SPP) in April and May this year, and with a strengthened balance sheet, we are now set to capitalize on the opportunities that will be presented due to Coronavirus. Despite the uncertainties, we look forward to reporting our FY2021 results next year and reporting a significant increase in families that we've helped save from cancer."

"Volpara from day one has embraced best-in-class software tools and scalable processes. This, together with our strong financial discipline and various cost-saving initiatives, will give us increased operating leverage as revenue continues to grow," Dr Highnam said.

## Summary FY20 Results

| | FY20 NZ$'000 | FY19 NZ$'000 | Variance NZ$'000 | Variance % |
|---|---|---|---|---|
| **IFRS Results** | | | | |
| Total revenue | 12,638 | 5,000 | 7,638 | 153% |
| Subscription revenues | 9,117 | 4,419 | 4,698 | 106% |
| Gross profit | 10,866 | 4,128 | 6,738 | 163% |
| Gross margin | 86% | 83% | 3% | |
| Net loss for the year before tax | (22,272) | (11,753) | (10,519) | 90% |
| Net margin | -176% | -235% | 59% | |
| Total comprehensive loss | (18,837) | (11,683) | (7,154) | 61% |
| Net cash utilised in operating activities | (15,958) | (10,642) | (5,316) | 50% |
| Receipts from customers | 16,339 | 5,567 | 10,772 | 193% |
| | | | | |
| **Non-GAAP Results & Metrics** | | | | |
| Revenue | 16,286 | 5,000 | 11,286 | 226% |
| Subscription revenues | 12,765 | 4,419 | 8,346 | 189% |
| Gross profit | 14,514 | 4,128 | 10,386 | 252% |
| Gross margin | 89% | 83% | 6% | |
| Net loss adjusted for non-cash and non-operating items | (14,935) | (10,956) | (3,979) | 36% |
| Net loss adjusted for non-cash and non-operating items margin | -92% | -219% | 127% | |
| Annual Recurring Revenue (ARR) | 18,012 | 6,626 | 11,386 | 172% |
| Approximate market share % of US | 27% | 7% | 20% | 282% |
| Average revenue per user (ARPU) in the US (US$) | 1.04 | 0.94* | 0.10 | 11% |

A reconciliation of IFRS to non-GAAP measures is provided within tables at the end of this announcement.
* US$0.94 was the combined Group ARPU reported at the end of Q1FY20 after the acquisition of MRS. It is the earliest comparative figure available.

**Revenue growth**
Volpara increased its full-year revenue for the year ended 31 March 2020 by NZ$7.6M, or 153%, from NZ$5M in FY19 to NZ$12.6M. An adjustment[1] was made to the deferred revenue of MRS upon acquisition of NZ$3.6M. Excluding this accounting adjustment, the Group would have reported revenue of NZ$16.3M, up 226% on the prior year.

Importantly, growth in Group subscription revenues continued its upward trajectory, with revenues of NZ$9.1M, up 106%; before the same acquisition related adjustment mentioned above subscription revenues would have increased from NZ$4.4M to NZ$12.8M or 189%. Organic Volpara subscription revenue increased from NZ$4.4M to NZ$6.9M, up 55%.

The Group expects continued growth in subscription revenue in FY21 as the business pivots MRS away from a capital sales model to an almost solely subscription-based model, and the full end-to-end platform is available for sales.

**Gross margin**
After accounting for the acquisition-related revenue adjustment noted above, the Group's gross margin increased from 83% in FY19 to 86% in FY20, driven mainly by MRS's excellent gross margins. The negative revenue adjustment reduced the gross margin from 89%.

FY21 will include a focus on margin improvement initiatives which should offset anticipated reductions in gross margins in the short term resulting from the change to the MRS business model described above. The Group expects gross margins to remain within their current range.

**Net loss for the year before tax**
Operating costs increased from NZ$17.1M to NZ$36.0M, or 110%, driven by organic growth in line with the overall growth of the Group, and additional costs incurred after the acquisition of MRS.

As revenues continue to grow at a faster rate than operating expenses, Volpara's net margin has improved from -235% in FY19 to -176% in FY20. Excluding the revenue adjustment[1], non-cash and non-operating[4] items, the Group's operating margin improved from -219% to -92%.

Given the uncertainty on wider business activity resulting from the COVID-19 pandemic, Volpara has undertaken various initiatives which the Company anticipates will yield cost savings/reductions of 10-15% on annualised operating costs.

**Operating cash flows**
The Group experienced an upward step-change in operating cash outflows from Q1FY20, driven mainly by the acquisition of MRS and the increased headcount mentioned above. MRS was a net positive contributor to the Group's overall net operating cash outflows for the period post-acquisition. From Q2FY20 onwards, net operating cash outflow per quarter has stabilised. Volpara anticipates that the implementation of various initiatives noted above will likely result in reduced net cash outflows from Q2FY21 onwards.

Positively, the Group's cash inflows increased from NZ$5.6M to NZ$16.3M, or 193%, mirroring non-GAAP revenue; whereas payments to suppliers and employees increased from NZ$17.2M to NZ$33.6M, or 95%.

**Cash balance**
Volpara's cash balance as at 31 March 2020 was NZ$31.4M. As a result of the successful placement and subsequent SPP completed on 18 May 2020, Volpara's cash balance is now approximately NZ$69M. This provides Volpara with significant runway and flexibility to assess potential future strategic acquisitions to expand our product offering and market reach to help Save Families from Cancer.

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[1] Accounting standards require assets and liabilities acquired within a business combination to be measured at fair value. Deferred revenue balances are therefore valued at the cost of fulfilling the service plus a small margin. This differs to the normal basis of recognition of deferred revenue. As a result of this adjustment, deferred revenue previously recorded by MRS, that would have flowed to revenue in the current year was reduced. Furthermore, it is important for the users to understand that this is a one-off, non-cash, technical accounting adjustment which will not impact revenue in future periods, once fully unwound, and does not nor has not impacted on the cash generation of the business. The directors and management believe this measure provides useful information to users of the financial statements to assist in understanding the Company's financial performance and position.

**Investor conference call**

The Company is holding a conference call with investors this morning at 09:00 am AEST (11:00 am NZST). The call will discuss the Company's FY2020 results.

If you have not already preregistered via the link below, you may dial in at the scheduled time using the following call details.

**Preregistration link: https://s1.c-conf.com/DiamondPass/10007311-invite.html**
**Conference ID: 10007311**

If you are unable to use register in advance, then at the time of the conference you can call one of the numbers below and provide the conference ID **10007311** to an operator.

| | |
|---|---|
| **AUSTRALIA:** | 1800558698 |
| **ALT. AUSTRALIA:** | 1800809971 |
| **OTHER INTERNATIONAL (METERED):** | +61731454010 |
| **SYDNEY:** | 0290073187 |
| **NEW ZEALAND:** | 0800453055 |
| **AUCKLAND:** | 099291687 |
| **CHRISTCHURCH:** | 039742632 |
| **WELLINGTON:** | 049747738 |
| **CHINA:** | 4001200659 |
| **HONG KONG:** | 800966806 |
| **SINGAPORE:** | 8001012785 |
| **UK:** | 08000518245 |
| **USA/CANADA:** | 18558811339 |
| **CHICAGO:** | 18153732080 |
| **LOS ANGELES:** | 19092354020 |
| **NEW YORK:** | 19142023258 |

ENDS.

**Authorisation & Additional Information**

This announcement was authorised by the Board of Directors of Volpara Health Technologies Limited.

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**About Volpara Health Technologies Limited (ASX: VHT)**

VHT is a MedTech SaaS company founded in 2009 on research originally conducted at Oxford University. VHT's clinical functions for screening clinics provide feedback on breast density, compression, dose, and quality, while its enterprise-wide practice software management helps with productivity, compliance, reimbursement, and patient tracking.

VHT's technology and services have been used by customers and/or research projects in 38 countries and are supported by numerous patents, trademarks, and regulatory clearances, including FDA clearance and CE marking. Since its listing on the ASX in April 2016, VHT has raised A$132 million, including A$37 million in April/May 2020. VHT is based in Wellington, New Zealand.

At the end of June 2019, VHT acquired MRS Systems, Inc., a company based in Seattle, WA. MRS provides mammography reporting systems to over 1,600 breast clinics and hospitals, and to VHT a much stronger US presence, experienced local headquarters, and accelerated sales through cross-selling opportunities.

For more information, visit www.volparasolutions.com

VHT uses the following definitions:

Total Contract Value (TCV): The value of contracts signed in the specified period. The revenue from these deals might be recognised over one or many years, and the customer might or might not have a cancellation clause of some kind.

Annual Recurring Revenue (ARR): The normalized amount of cash reasonably expected to be booked for the next 12 months based on the contracts signed previously, and assuming installation upon order.

Churn: The percentage of revenue from customers that either discontinue or reduce their subscription in a given 12-month period.

Gross Margin: Total customer revenue minus cost of revenue, divided by total customer revenue, expressed as a percentage. Cost pf revenue includes commission, cloud costs, hardware costs (if applicable), bank charges on customer payments, and travel costs for onboarding and installations.

Percentage of US women: Approximately 39M a year are imaged in the United States, most of them screening. The percentage we give is an estimate of the number of women who are imaged using at least one of Volpara's suite of products. This should be considered indicative and not definitive.

## Reconciliation of IFRS to Non-GAAP[2,3]

| | FY20 NZ$'000 | FY19 NZ$'000 | Variance NZ$'000 | Variance % |
|---|---|---|---|---|
| **Breast** | | | | |
| SaaS revenue | 6,466 | 4,040 | 2,426 | 60% |
| Capital revenue | 3,396 | 581 | 2,815 | 485% |
| Service maintenance agreements revenue | 2,309 | 379 | 1,930 | 509% |
| **Lung** | | | | |
| Lung subscription revenue | 342 | - | 342 | 100% |
| Lung capital revenue | 125 | - | 125 | 100% |
| **Total revenue** | **12,638** | **5,000** | **7,638** | **153%** |
| | | | | |
| Non-cash items | | | | |
| Plus: Revenue adjustment[1] | 3,648 | - | 3,648 | 100% |
| **Total Non-GAAP revenue** | **16,286** | **5,000** | **11,286** | **226%** |
| **Total subscription revenue** | **9,117** | **4,419** | **4,698** | **106%** |
| **Total Non-GAAP subscription revenue** | **12,765** | **4,419** | **8,346** | **189%** |
| Cost of revenue | (1,772) | (872) | (900) | 103% |
| **Gross profit** | **10,866** | **4,128** | **6,738** | **163%** |
| **Non-GAAP Gross profit** | **14,514** | **4,128** | **10,386** | **252%** |
| **Gross margin** | **86%** | **83%** | **3%** | |
| **Non-GAAP Gross margin** | **89%** | **83%** | **6%** | |
| | | | | |
| **Net loss for the year before tax** | **(22,272)** | **(11,753)** | **(10,519)** | **90%** |
| Non-cash and non-operating items[4] | | | | |
| Plus: Revenue adjustment[1] | 3,648 | - | 3,648 | 100% |
| Plus: Acquisition related costs | 1,004 | - | 1,004 | 100% |
| Plus: Share-based payments expense | 1,382 | 589 | 793 | 135% |
| Plus: Depreciation and Amortisation | 2,240 | 310 | 1,930 | 623% |
| Less: (Gains)/losses on foreign exchange transactions | (1,087) | (118) | (969) | 821% |
| Plus: Impairment of right-of-use asset | 106 | - | 106 | 100% |
| Plus: Bad debts write-off | 44 | 16 | 28 | 100% |
| **Non-GAAP Net loss for the year before tax and before non-cash and non-operating items** | **(14,935)** | **(10,956)** | **(3,979)** | **36%** |
| **Net margin** | **-176%** | **-235%** | **59%** | |
| **Non-GAAP Net margin before non-cash and non-operating** | **-92%** | **-219%** | **127%** | |

[2] Non-GAAP measures have been included as we believe they provide useful information for users of the financial statements that assist in understanding Volpara's financial performance.
[3] Non-GAAP measures are not prepared in accordance with NZ GAAP, do not comply with International Financial Reporting Standards and therefore are not uniformly defined. The non-GAAP measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation.
4 Non-cash and non-operating items have been taken from the cash flow reconciliation note 9 in the financial statements.

**Volpara Health Technologies Limited**
**(NZ Company no. 2206998 / ARBN 609 946 867)**

**Appendix 4E - Preliminary Final Report**
**for the year ended 31 March 2020**

### Results for announcement to the market

**Detail of Reporting Periods**

| | |
|---|---|
| Current: | 1 April 2019 to 31 March 2020 |
| Comparative: | 1 April 2018 to 31 March 2019 |

| **Financial Results** | **Unaudited Year Ended 31-Mar-20 NZ$'000** | Year Ended 31-Mar-19 NZ$'000 | Variance % |
|---|---|---|---|
| Revenue from contracts with customers | **12,638** | 5,000 | 153% |
| Net loss for the year after tax (attributable to shareholders) | **(20,335)** | (11,741) | 73% |
| Loss per share | **(0.10)** | (0.07) | 44% |
| Cash and cash equivalents and cash on deposit | **31,378** | 14,383 | 118% |

**Dividends**
No dividends have been declared or paid for the year ended 31 March 2020 (2019: $nil).

**Commentary on the Results**
Please refer to our Results Presentation for commentary on the results.

| **Net Tangible Assets** | **Year Ended 31-Mar-20** | Year Ended 31-Mar-19 |
|---|---|---|
| Net tangible assets (NZ$'000) | **26,023** | 13,827 |
| Ordinary number of shares | **218,479,977** | 179,350,158 |
| Net tangible assets (cents per share) | **0.12** | 0.08 |

**Preliminary Final Report**
The preliminary final report for Volpara Health Technologies Limited is attached and has been prepared using the principles of recognition and measurement requirements of IFRS and NZ IFRS.

**Audit Status**
The report is based on accounts that are in the process of being audited.

**Ralph Hignam**
*Chief Executive Officer*

**Craig Hadfield**
*Chief Financial Officer*

29th May 2020

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

**Contents**

3—Consolidated statement of profit or loss and other comprehensive income
4—Consolidated statement of financial position
5—Consolidated statement of changes in equity
6—Consolidated statement of cash flows
7—Notes to the financial statements

# Consolidated statement of profit or loss and other comprehensive income

FOR THE YEAR ENDED 31 MARCH 2020

| | Notes | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|---|
| **REVENUE** | | | |
| Revenue from contracts with customers | 4 | 12,638 | 5,000 |
| Cost of revenue | 7 | (1,772) | (872) |
| **Gross profit** | | **10,866** | **4,128** |
| Government grants and other operating income | 6 | 1,122 | 724 |
| Sales and marketing | 7 | (13,248) | (8,433) |
| Product research, development and engineering | 7 | (10,905) | (5,647) |
| General and administration | 7 | (11,891) | (3,049) |
| Foreign exchange gains | | 1,087 | 118 |
| **Net loss for the year before interest and tax** | | **(22,969)** | **(12,159)** |
| Finance income | | 771 | 465 |
| Finance expense | | (74) | (59) |
| **Net loss for the year before tax** | | **(22,272)** | **(11,753)** |
| Income tax benefit | 8 | 1,937 | 12 |
| **Net loss for the year after tax** | | **(20,335)** | **(11,741)** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Net loss for the year | | (20,335) | (11,741) |
| **Other comprehensive (expense)/income** | | | |
| *Items that may be reclassified subsequently to profit or loss (net of tax):* | | | |
| Exchange differences on translation of foreign operations | | 1,498 | 58 |
| **Other comprehensive (expense)/income for the year (net of tax)** | | **1,498** | **58** |
| **Total comprehensive loss for the year, net of tax** | | **(18,837)** | **(11,683)** |
| Basic and diluted loss per share (NZ$) | 12 | (0.10) | (0.07) |

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

# Consolidated statement of financial position

AS AT 31 MARCH 2020

| | Notes | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | 21 | 1,029 | 337 |
| Intangible assets | 22 | 26,233 | 355 |
| Trade receivables | 10 | - | 7 |
| Right-of-use assets | 14 | 3,519 | 217 |
| Contract costs | 5 | 1,593 | 934 |
| **Total non-current assets** | | **32,374** | **1,850** |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 3,673 | 4,112 |
| Cash on deposit | 9 | 27,705 | 10,271 |
| Trade receivables | 10 | 7,103 | 1,919 |
| Contract assets | 10 | 440 | 157 |
| Prepayments and other receivables | | 1,186 | 381 |
| Inventory | | 54 | 32 |
| Contract costs | 5 | 389 | 249 |
| **Total current assets** | | **40,550** | **17,121** |
| **Total assets** | | **72,924** | **18,971** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 12 | 140,078 | 84,129 |
| Share option reserve | 13 | 3,326 | 2,374 |
| Foreign currency translation reserve | | 1,385 | (113) |
| Accumulated losses | | (92,533) | (72,208) |
| **Total equity** | | **52,256** | **14,182** |
| **Non-current liabilities** | | | |
| Deferred revenue | 4 | - | 19 |
| Lease liabilities | 14 | 3,159 | 127 |
| **Total non-current liabilities** | | **3,159** | **146** |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 4,530 | 2,318 |
| Deferred revenue | 4 | 10,733 | 2,165 |
| Lease liabilities | 14 | 605 | 125 |
| Deferred tax liabilities | 8 | 1,641 | - |
| Tax payable | | - | 35 |
| **Total current liabilities** | | **17,509** | **4,643** |
| **Total liabilities** | | **20,668** | **4,789** |
| **Total equity and liabilities** | | **72,924** | **18,971** |

For and on behalf of the Board, who authorised the issue of these consolidated financial statements on 29 May 2020.

Ralph Highnam

John Diddams

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

# Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 MARCH 2020

| | Notes | Share capital NZ$'000 | Share option reserve NZ$'000 | Foreign currency translation reserve NZ$'000 | Accumulated losses NZ$'000 | Total equity NZ$'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2019** | | **84,129** | **2,374** | **(113)** | **(72,208)** | **14,182** |
| Net loss for the year after tax | | - | - | - | (20,335) | (20,335) |
| Other comprehensive loss | | - | - | 1,498 | - | 1,498 |
| **Total comprehensive loss for the year, net of tax** | | **-** | **-** | **1,498** | **(20,335)** | **(18,837)** |
| *Transactions with owners:* | | | | | | |
| Issue of share capital from placement and accelerated non-renounceable entitlement offer (ANREO) | 12 | 58,032 | - | - | - | 58,032 |
| Costs of placement and ANREO | 12 | (3,118) | - | - | - | (3,118) |
| Issue of share capital from exercise of share options | 13 | 1,035 | (419) | - | - | 616 |
| Forfeiture of share options | 13 | - | (19) | - | 10 | (9) |
| Recognition of share-based payments | 13 | - | 1,390 | - | - | 1,390 |
| **Balance at 31 March 2020** | | **140,078** | **3,326** | **1,385** | **(92,533)** | **52,256** |
| **Balance at 1 April 2018** | | **63,192** | **2,066** | **(171)** | **(60,592)** | **4,495** |
| Net loss for the year after tax | | - | - | - | (11,741) | (11,741) |
| Other comprehensive income | | - | - | 58 | - | 58 |
| **Total comprehensive loss for the year, net of tax** | | **-** | **-** | **58** | **(11,741)** | **(11,683)** |
| *Transactions with owners:* | | | | | | |
| Issue of share capital from placement and share purchase plan | | 21,488 | - | - | - | 21,488 |
| Costs of placement and share purchase plan capital raise | | (980) | - | - | - | (980) |
| Issue of share capital from exercise of share options | 13 | 429 | (156) | - | - | 273 |
| Forfeiture of share options | 13 | - | (125) | - | 125 | - |
| Recognition of share based payments | 13 | - | 589 | - | - | 589 |
| **Balance at 31 March 2019** | | **84,129** | **2,374** | **(113)** | **(72,208)** | **14,182** |

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

# Consolidated statement of cash flows

FOR THE YEAR ENDED 31 MARCH 2020

| | Notes | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 16,339 | 5,567 |
| Payments to suppliers and employees | | (33,550) | (17,218) |
| Other income received | | 977 | 667 |
| Net interest received | | 487 | 328 |
| Net taxes (paid)/received | | (146) | 29 |
| Payment of low value asset leases | | (65) | (15) |
| **Net cash utilised in operating activities** | 9 | **(15,958)** | **(10,642)** |
| **INVESTING ACTIVITIES** | | | |
| Purchases of property and equipment | | (484) | (393) |
| Payments for intangible assets | | (525) | (301) |
| Acquisition of subsidiary net of cash acquired | | (21,707) | - |
| Acquisition related costs | | (680) | - |
| Payments into term deposits | | (32,820) | (27,251) |
| Receipts from term deposits | | 16,221 | 18,482 |
| **Net cash utilised in investing activities** | | **(39,995)** | **(9,463)** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital from placement and rights issue | | 58,032 | 21,488 |
| Transaction costs of raising capital | | (3,122) | (980) |
| Proceeds from exercise of share options | | 616 | 273 |
| Payment of principal portion of the lease liabilities | | (290) | (87) |
| **Net cash provided by financing activities** | | **55,236** | **20,694** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(717)** | **589** |
| Net foreign exchange difference | | 278 | 181 |
| Cash and cash equivalents as at 1 April | | 4,112 | 3,342 |
| **Cash and cash equivalents at the end of the period** | 9 | **3,673** | **4,112** |

Cash and cash equivalents does not include cash on deposits totalling NZ$27.7M (2019: NZ$10.3M). Refer to note 9 for further details.

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

# Notes to the financial statements

## 1. CORPORATE INFORMATION

The consolidated financial statements of Volpara Health Technologies Limited (the Company or Volpara) and its subsidiaries (collectively, the Group) for the year ended 31 March 2020 were authorised for issue in accordance with a resolution of the directors on 29 May 2020. The directors have the power to amend and reissue the financial statements.

Volpara (the Company and the ultimate parent) is a limited liability company incorporated and domiciled in New Zealand and whose shares are publicly traded. Its principal place of business and registered office is Level 14, 40 Mercer Street, Wellington 6011, New Zealand.

Volpara is designated as a for-profit company incorporated under the Companies Act 1993 (NZCN: 2206998) and is listed on the Australian Securities Exchange. The Company is also registered in Australia (ARBN: 609 946 867). The Company's principal sales and services are in the medical device and practice management software industry. Information on the Group's structure and other related party relationships of the Group is provided in note 24.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**2.1 Basis of preparation**
The consolidated financial statements for the year ended 31 March 2020 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with International Financial Reporting Standards ("IFRS"), New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards as appropriate for for-profit entities.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

The consolidated financial statements are presented in New Zealand dollars, which is the Parent's functional currency and the presentational currency of the Group. All values are rounded to the nearest thousand ($'000) except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

**2.2 Basis of consolidation**
The Group's financial statements consolidate the financial statements of Volpara Health Technologies Limited and its subsidiaries. A subsidiary is a controlled entity over which the Group has power, is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to use its power to affect its returns.

**2.3 New and amended standards and interpretations**
There are no new standards or interpretations material to the Group to be applied during the year.

**2.4 Significant accounting policies**
Significant accounting policies, accounting estimates and judgments that summarises the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the accompanying notes:

Note 13: Valuation of share-based payments
Note 22: Intangible assets
Note 23: Acquisition of MRS Systems, Inc

**a) Current versus non-current classification**
The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

**b) Foreign currencies**
For the purposes of presenting the Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand Dollars using exchange rates prevailing at the end of the reporting period.

Foreign currency transactions are translated into the functional currency using the average exchange rates for that month. 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 year end exchange rates, are generally recognised in profit or loss.

Exchange differences arising, if any, are recognised in other comprehensive income and accumulated as a separate component of equity in the Group's foreign currency translation reserve.

**c) Impairment of non-financial assets**
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). This includes intangible assets such as patents and software and also includes goodwill acquired through business combinations.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount and an impairment loss is recognised immediately in the profit or loss.

Further disclosures relating to impairment of non-financial assets are also provided in note 22.

**2.5 Restatement of comparatives**
Due to an acquisition during the period, there has been a change in the internal reporting to the Directors. This change has been reflected in the Segmental Information note. Refer to note 3.

**2.6 Going concern**
The considered view of the Directors of the Group is that the going concern assumption is valid. This view has been reached after making due enquiry and having regard to the circumstances which the Directors consider will occur and those which are reasonably likely to affect the Group during the period of one year from the date these consolidated financial statements are approved.

The Group recorded a net loss of NZ$20.34M for the year ended 31 March 2020 (2019: NZ$11.74M) and is expected to make further losses in 2021.

Notwithstanding the above, the Group has prepared cash flow forecasts which indicate that cash on hand at year end, combined with the net cash flow as a result of operations, will enable the Group to continue operating as a going concern. Furthermore, Volpara has raised additional capital after year end. Refer to note 26.

## 3. SEGMENT INFORMATION

Following the acquisition of MRS Systems, Inc. (MRS) during the year the operating structure of the Group has changed. The Group's internal financial reporting has evolved and will continue to do so. The Board of Directors, assessed to be the Group's Chief Operating Decision Maker (CODM), now receives financial reports for each region as defined by the five operating subsidiaries and head office (Corporate); whereas previously reporting was limited to Group performance. The reporting to the CODM has been aggregated into four reporting segments based on region and separating out head office. This aggregation is based on products, customers, distribution methods and the regulatory environment being similar in each region.

No single customer contributes more than 10% of the Group's revenue.

Comparative information has been presented on a consistent basis to the revised segments.

The Group derives its revenue from the sale of clinical functions and patient tracking software. The clinical functions business is sold world-wide, whereas the patient tracking software to date has been sold predominantly in North America.

The CODM assesses the performance of the reportable segments based on net profit/(loss) after tax. The segment information provided to the Board of Directors for the year ended 31 March 2020 is as follows:

### *3. Segment information (continued)*

**2020**

| | North America NZ$'000 | EMEA NZ$'000 | APAC NZ$'000 | Corporate NZ$'000 | Reconciled to Group NZ$'000 |
|---|---|---|---|---|---|
| Revenue from Breast contracts: | | | | | |
| - SaaS | 5,963 | 121 | 382 | - | 6,466 |
| - SMA | 2,286 | 11 | 12 | - | 2,309 |
| - Capital | 3,200 | 2 | 194 | - | 3,396 |
| Revenue from Lung contracts | 467 | - | - | - | 467 |
| **Total revenue** | **11,916** | **134** | **588** | **-** | **12,638** |
| Cost of revenue | (1,545) | (89) | (138) | - | (1,772) |
| **Gross profit** | **10,371** | **45** | **450** | **-** | **10,866** |
| | | | | | |
| Government grants and other operating income | - | 30 | - | 1,092 | 1,122 |
| Sales and marketing | (11,631) | (292) | (880) | (445) | (13,248) |
| Product research, development and engineering | (3,624) | (245) | (45) | (6,991) | (10,905) |
| General and administration | (4,538) | (78) | (10) | (7,265) | (11,891) |
| Foreign exchange gains | 1 | 2 | 28 | 1,056 | 1,087 |
| **Net loss before interest and tax** | **(9,421)** | **(538)** | **(457)** | **(12,553)** | **(22,969)** |
| | | | | | |
| Finance income | 7 | - | 15 | 749 | 771 |
| Finance expense | (50) | (8) | 1 | (17) | (74) |
| **Net loss for the year before tax** | **(9,464)** | **(546)** | **(441)** | **(11,821)** | **(22,272)** |
| | | | | | |
| Tax benefit/(expense) | 1,931 | 2 | 4 | - | 1,937 |
| **Net loss for the year after tax** | **(7,533)** | **(544)** | **(437)** | **(11,821)** | **(20,335)** |

### *3. Segment information (continued)*

**2019**

| | North America NZ$'000 | EMEA NZ$'000 | APAC NZ$'000 | Corporate NZ$'000 | Reconciled to Group NZ$'000 |
|---|---|---|---|---|---|
| Revenue from Breast contracts: | | | | | |
| - SaaS | 3,655 | 147 | 238 | - | 4,040 |
| - SMA | 362 | 5 | 12 | - | 379 |
| - Capital | 205 | 91 | 285 | - | 581 |
| Revenue from Lung contracts | - | - | - | - | - |
| **Total revenue** | **4,222** | **243** | **535** | **-** | **5,000** |
| Cost of revenue | (730) | (25) | (116) | (1) | (872) |
| **Gross profit** | **3,492** | **218** | **419** | **(1)** | **4,128** |
| Government grants and other operating income | - | - | - | 724 | 724 |
| Sales and marketing | (7,000) | (263) | (777) | (393) | (8,433) |
| Product research, development and engineering | (95) | (235) | (5) | (5,312) | (5,647) |
| General and administration | (377) | (48) | (37) | (2,587) | (3,049) |
| Foreign exchange gains/(losses) | - | 2 | (50) | 166 | 118 |
| **Net loss before interest and tax** | **(3,980)** | **(326)** | **(450)** | **(7,403)** | **(12,159)** |
| Finance income | - | - | - | 465 | 465 |
| Finance expense | - | - | - | (59) | (59) |
| **Net loss for the year before tax** | **(3,980)** | **(326)** | **(450)** | **(6,997)** | **(11,753)** |
| Tax (expense)/benefit | (8) | 86 | (66) | - | 12 |
| **Net loss for the year after tax** | **(3,988)** | **(240)** | **(516)** | **(6,997)** | **(11,741)** |

**Segment non-current assets**

**As at March 31**

| | North America NZ$'000 | EMEA NZ$'000 | APAC NZ$'000 | Corporate NZ$'000 | Reconciled to Group NZ$'000 |
|---|---|---|---|---|---|
| 2020 | 27,996 | - | - | 2,785 | 30,781 |
| 2019 | 183 | 4 | - | 722 | 909 |

## 4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group recognises revenue from goods and services provided under three main product categories:
1. Capital sales contracts which involve the outright sale of software and associated items;
2. Software Maintenance Agreements (SMAs) to support previous Capital sales;
3. Software as a Service (SaaS) contracts which involve the sale of software on a subscription basis and where applicable, cloud based support (and associated items).

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when control of a good or service is transferred to the customer. Refer below for more detail.

The Group has determined that no significant financing component exists in respect of the various revenue streams. This is due to there being no significant time lag between the delivery of goods or services and when payment is received.

Further information about the Group's three main product categories and related performance obligations is detailed below:

**Capital**
Capital sales contracts involve the provision of software licences, server hardware (if applicable), installation services, integrations and training. Customers enter into an arrangement with the Company by signing a contract, which grants the customer a non-transferable, non-exclusive licence to use the software for its internal purposes, generally for a perpetual period of time. The Company recognises revenue when persuasive evidence of an arrangement exists, performance has occurred, the fee is fixed or determinable, and collectability is probable. This is usually the date that the customer has been provided with the server (where applicable) and the license key(s), and training (where applicable) has been completed. Software products are delivered either electronically or via delivery of the software on a device for the customer to install. Electronic delivery occurs when the Company provides the customer with access to the software via a secure portal.

Training and other services are not considered essential to the functionality of the Company's software products. These services are generally delivered on a time and materials basis, and are recognized when services are performed.

Capital contracts do not involve any variable consideration. Management considers whether revenue needs to be allocated to separate performance obligations only where significant elements of the contract remain outstanding at the reporting date (refer below for discussion on how revenue would be allocated if this were the case).

**SMA's**
The Group's SMA contracts with customers generally comprise of a number of distinct performance obligations, being the provision of the software updates, upgrades, provision of ongoing technical support, IT configuration changes, etc. SMA contracts usually begin one year after the commencement of a Capital Sale and contracts range in length between one and four years. SMA contracts are considered 'stand-ready' performance obligations, where all elements are provided over time. Therefore, revenue is recognised on a straight-line basis over the period of the contract. Payment is usually due upon commencement of each year of the SMA.

**Software as a Service**
The Group's SaaS contracts with customers generally comprise a range of goods and services. These may include the base software (and hardware in some instances), software updates and upgrades, installation, upfront training and ongoing technical support, integrations and role licences to access services.

As a result, a number of performance obligations exist. The transaction price is therefore allocated to each performance obligation on a relative stand-alone selling price basis. This allocation requires estimation because, while each separate performance obligation is identified in the contract, the contract price is set for the agreement as a whole. In the absence of comparable market prices for the various goods and services provided, the Group relies on internal information such as a master price list to determine the stand-alone selling price for each good or service. This internal information may be adjusted to reflect market conditions across the geographic locations, the nature of the customer and their expected use of the software, and other factors.

Revenue for each performance obligation is recognised as follows:

| Performance obligation | Recognition |
|---|---|
| Base software (and hardware) | Point in time, on installation |
| Upfront training | Point in time, upon completion |
| Installation | Over time, as installation is provided |
| Role licences which provide access to services where the Group is required to maintain access to analytical and other information | Over time, from the completion of installation through to the end of the contract. |
| Software updates, upgrades and ongoing technical support | These are predominantly "stand-ready" services which are recognised on a straight-line basis over the period of service. |

### *4. Revenue from contracts with customers (continued)*

Most contracts involve pricing based on usage of the software (mammography volumes). Revenue based on usage is recognised on a straight-line basis as this is in line with expected usage patterns and for practicality purposes.

Most SaaS contracts are for one to five year terms, with a right to cancel at the end of each year without penalty. The Group's judgment is that these are one year contracts with a right to renew and accordingly revenue is recognised as the performance obligations are met over the annual period.

A small number of contracts allow the customer to renew the contract at a discount to the initial price, or to obtain additional role licences or other goods and services at a discount. Where the discount is incremental to the range of discounts typically given for the goods or services, the value of the discount is determined and some revenue is allocated to this customer option known as the material right. Revenue allocated to the customer option is recognised when the subsequent discounted goods or services are provided.

There are no warranties to be accounted for on SaaS products for the current period. Warranties will be applicable on Live! sales after the first year. This will include a warranty on the hardware sold with the Live! product. It is expected that the number of claims will be minimal. A provision will be recognised for the cost associated with warranty claims if it is expected that these claims will be more than insignificant. The recognition of any provision does not impact revenue recognition.

**Contract modifications**
There were several contract modifications that occurred during the year where customers on an existing SMA or Density, Dose and Pressure (DDP) agreement signed SaaS contracts and as a result they were accounted for as contract modifications. Separate performance obligations did not arise from the changes. The cash flow associated with these contracts changed significantly.

**Disaggregation of revenue**
The Group derives its revenue from the transfer of goods and services over time and at a point in time in the following product categories:

**For the year ended 31 March 2020**

| | Capital sales NZ$'000 | Software maintenance agreements NZ$'000 | Software as a Service NZ$'000 | Total NZ$'000 |
|---|---|---|---|---|
| **Timing of revenue recognition** | | | | |
| Goods or services transferred at a point in time | 3,396 | - | 1,305 | **4,701** |
| Services transferred over time | - | 2,309 | 5,628 | **7,937** |
| **Total revenue from contracts with customers** | **3,396** | **2,309** | **6,933** | **12,638** |

**For the year ended 31 March 2019**

| | Capital sales NZ$'000 | Software maintenance agreements NZ$'000 | Software as a Service NZ$'000 | Total NZ$'000 |
|---|---|---|---|---|
| **Timing of revenue recognition** | | | | |
| Goods or services transferred at a point in time | 581 | - | 1,052 | **1,633** |
| Services transferred over time | - | 379 | 2,988 | **3,367** |
| **Total revenue from contracts with customers** | **581** | **379** | **4,040** | **5,000** |

### *4. Revenue from contracts with customers (continued)*

**Deferred revenue**
Payment is usually due annually in advance either upon go-live or an agreed period after the contract is signed, whichever occurs first. If a customer pays consideration before the Group transfers goods or services to the customer, a deferred revenue liability is recognised when the payment is made. Deferred revenue liabilities are recognised as revenue when the Group performs under the contract.

| | Notes | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|---|
| Opening balance as at 1 April | | 2,184 | 934 |
| Amount recognised upon acquisition | 23 | 1,564 | - |
| Amount recognised in revenue during the year | | (8,290) | (4,127) |
| Contracts entered into in the year | | 15,275 | 5,377 |
| **Closing balance as at 31 March** | | **10,733** | **2,184** |

The outstanding balances of these accounts increased for the 31 March 2020 year due to the large increase in the Group's customer base as well as the acquisition of MRS during the year.

**Deferred revenue by years and contract type**

**As at 31 March 2020**

| | 0 - 12 months NZ$'000 | 1-2 years NZ$'000 | Total NZ$'000 |
|---|---|---|---|
| Capital | 18 | - | **18** |
| SMA contracts | 5,926 | - | **5,926** |
| SaaS contracts | 4,789 | - | **4,789** |
| **Total deferred revenue** | **10,733** | **-** | **10,733** |

**As at 31 March 2019**

| | | | |
|---|---|---|---|
| Capital | 4 | - | **4** |
| SMA contracts | 211 | 6 | **217** |
| SaaS contracts | 1,950 | 13 | **1,963** |
| **Total deferred revenue** | **2,165** | **19** | **2,184** |

## 5. CONTRACT COSTS

**Cost to obtain a contract**
The Group pays sales commissions to its employees for each contract that they obtain, subject to conditions. These commission costs are either amortised over the life of the contract, or for contracts recognised at point in time, recognised when the performance obligation is satisfied. Contracts span up to five years in length and correspondingly, amortisation is spread over the contract's life. These costs are recognised in costs of revenue in profit or loss.

***5. Contract costs (continued)***

| | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| As at 1 April | 1,183 | 557 |
| Costs to obtain contracts entered into in current year | 1,363 | 915 |
| Amortisation within cost of revenue | (564) | (289) |
| **As at 31 March** | **1,982** | **1,183** |

## 6. GOVERNMENT GRANTS AND OTHER OPERATING INCOME

| **For the year ended 31 March** | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| Government grants - Callaghan Innovation | 1,077 | 722 |
| Other income | 45 | 2 |
| **Total government grants and other operating income** | **1,122** | **724** |

Government grants are received for certain expenses incurred by the Group, and are recognised in profit or loss, when it becomes reasonably certain that the grants will be received. The Callaghan Innovation R&D Growth Grant has 10% withheld until conditions are met. This has been accrued for on the basis that conditions will be met.

## 7. OPERATING EXPENSES AND COST OF REVENUE

**Cost of revenue**
Cost of revenue expenses consists of those expenses which are incremental in deriving additional revenue. This includes cloud costs, commission expenses, hardware, and any travel costs associated with the onboarding process.

**Overhead allocation**
The presentation of the consolidated statement of profit or loss and other comprehensive income by function requires certain overhead costs to be allocated to functions. These allocations require management to apply judgment.

**Sales and marketing**
Sales and marketing expenses consist of personnel and related expenses (including salaries, benefits and bonuses) directly associated with the sales and marketing teams and the cost of educating and onboarding customers. Other costs included are external advertising, marketing and conference costs for events such as the Radiological Society of North America (RSNA) conference, as well as allocated overheads.

**Product research, development and engineering**
Product research, development and engineering costs consist primarily of personnel and related expenses (including salaries, benefits and bonuses) directly associated with our product research and development, regulatory and quality employees, as well as allocated overheads.

Under NZ IFRS, the proportion of product research, development and engineering costs that create a benefit in future years is capitalisable as an intangible asset and is then amortised to profit or loss over the estimated life of the asset created. The amount amortised relating to Volpara's products is included as a product research, development and engineering cost. Refer to note 22 for further details.

**General and administration**
General and administration expenses consist of personnel and related expenses (including salaries, benefits and bonuses) for the Chief Executive Officer (CEO) as well as the finance, human resources and administrative employees. It also includes legal, accounting and other professional services fees, insurance premiums, other corporate expenses and allocated overheads. Share-based compensation is included for all directors, Key Management Personnel (KMP) and employees.

### *7. Operating expenses and cost of revenue (continued)*

| **For the year ended 31 March** | Notes | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|---|
| Salaries and benefits [1] | | 17,865 | 7,733 |
| Research and development costs not capitalised | | 3,802 | 2,449 |
| Superannuation contributions | | 1,567 | 1,378 |
| Advertising and marketing | | 1,510 | 1,153 |
| Travel | | 1,578 | 950 |
| Consulting and subcontracting | | 1,595 | 791 |
| Share-based payments expense | 13 | 1,382 | 589 |
| Cloud costs | | 927 | 508 |
| Business acquisition and merger related expenses | 23 | 1,004 | - |
| Impairment of right-of-use asset | | 106 | - |
| Directors fees | | 401 | 386 |
| Depreciation and amortisation | 14, 21, 22 | 2,240 | 310 |
| Movement in provision for expected credit losses | 10 | 148 | - |
| Auditor's remuneration | | 244 | 115 |
| Bad debts written off | | 44 | 16 |
| Low-value lease expenses | | 65 | 15 |
| Other operating expenses | | 3,338 | 1,608 |
| **Total cost of sales and operating expenses [2]** | | **37,816** | **18,001** |

**AUDITORS' REMUNERATION**

| **The auditor of the Group in 2020 is PwC (2019: Deloitte Limited).** | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| Audit of financial statements | 155 | 70 |
| Review of interim financial statements | 35 | 23 |
| Review of Callaghan Grant return | 5 | 6 |
| Non-assurance engagement [3] | 33 | - |
| | **228** | **99** |
| *Fees to a non PwC/Deloitte audit firm for:* | | |
| Audit of financial statements | 16 | 16 |
| | **16** | **16** |

1. Excludes salaries and benefits associated with research for $3,586,000 (2019: $2,309,000). These are included as part of 'Research and development costs not capitalised.'
2. This total excludes foreign exchange gains/(losses).
3. The Group engaged PwC to perform system penetration testing, assess the effectiveness of the Group's crisis response plan and also to perform a security incident review.

## 8. TAXATION

**Current income tax**
The income tax benefit for the year comprises current and deferred tax. Tax is recognised in the income tax component of the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income 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.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference 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. No deferred tax asset has been recorded in the current year.

| | 2020<br>NZ$'000 | 2019<br>NZ$'000 |
|---|---|---|
| **RECONCILIATION OF EFFECTIVE TAX RATE** | | |
| Net loss before tax | (22,272) | (11,753) |
| Prima facie taxation at 28% (2019: 28%) | (6,236) | (3,291) |
| Less tax effect | | |
| Income not subject to tax | (302) | (202) |
| Expenses not deductible for tax purposes | 531 | 817 |
| Tax differences not recognised | 4,935 | 2,711 |
| Tax losses recognised relating to earlier periods | (865) | (47) |
| **Tax benefit** | **(1,937)** | **(12)** |
| **Represented by** | | |
| Current tax | 23 | 35 |
| Deferred tax | (1,960) | (47) |
| **Income tax benefit** | **(1,937)** | **(12)** |

### *8. Taxation (continued)*

| | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| The Group has unrecognised deferred tax assets consisting of: | | |
| Temporary differences | 3,251 | 1,991 |
| Accumulated losses | 7,280 | 5,237 |
| **Total unrecognised deferred tax assets** | **10,531** | **7,228** |

The Group has tax losses in New Zealand of NZ$25,772,000 (2019: NZ$14,100,000); tax losses in the US of US$3,230,000 (2019: US$965,000); tax losses in Australia of A$70,000 (2019: A$nil) and tax losses in Europe of GBP75,000 (2019: GBP111,000) that are available for offset against future taxable profits of the companies in which those losses arose, subject to satisfying relevant jurisdiction income tax loss carry forward rules and maintaining minimum levels of shareholder continuity; and therefore realisation is currently uncertain.

Deferred tax assets of the Group relating to tax losses and other temporary differences have been recognised to the extent of deferred tax liabilities, where the benefit of those tax losses and other temporary differences are available for offset within the entity or jurisdiction in which the deferred tax liabilities arise.

| **Deferred tax assets/(liabilities)** | Intangible assets NZ$'000 | Tax losses NZ$'000 | Other NZ$'000 | Total NZ$'000 |
|---|---|---|---|---|
| Balance at beginning of year | - | - | - | **-** |
| Deferred tax assigned as part of acquisition of a subsidiary[1] | (3,759) | 172 | 219 | **(3,368)** |
| Charged to profit or loss | 342 | 1,280 | 338 | **1,960** |
| Gain/(loss) from movement in exchange rates | (335) | 55 | 47 | **(233)** |
| **Balance at end of year** | **(3,752)** | **1,507** | **604** | **(1,641)** |

| **Imputation credits** | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| Imputation credit account balances | - | 7 |
| **Total imputation credits** | **-** | **7** |

1. Recognised as part of the purchase price allocation exercise. The recognition of this deferred tax liability has increased goodwill.

## 9. CASH, CASH EQUIVALENTS AND CASH ON DEPOSIT

| | 2020<br>NZ$'000 | 2019<br>NZ$'000 |
|---|---|---|
| Cash at bank and on hand | 3,673 | 2,367 |
| Short-term deposits | - | 1,745 |
| Cash on deposit * | 27,705 | 10,271 |
| **Total cash and cash equivalents and cash on deposit** | **31,378** | **14,383** |

* Cash on deposit is in the form of term deposits that require a notice period of between 91 - 365 days to access.

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates (note 16). Short-term deposits are made for varying maturity periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. They are subject to an insignificant risk of changes in value.

At 31 March 2020, the Group had available $10,000 (2019: $10,000) of undrawn committed borrowing facilities.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and on hand and short-term deposits.

**Reconciliation of operating cash flows**

| **For the year ended 31 March** | 2020<br>NZ$'000 | 2019<br>NZ$'000 |
|---|---|---|
| Net loss for the year after tax | (20,335) | (11,741) |
| *Non-cash and non-operating items:* | | |
| Depreciation and amortisation | 2,240 | 310 |
| (Gains)/losses on foreign exchange transactions | (755) | (121) |
| Share-based payments | 1,382 | 589 |
| Acquisition related costs (disclosed in investing activities) | 680 | - |
| Bad debts write-off | 44 | 16 |
| Impairment of right-of-use asset | 106 | - |
| Movement in ECL | 148 | - |
| Deferred tax benefit | (1,960) | - |
| *Changes in working capital:* | | |
| Increase in trade and other receivables | (2,965) | (1,004) |
| Increase in contract costs | (603) | (626) |
| Increase in contract assets | (61) | (87) |
| Decrease in inventory | (14) | (18) |
| Increase in trade and other payables | 736 | 760 |
| Increase in deferred revenue | 5,898 | 1,250 |
| Effect of foreign exchange variance | (499) | 30 |
| **Net cash used in operating activities** | **(15,958)** | **(10,642)** |

## 10. TRADE RECEIVABLES AND CONTRACT ASSETS

Trade receivables are amounts due from customers for the sale of goods or services performed in the ordinary course of business that are unconditional. If collection is expected in one year or less they are classified as current assets. If not, they are classified as non-current assets.

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

| | 2020<br>NZ$'000 | 2019<br>NZ$'000 |
|---|---|---|
| Trade receivables | 7,248 | 1,936 |
| Allowance for expected credit losses | (145) | (10) |
| **Total trade receivables** | **7,103** | **1,926** |

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

| **Contract assets** | | |
|---|---|---|
| Opening balance as at 1 April | 157 | 70 |
| Amount recognised in revenue during the year | 952 | 292 |
| Amounts transferred to trade receivables during the year | (687) | (205) |
| Gain from movement in exchange rates | 18 | |
| **Closing balance as at 31 March** | **440** | **157** |

| | | |
|---|---|---|
| Contract assets | 454 | 158 |
| Allowance for expected credit losses | (14) | (1) |
| **Total contract assets** | **440** | **157** |

*Customer credit risk*
The Group seeks to trade only with reputable third parties, and as such collateral is typically not requested nor is it the Group's policy to securitise its trade and other receivables. In addition, outstanding customer receivables and contract assets are monitored on an ongoing basis with the result that the Group's experience of bad debts is not significant.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses (ECLs). The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by geographical region, product type). The calculation reflects the probability-weighted outcome, reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for an extended period (e.g. one year) and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables and contract assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are generally large institutions.

For trade receivables and contract assets, the Group applies the simplified approach permitted by NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables and contract assets.

Customers have been categorised into different Groups based on the ageing of their invoices as shown in the below table.

*10. Trade receivables and contract assets (continued)*

| 31 March 2020 | Contract assets | Trade receivables | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | Days past due | | | | | |
| | NZ$'000 | Current NZ$'000 | <30 days NZ$'000 | 31-60 days NZ$'000 | 61-90 days NZ$'000 | >90days NZ$'000 | NZ$'000 |
| Expected credit loss rate | 3.1% | 0.8% | 0.5% | 0.5% | 4.0% | 8.5% | **2.1%** |
| Estimated total gross carrying amount at default | 454 | 2,969 | 2,485 | 385 | 250 | 1,159 | **7,702** |
| Expected credit loss | 14 | 23 | 12 | 2 | 10 | 98 | **159** |
| **31 March 2019** | | | | | | | |
| Expected credit loss rate | 0.6% | 0.3% | 0.5% | 0.7% | 2.0% | 0.5% | **0.5%** |
| Estimated total gross carrying amount at default | 158 | 1,069 | 371 | 146 | 151 | 199 | **2.094** |
| Expected credit loss | 1 | 3 | 2 | 1 | 3 | 1 | **11** |

Set out below is the movement in the allowance for expected credit losses of trade receivables and contract assets:

| | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| As at 1 April | 11 | 11 |
| Movement in provision for expected credit losses (note 7) | 148 | - |
| **As at 31 March** | **159** | **11** |

The outbreak of COVID-19 globally is having significant economic impacts. The Group's customers are typically essential services and are not currently impacted to the same extent as other industries. However, the Group has made the judgment to increase its estimate of expected credit losses based on the global economic downturn and potentially for global recession.

## 11. TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are classified as non-current liabilities.

| | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| Trade payables | 879 | 543 |
| Accrued expenses | 991 | 105 |
| Employee entitlements | 2,660 | 1,670 |
| **Total trade and other payables** | **4,530** | **2,318** |

Trade payables are generally on terms of 14-30 days.

Employee entitlements comprise entitlements for annual leave, superannuation contributions in their various forms (401k, UK pension, Super and Kiwisaver), salaries and commissions for sales staff. Employee entitlements expected to be settled within 12 months of the reporting date are recognised in respect of employees services up to the reporting date.

## 12. SHARE CAPITAL AND EARNINGS PER SHARE (EPS)

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of new ordinary shares or options are shown in equity as a deduction from proceeds.

(a) Ordinary Shares
All issued shares are fully paid and have no par value.
Ordinary shares are entitled to one vote per share at meetings of Volpara Health Technologies Limited.
All ordinary shares rank equally with regard to Volpara Health Technologies Limited residual assets.

(b) Capital management
The Group's capital includes share capital, accumulated losses, and reserves.

The Group's policy is to maintain a sound capital base so as to maintain investor and creditor confidence, sustain future development of the business, and continue as a going concern. The Group's policies in respect of capital management and allocation are reviewed by the Board of Directors.

| | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| **Ordinary Shares Issued and Fully Paid** | Notes | NZ$'000 | 000's | NZ$'000 | 000's |
| In issue as at 1 April | | 84,129 | 179,350 | 63,192 | 145,493 |
| Exercise of share options | 13 | 1,042 | 2,466 | 439 | 524 |
| Issue of share capital from placement | | 47,485 | 30,000 | 16,082 | 25,000 |
| Issue of share capital from ANREO/entitlement offer | | 10,547 | 6,664 | 5,406 | 8,333 |
| Issue costs | | (3,125) | - | (990) | - |
| **In issue as at 31 March** | | **140,078** | **218,480** | **84,129** | **179,350** |

Subsequent to the end of the financial year, the company successfully raised A$28M (NZ$29.8M) through the issue of 21.5 million shares at A$1.30 from a placement to institutional shareholders.

A further A$9M (NZ$9.7M) was raised through a fully underwritten share purchase plan.

**Dividends**
No dividends have been declared or paid for the year ended 31 March 2020 (2019: nil).

**Earnings per share**
Basic earnings per share is calculated by dividing net loss for the year after tax by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has potential ordinary shares in the form of share options. However as these are anti-dilutive due to the Company being in a loss position, the earnings per share and diluted earnings per share are the same.

The following reflects the income and share data used in the basic and diluted EPS computations:

| **As at 31 March** | 2020 | 2019 |
|---|---|---|
| Net loss after tax (NZ$'000) | (20,335) | (11,741) |
| Ordinary number of shares ('000's) | 218,480 | 179,350 |
| Weighted average number of shares on issue ('000's) | 210,136 | 175,196 |
| **Basic and diluted loss per share (NZ$)** | **(0.10)** | **(0.07)** |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

## 13. SHARE-BASED PAYMENTS

The Group operates two equity-settled share-based incentive plans for directors, executives, senior management, employees and others of the Company and its subsidiaries. The plans are designed to retain key personnel. There is a legacy employee share option plan (Legacy ESOP) that was in operation from 2009 until the Initial Public Offering (IPO) in April 2016. Since the IPO a new employee share option plan (New ESOP) has been in operation.

The value of the services rendered for the grant of the share options is recognised as an expense over the vesting period (which ranges from 0 to five years or upon meeting stipulated milestones). The amount is determined by reference to the fair value of the share options granted which is calculated using the Black-Scholes options model. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for the year represents the movement in cumulative expense recognised as at the beginning and end of that year.

The share option reserve arises on recognition of the share-based payment expense. Amounts are transferred out of the reserve and into issued capital when the options are exercised, or into retained earnings when options lapse or are forfeited.

**Legacy ESOP**
There were no new options issued under this model for the period ended 31 March 2020 (31 March 2019: nil).

| Grant date / employees entitled | Number of share options outstanding '000's | Vesting Conditions | Contractual life of options |
|---|---|---|---|
| **OPTIONS GRANTED TO DIRECTORS** | | | |
| 2015 | 252 | Monthly over a period of 36 months service from grant date | 10 years |
| **OPTIONS GRANTED TO KEY MANAGEMENT PERSONNEL** | | | |
| 2016 | 1,350 | Annually over a period of 3 years service from grant date | 5 years |
| **OPTIONS GRANTED TO SENIOR EMPLOYEES** | | | |
| 2011 | 446 | Annually over a period of 1-5 years service from grant date | 10 years |
| 2013 | 520 | Annually over a period of 2-3 years service from grant date & subject to performance criteria | 10 years |
| 2014 | 45 | Annually over a period of 3 years service form grant date | 10 years |
| 2014 | 192 | Quarterly over a period of 1 years service from grant date | 10 years |
| 2015 | 390 | 1 years service from grant date | 10 years |
| 2016 | 450 | Annually over a period of 3 years service from grant date | 5 years |
| **Total share options** | **3,645** | | |

The vesting conditions on all options were met in prior periods. As a result, there is no expense recognised for the year ended 31 March 2020 for the Legacy ESOP share options was nil (2019: $35,000).

***13. Share based payments (continued)***

The number and weighted-average exercise prices of share options under the Legacy ESOP plan were as follows:

| | Number of options | Weighted-average exercise price | Weighted-average share price at date of exercise | Number of options | Weighted-average exercise price | Weighted-average share price at date of exercise |
|---|---|---|---|---|---|---|
| | 2020 000's | 2020 NZ$ | 2020 A$ | 2019 000's | 2019 NZ$ | 2019 A$ |
| Outstanding at 1 April | 5,415 | 0.31 | - | 5,415 | 0.31 | - |
| Exercised during the period | (1,770) | 0.14 | 1.55 | - | - | - |
| **Outstanding as at 31 March** | **3,645** | **0.38** | **-** | **5,415** | **0.31** | **-** |
| Vested as at 31 March | 3,645 | | | 5,415 | | |

The options outstanding at 31 March 2020 had an exercise price in the range of $0.08 to $0.4667 (2019: $0.0003 to $0.4667) and weighted-average contractual life of 1.8 years (2019: 2.6 years).

The following Legacy ESOPs were in existence during the current and prior year:

| Grant Year (Financial Year) | Number of share options '000's | NZ$ Exercise Price | Expiry Date (Financial Year) | NZ$ Fair Value at Grant Date |
|---|---|---|---|---|
| 2010 | 749 | 0.000 | 2020 | 0.08 |
| 2011 | 446 | 0.080 | 2021 | 0.10 |
| 2012 | 450 | 0.157 | 2022 | 0.12 |
| 2013 | 360 | 0.312 | 2023 | 0.15 |
| 2013 | 351 | 0.157 | 2023 | 0.21 |
| 2014 | 372 | 0.312 | 2024 | 0.16 |
| 2014 | 45 | 0.333 | 2024 | 0.15 |
| 2015 | 452 | 0.467 | 2025 | 0.20 |
| 2015 | 390 | 0.460 | 2025 | 0.20 |
| 2016 | 1,800 | 0.467 | 2021 | 0.21 |
| **Total** | **5,415** | | | |
| Less forfeited and exercised as at 31/3/2019 | - | | | |
| Forfeited / Exercised during the year | (1,770) | | | |
| **Total share options remaining** | **3,645** | | | |

No further options are granted under the Legacy ESOP.

The Black-Scholes model was used to value the Legacy ESOPs. Given there have been no issues of options in the current or comparative year, the Company has not disclosed the previously applied valuation assumptions.

### *13. Share based payments (continued)*

**New ESOP**
In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, executives, senior employees, employees, and others were granted options to purchase ordinary shares at exercise prices detailed below.

Each New ESOP converts into one ordinary share of Volpara Health Technologies Limited on exercise. The options carry neither rights to dividends nor voting rights. Options vest upon satisfying the condition of continued employment with the Group for the service period specified in the contract (ranging from two to five years). Vested options can be exercised at set times during the year, 30 days prior to expiry or at the time of an exit event.

The options granted expire or are forfeited after seven years of their issue or on termination of employment within the vesting period, whichever occurs first.

The key terms and conditions related to the grants under these programs are as follows; all options are to be settled by the issue of ordinary shares.

The vesting conditions of all New ESOPs are annually over a period of five years servuce starting two years from the grant date.

The contractual life of all New ESOPs is seven years.

| Grant date/employees entitled | Number of share options outstanding '000's |
|---|---|
| **OPTIONS GRANTED TO DIRECTORS** | |
| 2016 | 300 |
| 2018 | 450 |
| 2019 | 450 |
| 2020 | 900 |
| **OPTIONS GRANTED TO KEY MANAGEMENT PERSONNEL** | |
| 2016 | 600 |
| 2017 | 40 |
| 2018 | 110 |
| 2019 | 50 |
| 2020 | 460 |
| **OPTIONS GRANTED TO EMPLOYEES** | |
| 2016 | 2,552 |
| 2017 | 443 |
| 2018 | 141 |
| 2019 | 1,085 |
| 2020 | 2,840 |
| **Total share options** | **10,421** |

The expense recognised for the year ended 31 March 2020 for the New ESOP share options was $1,382,000 (of the $1,382,000 per note 7) (2019: $589,000).

The number and weighted-average exercise prices of share options under the New ESOP plan were as follows:

***13. Share based payments (continued)***

The number and weighted-average exercise prices of share options under the New ESOP plan were as follows:

| | Number of options | Weighted-average exercise price | Weighted-average share price at date of exercise | Number of options | Weighted-average exercise price | Weighted-average share price at date of exercise |
|---|---|---|---|---|---|---|
| | 2020 000's | 2020 A$ | 2020 A$ | 2019 000's | 2019 A$ | 2019 A$ |
| Outstanding as at 1 April | 6,997 | 0.56 | - | 6,668 | 0.50 | - |
| Granted during the year | 4,200 | 1.66 | - | 1,725 | 0.69 | - |
| Exercised during the year | (696) | 0.51 | 1.59 | (524) | 0.50 | 0.91 |
| Forfeited during the year | (80) | 0.78 | - | (872) | 0.53 | - |
| **Outstanding 31 March** | **10,421** | **1.00** | **-** | **6,997** | **0.56** | **-** |
| Vested as at 31 March | 2,339 | 0.51 | - | 1,798 | 0.50 | - |

The options outstanding at 31 March 2020 had an exercise price in the range of A$0.50 to A$1.84 (2019: A$0.50 to $1.19) and weighted-average contractual life of 4.8 years (2019: 4.7 years).

### *13. Share based payments (continued)*

The following New ESOPs were in existence during the current and prior year:

| Grant year (financial year) | Number of share options granted '000's | A$ exercise price | Expiry date | A$ fair value at grant date |
|---|---|---|---|---|
| 2016 | 5,158 | 0.50 | 2023 | 0.27 |
| 2017 | 120 | 0.50 | 2024 | 0.27 |
| 2017 | 90 | 0.50 | 2024 | 0.22 |
| 2017 | 50 | 0.50 | 2024 | 0.23 |
| 2017 | 40 | 0.50 | 2024 | 0.20 |
| 2017 | 40 | 0.50 | 2024 | 0.20 |
| 2017 | 140 | 0.50 | 2024 | 0.19 |
| 2017 | 125 | 0.50 | 2024 | 0.17 |
| 2017 | 100 | 0.50 | 2024 | 0.27 |
| 2018 | 160 | 0.60 | 2025 | 0.22 |
| 2018 | 25 | 0.60 | 2025 | 0.16 |
| 2018 | 100 | 0.67 | 2025 | 0.39 |
| 2018 | 80 | 0.68 | 2025 | 0.35 |
| 2018 | 450 | 0.60 | 2025 | 0.39 |
| 2018 | 50 | 0.60 | 2025 | 0.42 |
| 2019 | 675 | 0.60 | 2026 | 0.48 |
| 2019 | 450 | 0.60 | 2026 | 0.52 |
| 2019 | 500 | 0.89 | 2026 | 0.47 |
| 2019 | 40 | 1.19 | 2026 | 0.63 |
| 2020 | 900 | 1.51 | 2027 | 0.68 |
| 2020 | 200 | 1.58 | 2027 | 0.77 |
| 2020 | 90 | 1.68 | 2027 | 0.98 |
| 2020 | 2,770 | 1.70 | 2027 | 0.87 |
| 2020 | 240 | 1.84 | 2027 | 0.89 |
| **Total** | **12,593** | | | |
| Less forfeited and exercised as at 31/3/2019 | (1,396) | | | |
| Exercised during the year | (696) | | | |
| Forfeited during the year | (80) | | | |
| **Total share options remaining** | **10,421** | | | |

*13. Share based payments (continued)*

**Valuation model assumptions**
The Black-Scholes model was used to assess the value of the New ESOPs. Key variables in the model include, where relevant, the expected life used in the model has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected volatility is based on the historical volatility in share price along with the volatility in comparable companies in the biomedical field over the past seven years.

| Option series | 2020 | 2019 |
|---|---|---|
| Grant date share price | A$ 1.39 - 1.85 | A$ 0.79 - 1.20 |
| Exercise price | A$ 1.51 - 1.84 | A$ 0.60 - 1.19 |
| Expected volatility | 50.00% | 50.00% |
| Option life | 7 years | 7 years |
| Dividend yield | 0.00% | 0.00% |
| Risk-free interest rate | 0.79% - 1.19% | 1.57% - 2.54% |

## 14. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

The determination of whether a contract is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease agreement, the Group recognises a right-of-use asset and a lease liability. The right-of-use asset and the lease liability are initially measured at the present value of the minimum lease payments not yet paid at that date.

Subsequently the right-of-use asset is depreciated on a straight-line basis over the expected period of the lease. The carrying amount of the lease liability is increased to reflect interest and reduced by the lease payments made during the period.

**Lease liabilities**
During the year the following changes occurred to the Group's lease portfolio:
— entered into a new Wellington head office lease in August 2019
— acquired lease agreements as part of the MRS acquisition (refer to note 23).
— extended the lease contract for Suite 220, 19000 33rd Ave W, Lynnwood.

The Group retains the lease for the previous Wellington head office. The premise was unoccupied for a portion of the year but a new tenant was found in February 2020. As a result, there was an impairment made to the right-of-use asset in profit or loss. The lease terminates in November 2020.

### *14. Lease liabilities and right-of-use assets (continued)*

| | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| **LEASE LIABILITIES** | | |
| Balance as at 1 April | 252 | 340 |
| Leases entered into during the year | 1,753 | - |
| Leases assigned as part of acquisition of a subsidiary | 1,881 | - |
| Principal repayments | (336) | (130) |
| Interest expense on lease liabilities | 74 | 42 |
| Gain from movement in exchange rates | 140 | - |
| **Balance as at 31 March** | **3,764** | **252** |

| | | |
|---|---|---|
| Current | 605 | 125 |
| Non-current | 3,159 | 127 |
| **Total** | **3,764** | **252** |

The Group's undiscounted cash flows relating to lease liabilities are summarised below:

**2020**
NZ$'000

| Property | ≤ 3 months | 3 to 6 months | 6 months to 1 year | >1 year | **Total** |
|---|---|---|---|---|---|
| Level 7, 44 Victoria Street, Wellington, NZ | 37 | 37 | 61 | - | **135** |
| Level 14 & 15, 40 Mercer Street, Wellington, NZ | 86 | 86 | 172 | 1,490 | **1,834** |
| Suite 130, 19000 33rd Ave W, Lynnwood, WA, USA | 62 | 65 | 130 | 2,195 | **2,452** |
| Suite 220, 19000 33rd Ave W, Lynnwood, WA, USA | 13 | 13 | 27 | 120 | **173** |
| **Total** | **198** | **201** | **390** | **3,805** | **4,594** |

***14. Lease liabilities and right-of-use assets (continued)***

The details for the leases are as follows:

| | Level 7, 44 Victoria Street | Level 14 & 15, 40 Mercer Street | Suite 130, 19000 33rd Ave W | Suite 220, 19000 33rd Ave W |
|---|---|---|---|---|
| Start date | 1-Sep-17 | 1-Aug-19 | 1-Jul-13 | 1-Jul-16 |
| Initial lease period | 6 years | 6 years | 15 years | 4 years |
| Extension options | 3 years | 6 years | N/A | 3 years |
| Extension options exercised | N/A | N/A | N/A | Yes |
| Termination options | After 3.25 years and any point thereafter up until 6 years | After 6 years | After 15 years | After 3 years |
| Termination penalties | 3 months rent, reducing by a month each year after 3.25 years. | None | None | None |
| Residual value guarantees | None | None | None | None |
| Variable lease payments | None | None | None | None |
| Indirect costs incurred | Lawyers fees | Lawyers fees | Lawyers fees | Lawyers fees |
| Restrictions and/or covenants | None | None | None | None |
| Incremental rate of borrowing | 12.00% | 6.00% | 6.00% | 6.00% |
| Market rent reviews | Every two years | Every three years | None | None |

The total cash outflow for leases for the year ended 31 March 2020 totalled $412,000 (31 March 2019: $147,000).

The total cash inflow from subleasing Level 7, 44 Victoria Street was $12,000 (31 March 2019: nil).

The Group considers laptop computers to be of “low-value” and has therefore used the recognition exemption. The lease expense related to these items are therefore recognised as an expense on a straight-line basis over the lease term (2020: NZ$65,000, 2019: NZ$15,000). There are commitments relating to low-value assets totalling NZ$230,000 (2019: NZ$87,000).

**Right-of-use assets**
Right-of-use assets are recognised when the Group, as a lessee, has the right to use an underlying asset for the lease term. In the Group’s case the underlying asset relates to the office space as disclosed in the lease liability above.

***14. Lease liabilities and right-of-use assets (continued)***

| | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| **COST** | | |
| Balance as at 1 April | 424 | 424 |
| Leases entered into during the year | 1,753 | - |
| Leases assigned as part of acquisition of a subsidiary | 1,881 | - |
| **Balance as at 31 March** | **4,058** | **424** |
| **DEPRECIATION** | | |
| Balance as at 1 April | (207) | (76) |
| Depreciation | (405) | (131) |
| Impairment | (106) | - |
| **Balance as at 31 March** | **(718)** | **(207)** |
| Gain/(loss) from movement in exchange rates | 179 | - |
| **Net book value** | **3,519** | **217** |

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, cash on deposit, trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, and liquidity risk (refer to notes 16 - 19 for more detail). The Group's senior management oversees the management of these risks. The objective of the management of these risks is to support the delivery of the Group's financial targets while protecting future financial security. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

## 16. INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents with floating interest rates. The Group holds $10,000 with varying interest rates (2019: $764,000).

At balance date, the Group had the following mix of financial assets exposed to New Zealand interest rate risk.

### *16. Interest rate risk (continued)*

| | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Cash and cash equivalents | 3,673 | 4,112 |
| Cash on deposit | 27,705 | 10,271 |
| **Net exposure** | **31,378** | **14,383** |

The cash on deposit has fixed interest rates between 1.3% and 2.7%.

The Group does not enter into interest rate swaps to manage the interest rate risk.

The Group consistently analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, and the mix of fixed and variable interest rates.

**Sensitivity analysis**
The following table summarises the sensitivity of the Group's post-tax loss and equity to interest rate risk.

At 31 March 2020 if interest rates had moved on the basis that all investments had rolled, as illustrated in the table below, assuming the amount of the financial instruments outstanding at balance date was outstanding for the whole year and all other variables held constant, post-tax loss and equity would have been affected as follows:

| | **Post-Tax Loss Higher / (Lower)** | |
|---|---|---|
| | 2020 NZ$'000 | 2019 NZ$'000 |
| +1.0% (100 basis points) | (277) | (128) |
| -1.0% (100 basis points) | 277 | 128 |

## 17. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) receivables or payables in the statement of financial position related to the operating activities.

The Group does not enter into any forward contracts or any other instrument to hedge the currency exposure; however where possible, the Group maintains a portion of available funds in USD, AUD and GBP to match the respective expected expenses. The following tables demonstrate the sensitivity to a reasonably possible change in USD, AUD and GBP exchange rates, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

| | Carrying amount in USD | Carrying amount in GBP | Carrying amount in AUD |
|---|---|---|---|
| **2020** | | | |
| Cash | 1,516 | 324 | 368 |
| Trade receivables | 3,744 | 3 | 59 |
| Trade payables | (356) | (13) | (25) |
| **Total** | **4,904** | **314** | **402** |
| **2019** | | | |
| Cash | 522 | 195 | 106 |
| Trade receivables | 979 | 37 | 23 |
| Trade payables | (64) | (13) | (20) |
| **Total** | **1,437** | **219** | **109** |

*17. Foreign currency risk (continued)*

| **Sensitivity analysis** | Carrying amount US$'000 | Change in USD rate % | Effect on loss before tax/equity NZ$'000 |
|---|---|---|---|
| 2020 | 4,904 | 10% | 741 |
| | | -10% | (906) |
| 2019 | 1,437 | 10% | 192 |
| | | -10% | (235) |

| | Carrying amount in GBP | Change in GBP rate | Effect on loss before tax NZ$'000 |
|---|---|---|---|
| 2020 | 314 | 10% | 59 |
| | | -10% | (72) |
| 2019 | 219 | 10% | 38 |
| | | -10% | (47) |

| | Carrying amount in AUD | Change in AUD rate | Effect on loss before tax NZ$'000 |
|---|---|---|---|
| 2020 | 402 | 10% | 37 |
| | | -10% | (46) |
| 2019 | 109 | 10% | 10 |
| | | -10% | (13) |

## 18. CREDIT RISK

Credit risk arises from the financial assets of the Group; which comprise cash and cash equivalents, cash on deposit, and trade receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

There are significant concentrations of credit within the Group with $27,705,000 in outstanding term deposits held at the end of the financial year (2019: $12,016,000). The Group holds some cash in current and savings accounts with various large and reputable financial institutions in New Zealand, Australia, the United Kingdom and the United States of America. The credit risk is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. In the United States of America, deposits are insured by the government up to US$250k per bank.

The Group does not hold any credit derivatives to offset its credit exposure.

The Parent has a policy of lending to its wholly owned subsidiaries ensuring their continued operations as required.

The fair value of all financial instruments held are measured at amortised cost.

## 19. LIQUIDITY RISK

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group has established an appropriate liquidity risk management framework for the management of the Group's short-term, medium-term, and long-term funding and liquidity requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

All financial liabilities are due for payment in less than 12 months. This is the undiscounted contractual position.

| | ≤ 3 months NZ$'000 | 3 to 6 months NZ$'000 | 6 months to 1 year NZ$'000 | >1 year NZ$'000 | **Total** NZ$'000 |
|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | |
| *As at year ended 31 March 2020* | | | | | |
| Trade and other payables | 1,870 | - | - | - | **1,870** |
| Lease liabilities | 198 | 201 | 390 | 3,805 | **4,594** |
| Provision for commissions | 539 | - | - | - | **539** |
| | **2,607** | **201** | **390** | **3,805** | **7,003** |
| *As at year ended 31 March 2019* | | | | | |
| Trade and other payables | 648 | - | - | - | **648** |
| Lease liabilities | 30 | 31 | 64 | 127 | **252** |
| Provision for commissions | 306 | - | - | - | **306** |
| | **984** | **31** | **64** | **127** | **1,206** |

## 20. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Management assessed that the fair value of cash and cash equivalents, cash on deposit, trade receivables, trade and other payables and lease liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments and/or because the interest rates applied are variable in nature.

**Financial assets**
**Initial recognition and measurement**
Financial assets are classified, at initial recognition, as measured at amortised cost if the Group's intentions is to hold the financial assets for collecting cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

The Group currently classifies its cash and cash equivalents, cash on deposit, trade receivable and other receivables as financial assets measured at amortised cost.

**Subsequent measurement**
Where financial assets are measured at amortised cost, interest revenue, expected credit losses and foreign exchange gains or losses are recognised in profit or loss. On derecognition, any gain or loss is recognised in profit or loss.

**Impairment of financial assets**
The Group recognises an allowance for expected credit losses (ECLs) for trade receivables and contract assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

**Financial liabilities**
**Initial recognition and measurement**
The Group currently, upon initial recognition, classifies its financial liabilities made up of trade payables and accrued expenses at amortised cost.

***20. Financial instruments (continued)***

| Financial instruments by category | 2020 NZ$'000 | 2019 NZ$'000 |
|---|---|---|
| **FINANCIAL ASSETS MEASURED AT AMORTISED COST** | | |
| Cash and cash equivalents | 3,673 | 4,112 |
| Cash on deposit | 27,705 | 10,271 |
| Trade receivables | 7,103 | 1,926 |
| Other receivables | 1,186 | 381 |
| **Total** | **39,667** | **16,690** |
| **FINANCIAL LIABILITIES MEASURED AT AMORTISED COST** | | |
| Trade and other payables | 1,870 | 648 |
| **Total** | **1,870** | **648** |

**Subsequent measurement**
The Group's financial liabilities subsequently measured at amortised cost are measured using the effective interest method.

## 21. Fixed assets

Fixed assets consists of leasehold improvements, property, computer equipment and vehicles. They are all initially measured at cost and subsequently depreciated.

Assets are either fully depreciated after acquisition where initial recognition amounts are less than a certain threshold or depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:
— Leasehold improvements - 3 to 4 years
— Property - 3 to 15 years
— Computer equipment - 1 to 5 years
— Vehicles - 5 years

Leasehold improvements or an item of property or computer equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of leasehold improvements, property and computer equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

***21. Fixed assets (continued)***

| | Leasehold Improvements NZ$'000 | Property NZ$'000 | Computer Equipment NZ$'000 | Vehicles NZ$'000 | **Total** NZ$'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| Balance as at 1 April 2019 | 49 | 221 | 347 | - | **617** |
| Additions | 377 | 48 | 59 | - | **484** |
| Acquisitions of a subsidiary | 293 | 60 | 173 | 22 | **548** |
| Disposals and write-offs | - | (1) | (14) | - | **(15)** |
| **Balance as at 31 March 2020** | **719** | **328** | **565** | **22** | **1,634** |
| **DEPRECIATION AND IMPAIRMENT** | | | | | |
| Balance as at 1 April 2019 | (23) | (43) | (214) | - | **(280)** |
| Depreciation | (103) | (145) | (128) | (13) | **(389)** |
| Disposals and write-offs | - | 1 | 14 | - | **15** |
| **Balance as at 31 March 2020** | **(126)** | **(187)** | **(328)** | **(13)** | **(654)** |
| Gain/(loss) from movement in exchange rates | 25 | 18 | 5 | 1 | **49** |
| **Net book value** | **618** | **159** | **242** | **10** | **1,029** |
| **COST** | | | | | |
| Balance as at 1 April 2018 | 44 | 12 | 187 | - | **243** |
| Additions | 5 | 211 | 177 | - | **393** |
| Disposals and write-offs | - | (2) | (17) | - | **(19)** |
| **Balance as at 31 March 2019** | **49** | **221** | **347** | **-** | **617** |
| **DEPRECIATION AND IMPAIRMENT** | | | | | |
| Balance as at 1 April 2018 | (8) | (5) | (124) | - | **(137)** |
| Depreciation | (15) | (40) | (107) | - | **(162)** |
| Disposals and write-offs | - | 2 | 17 | - | **19** |
| **Balance as at 31 March 2019** | **(23)** | **(43)** | **(214)** | **-** | **(280)** |
| **Net book value** | **26** | **178** | **133** | **-** | **337** |

## 22. INTANGIBLE ASSETS

Intangible assets consist of both internally generated intangible assets such as capitalised software development costs, and externally generated intangible assets such as patents and trademarks, customer relationships and goodwill upon acquisition. Intangible assets acquired in a business combination are measured at fair value, while other intangible assets acquired are initially measured at cost. Internally generated intangible assets, excluding capitalised software development costs are measured at cost. Research costs are expensed in profit or loss. Development costs (internally generated software intangible assets) are capitalised in accordance with the software accounting policy below.

Where the useful lives of intangible assets are assessed to be finite, the assets are amortised over their useful life and tested for impairment whenever there is an indication that they may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with useful lives is recognised in profit or loss.
Where the useful lives of intangible assets are assessed to be indefinite, or where internally generated assets are not yet available for use, the assets are not amortised but are subject to an impairment test each year and whenever there is an indication that they may be impaired. The Group holds an intangible asset with an indefinite useful life in the form of Goodwill acquired and has software under development which is not yet available for use.

**Software development**
Research costs and costs associated with maintaining software products are expensed as incurred.

Costs that are directly associated with the development of new or substantially improved medical technology software products controlled by the Group are recognised as intangible assets only where the following criteria can all be met:
- it is technically feasible to complete the product so that it will be available for sale;
- management intends to complete the product and sell it;
- there is an ability to sell the product;
- it can be demonstrated how the product will generate future economic benefits;
- adequate technical, financial  and other resources to complete the development and to sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

**Goodwill**
Goodwill arising from business combinations is initially measured at cost, being the excess of the sum of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

### *22. Intangible assets (continued)*

| | Goodwill | Software development | Patents, trademarks and copyrights | Customer Relationships |
|---|---|---|---|---|
| Useful lives | Indefinite | | Finite | |
| Estimated useful lives | Indefinite but assessed annually for impairment | 3 - 10 years | 3 - 20 years | 20 years |
| Estimated residual value | | Nil | | |
| Method used | Assessed annually for impairment | Amortised over the period of expected future benefit from the related project on a straight-line basis | | |
| Internally generated / acquired | Acquired | Internally generated / acquired | | |
| Impairment test / recoverable amount test | Management believes the most relevant indicators of impairment are where there is evidence of obsolescence or where unfavourable changes to the economic benefits derived from the assets have been experienced. | | | |

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The goodwill acquired through business combinations is allocated to the North America CGU when testing for impairment. The North American CGU is also an operating and reportable segment.

The Group performed its annual impairment test as at 31 March 2020, using an external independent expert.

**North America CGU**
Using the capitalisation of revenue method (a market approach) the recoverable amount of the North America CGU was estimated to be US$114M to US$137M, as at 31 March 2020. This was determined based on a fair value less costs of disposal, as it exceeded the value in use. In order to determine the fair value using the market approach a multiple of revenue which a hypothetical buyer (i.e. average market participant) would pay for the business that reflects the size, growth potential, risks and other characteristics of the business were considered by the external independent expert in preparing their report, as was the appropriate revenue multiple. The external independent expert also considered the discounted cash flow (DCF) method (income approach) for the valuation, which resulted in an enterprise value in the range of $114.4M to $141.1M. Based on the valuation of the recoverable amount as calculated by the external independent expert, no impairment charge is required at this time.

The determination of the growth rate assumptions (income approach) and revenue multiple (market approach) are areas that the Group and its expert have exercised judgment, taking into account past experience and external sources. Based on the level of headroom (excess of recoverable amount above the carrying value of assets of the CGU), the Group does not envisage a scenario in which the reasonable changes to these estimates would result in impairment of the goodwill balance.

The inputs used in calculating the fair value less costs of disposal are deemed to be level 2 given that revenue is observable by the market.

| *22. Intangible assets (continued)* | Goodwill NZ$'000 | Software development NZ$'000 | Patents, trademarks and copyrights NZ$'000 | Customer relationships NZ$'000 | **Total** NZ$'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| Balance as at 1 April 2019 | - | 89 | 283 | - | **372** |
| Additions | - | 413 | 112 | - | **525** |
| Acquisitions of a subsidiary | 7,504 | 6,026 | 3,376 | 7,645 | **24,551** |
| **Balance as at 31 March 2020** | **7,504** | **6,528** | **3,771** | **7,645** | **25,448** |
| **AMORTISATION AND IMPAIRMENT** | | | | | |
| Balance as at 1 April 2019 | - | (8) | (9) | - | **(17)** |
| Amortisation | - | (526) | (607) | (313) | **(1,446)** |
| **Balance as at 31 March 2020** | **-** | **(534)** | **(616)** | **(313)** | **(1,463)** |
| Gain/(loss) from movement in exchange rates | 717 | 541 | 282 | 708 | **2,248** |
| **Net book value** | **8,221** | **6,535** | **3,437** | **8,040** | **26,233** |
| **COST** | | | | | |
| Balance as at 1 April 2018 | - | - | 71 | - | **71** |
| Additions | - | 89 | 212 | - | **301** |
| **Balance as at 31 March 2019** | **-** | **89** | **283** | **-** | **372** |
| **AMORTISATION AND IMPAIRMENT** | | | | | |
| Balance as at 1 April 2018 | - | - | - | - | **-** |
| Amortisation | - | (8) | (9) | - | **(17)** |
| **Balance as at 31 March 2019** | **-** | **(8)** | **(9)** | **-** | **(17)** |
| **Net book value** | **-** | **81** | **274** | **-** | **355** |

Refer to note 23 for details on the goodwill acquired through a business combination.

## 23. Acquisition of MRS Systems, Inc

100% of MRS Systems Inc.'s (MRS) shares were acquired on 13 June 2019, thereby enabling Volpara to obtain control. MRS is a mammography reporting system company whose primary function is to enable the reporting and tracking of patients in breast and lung screening. The primary purpose of the acquisition is to enable Volpara to expedite product development through the use of existing offerings of the acquiree. MRS's year-end is 31 December.

MRS has contributed revenue of NZ$5.5M and a net loss after tax of NZ$3.4M in the period from 13 June 2019. If the acquisition had occurred on 1 April 2019, the revenue and net loss after tax for the Group would have been NZ$7.6M and NZ$3.5M, respectively. As part of the purchase price allocation exercise (refer below) an adjustment was made to reduce the deferred revenue balance of MRS on acquisition date. This adjustment (NZ$3.6M) was to reflect the cost of providing these services, rather than the deferral of revenue.

Intangible assets arising from the acquisition include goodwill. Goodwill represents the combination of synergies expected to be realised through a combined entity such as sales, marketing, and administration, and items that are not separable from the business, such as the assembled workforce. The Group has recognised other separately identifiable intangible assets, including customer relationships, software (developed technology), patents and trademarks and a restraint of trade, refer to note 22.

The fair value consideration paid for MRS is summarised as follows:

| | US$'000 |
|---|---|
| Cash paid | 11,964 |
| Working capital adjustments | 177 |
| Indebtedness | (708) |
| Deferred cash payment | 2,626 |
| **Purchase price** | **14,059** |

Note that the agreement included a portion of deferred consideration (US$2.6M) which refers to funds which have been paid by Volpara and are being kept in escrow for 18 months for the purposes of collateral in the case of any indemnities or warranties.

Upon acquisition, the Group engaged an independent valuation expert to assist the Group in identifying and valuing the assets and liabilities of MRS. The below summarises the assessment:

| *23. Acquisition of MRS Systems, Inc (continued)* | US$'000 | NZ$'000 |
|---|---|---|
| Trade receivables | 1,444 | 2,192 |
| Other receivables | 96 | 146 |
| Fixed assets | 361 | 548 |
| Right-of-use assets | 1,239 | 1,881 |
| Deferred tax liabilities | (2,219) | (3,368) |
| Trade and other payables | (742) | (1,126) |
| Deferred revenue | (1,030) | (1,564) |
| Tax payable | (24) | (36) |
| Lease liability | (1,239) | (1,881) |
| Developed technology recognised on consolidation | 3,970 | 6,026 |
| Trademarks and trade names recognised on consolidation | 2,074 | 3,148 |
| Customer relationships recognised on consolidation | 5,036 | 7,645 |
| Restraint of trade recognised on consolidation | 150 | 228 |
| Goodwill recognised on consolidation | 4,943 | 7,504 |
| | **14,059** | **21,343** |

Business acquisition and merger related expenses, per note 7, total NZ$1,004,000 and have been expensed in these financial statements.

No goodwill is expected to be deductible for tax purposes.

The fair value of trade and other receivables acquired was equal to the carrying value and the contractual amounts receivable. As at acquisition date, there were no contractual cash flows which were not expected to be received from trade and other receivables.

The fair value of trade and other receivables acquired was equal to the carrying value and the contractual amounts receivable. As at acquisition date, there were no contractual cash flows which were not expected to be received from trade and other receivables.

| | US$'000 | NZ$'000 |
|---|---|---|
| **MRS CONTRIBUTIONS TO GROUP ACCOUNTS:** | | |
| MRS revenue included in statement of profit or loss | 3,496 | 5,453 |
| MRS loss included in statement of profit or loss | (2,216) | (3,375) |
| **IF MRS HAD BEEN ACQUIRED AS AT 1 APRIL 2019:** | | |
| MRS revenue included in statement of profit or loss | 4,943 | 7,632 |
| MRS loss included in statement of profit or loss | (2,156) | (3,466) |

The above numbers include adjustments required under IFRS 3 to reflect the fair value of the assets and liabilities acquired.

### *23. Acquisition of MRS Systems, Inc (continued)*

The key estimates and judgments used in determining the assets are as follows:

| Asset/liability | Valuation methodology | Estimates and judgments used in the valuations |
|---|---|---|
| Customer relationships | Multiple period excess earnings method | Estimates were made for the following inputs: average customer life*, average customer spend, gross margin operating costs, contributory asset charges* and income tax rates. |
| Trademarks and trade names | Relief from royalty method | Estimates were made for the following inputs: revenue, royalty rate*, economic life and income tax rates. |
| Developed technology | Replacement cost | Estimates were made for the following inputs: labour effort and costs*, overhead costs, developer's profit, entrepreneurial incentive and obsolescence. |
| Deferred revenue | Costs to fulfil obligation | Estimates were made for the following inputs: overhead costs, labour effort and costs and an operating profit margin. |

*Denotes key estimates and judgments that have the largest impact on the valuations.

## 24. RELATED PARTIES

The consolidated financial statements include the financial statements of Volpara Health Technologies Limited and the subsidiaries listed in the following table:

| Name of entity | Country of Incorporation | 2020 Ownership | 2019 Ownership |
|---|---|---|---|
| Volpara Solutions Limited | New Zealand | 100% | 100% |
| Volpara Solutions Europe Limited | United Kingdom | 100% | 100% |
| Volpara Solutions Incorporated * | United States | 100% | 100% |
| Volpara Solutions Australia Pty Limited | Australia | 100% | 100% |
| MRS Systems, Inc. | United States | 100% | 0% |

The entities in the Group all have a balance date of 31 March except for MRS which has a 31 December balance date.

* Volpara Solutions Incorporated merged with MRS Systems, Inc. on 31 March 2020. MRS Systems Inc. then then changed its name to Volpara Solutions Incorporated in early April 2020.

Financial support is provided to subsidiaries in accordance with Volpara's transfer pricing policy.

**Ultimate Parent**
Volpara Health Technologies Limited is the ultimate parent entity.

**Key Management Personnel (KMP) and Director Compensation**
Key management personnel include the Chief Executive Officer (CEO), and those employees who report directly to the CEO who have authority and responsibility for planning, directing and controlling the activities of the Group.

***24. Related parties (continued)***

| **Compensation of Key Management Personnel and Directors** | 2020 NZ$ | 2019 NZ$ |
| --- | --- | --- |
| Short-term employee benefits (i) | 1,283,737 | 1,139,174 |
| Post-employment benefits and medical benefits | 94,406 | 92,333 |
| KMP share based payment expense | 134,754 | 140,389 |
| Directors' fees | 400,534 | 389,528 |
| Directors' share-based payment expense | 330,973 | 104,150 |
| | **2,244,404** | **1,865,574** |

i. short-term employee benefits include salaries and wages, car allowances, short-term incentives earned during the period and non-monetary benefits such as insurance;
ii. Some KMP's are based in the US and are paid in US$. The total compensation is therefore translated for financial reporting purposes to NZ$ on a monthly basis.

The value of outstanding balances payable to KMP and Directors at balance date totalled $128,000 (2019: $148,000).

For additional detail related to the compensation of KMP and Directors please refer to the accompanying Directors' Report.

**Interests held by Key Management Personnel and Directors**
Share options held by KMP and Directors, under the Legacy ESOP and New ESOP to purchase ordinary shares, have the following expiry dates and exercise prices:

| Issue Date | Expiry Date | Exercise Price NZ$ | 2020 000s | 2019 000s |
| --- | --- | --- | --- | --- |
| KMP | 15/01/2021 - 1/07/2026 | 0.47 - 1.74 | 2,610 | 3,250 |
| Directors | 15/03/2023 - 20/08/2026 | 0.47 - 1.54 | 2,352 | 1,952 |
| | | | **4,962** | **5,202** |

**Loans to directors**
There were no loans to directors issued during the year ended 31 March 2020 (2019: Nil).

**Other transactions and balances**
During the year, fees were paid to Karin Lindgren totalling $77,000 for legal services provided (2019: Karin was not a Director). Of this, $10,000 was paid to Karin after she was appointed as a Director.

Directors of Volpara Health Technologies Limited control 19.91% of the voting shares of the Company at balance date (2019: 27.01%).

## 25. CONTINGENCIES AND COMMITMENTS

**Contingent liabilities and capital commitments**
The Group had no contingencies or commitments to purchase fixtures or equipment as at 31 March 2020 (2019: nil).

## 26. EVENTS AFTER THE BALANCE DATE

On 1 April 2020, MRS Systems, Inc. was merged into Volpara Solutions Incorporated. This merger creates synergies for operations in the US. There were no other significant events between balance date and the date these financial statements were authorised for issue.

Subsequent to the end of the financial year, the Company successfully raised additional capital through a placement to institutional shareholders and a fully underwritten share purchase plan. Refer to note 12 for more details.

## 27. IMPACT OF COVID-19

The Group has, since its inception in 2009, configured the business globally to be able to support customers and continue operations on a remote basis. For example, before the acquisition of MRS, the Group's operations in the US were run entirely remotely. Consequently, there has not been any significant impact on our business as of the date of this report, although the scale and duration of developments relating to COVID-19 will continue to be monitored closely for any impacts on the business.

The Directors considered the following factors, considering the facts and circumstances known at the date of this report, in assessing the potential impacts on the financial statements in light of COVID-19:

- \- On 26 March 2020 the American Society of Breast Surgeons (ASBrS) and the American College of Radiology (ACR) recommended that medical facilities postpone all breast screening exams (to include screening mammography, ultrasound, and MRI) effective immediately. As a result, we observed a large drop off in screening through our real-time monitoring of all customers, however, to date we have not seen this impact materially on revenue. During the period from late March until early May customers continued to perform diagnostic screenings. However, from early May, as the various states in the US began to relax stay-at-home orders, we have seen screening volumes start to increase.
- The Group's administrative functions operate globally and are able to operate satisfactorily during the periods of restrictions.
- The Group has not experienced a significant increase in customer credit risk and continues to receive cash receipts.
- Impairment testing has been performed over the Group's indefinite life intangible assets. The significant headroom afforded by the valuations provides the Directors with confidence that reasonable deviations from expected cash flows will not result in impairment.
- The Group had sufficient funds to enable it to meet its cash flow requirements before the successful capital raise as discussed above. However, the funds from the capital raise provide further certainty about the Group's ability to continue operations for the foreseeable future.