ASX Announcement

AUSTRALIAN Clinicalabs

Australian Clinical Labs Limited
ABN 62 006 823 089
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Australia

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Wednesday, 10 August 2022

ACL FY22 FINANCIAL RESULTS

The following announcements to the market are attached:

- FY22 Appendix 4E
- ✓ FY22 full year financial statements and statutory reports, including the FY22 directors' report
- FY22 financial results investor presentation

– ENDS –

This announcement was authorised for release to ASX by the Board of ACL. For further information regarding this announcement, please contact:

Company Secretary
Eleanor Padman
Company Secretary
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About Australian Clinical Labs

ACL is a leading Australian private provider of pathology services. Our NATA accredited laboratories perform a diverse range of pathology tests each year for a range of clients including doctors, specialists, patients, hospitals and corporate clients. ACL is one of the largest private hospital pathology businesses nationally. ACL is focused on its mission of combining talented people, and medical and scientific leadership, with innovative thinking and technologies to empower decision making that saves and improves patients' lives.

Financial Report 2022

For the year ended 30 June 2022

AUSTRALIAN Clinicalabs

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ACHIEVING OUTCOMES

Letter from the Chair

Dear Shareholder,

On behalf of the Board of Directors, I am pleased to present to you the 2022 Australian Clinical Labs (ACL) Annual Financial Report. 2022 is ACL's first full year as a publicly listed company and represents the strongest year in the history of ACL. Whilst the past 12 months have been incredibly challenging, it has also been one of outstanding performance. This is a credit to the whole team at ACL, and ACL's systems and processes established over the past 7 years.

In FY22, ACL:

- delivered more than 12.6m pathology episodes;
- generated $996m of revenue;
- continued its operational improvement program which led to profit margins, as measured by Earnings Before Interest and Tax, reaching 27%;
- completed the material acquisition of Medlab Pathology; and
- established a new laboratory in Queensland.

The strong financial performance and financial discipline of the company has led to the company announcing a final fully franked dividend of 41 cents per share which when combined with the interim dividend has delivered total fully franked dividends for the year of 53 cents per share.

These strong metrics were possible only due to the enormous effort of all staff across the company and their focus on outstanding patient care over the course of the whole year and often in very trying situations.

The support of our staff to meet the needs of the community in the last year was truly an enormous effort with many staff forgoing all leave and often working considerable overtime over the course of the year.

Focus on ESG

Alongside the company's focus on operational performance, the company is focused on ensuring it develops value creating ESG targets that deliver positive change over time, generating short-term and long-term value for its shareholders, staff, patients, the wider health community and partners and broader stakeholders.

In the past 12 months, ACL has:

- **Environmental metrics**: Measured and benchmarked its Scope 1 and Scope 2 emissions. This has allowed ACL to generate a base line so it can introduce appropriate targets and process changes to meaningfully reduce emissions.

Whilst the past 12 months have been incredibly challenging, it has also been one of outstanding performance. This is a credit to the whole team at ACL, and ACL's systems and processes established over the past 7 years.

ACL has commenced a pilot program for hybrid courier vehicles in Victoria (ACL's largest market), implemented improved route planning throughout its courier network and put in place click-to-collect processes to decrease the number of courier visits. These measures reduce emissions and decrease ACL's fleet and logistics costs and are being rolled out across the country.

Similarly, ACL has started to install smart metering at all its material sites, ensure there are LED lights at all key locations and install solar panels on its main laboratories. Given the current costs of fuel and electricity, understanding these costs is allowing ACL to accelerate its focus on emissions reduction in an economically and environmentally sensible manner;

- **Social metrics**: Focused on improving monthly communications with staff and developing engagement events to assist employees during the complexities that all distributed businesses have faced throughout the COVID-19 pandemic. ACL has been investing in additional training for employees and has conducted a full review of its national risk register.

  As ACL acquires and integrates new businesses it is able to materially reduce the combined lost time injury frequency rates (LTIFR) and now has a LTIFR of 3.91 per million work hours, an excellent result, and more importantly a safer workplace for our employees and patients.

- **Governance metrics**: During the past 12 months ACL has invested significantly in developing its governance framework as it has made the transition into a publicly listed company. The Board has reviewed and refined its governance frameworks and risk frameworks and published these on our website for investors to review. The Board has also completed its first Board performance review and assessed its committee structure and composition.

  In addition to driving these initiatives further, ACL will commence the implementation of a Reflect Reconciliation Action Plan.

Team

The past 12 months have been a testament to the more than 5,400 people who work at ACL. Our staff have responded with care and diligence in very stressful and trying circumstances. Throughout this whole period they have ensured safe practices were followed for the benefit of each other and the patients we serve. The COVID-19 pandemic has created significant stress throughout the healthcare sector and ACL has assisted in managing the significant spikes in demand, including over Christmas periods, during the past two years. This included prioritising doctors and nurses in the hospitals we serve, Defence Force workers, law enforcement and emergency response workers. ACL has helped ensure world class turnaround times to support our community and quickly return these workers to their important work.

Pathologists, scientists, phlebotomists, laboratory staff, service support staff and management have made significant and often hidden personal sacrifices to allow Australians to be tested, to remain healthy and safe, travel and spend time with their families.

I would like to take this opportunity to acknowledge and thank all of our dedicated employees, led by Melinda McGrath and her management team for the considerable commitment to patient care and flexibility that everyone has shown during these challenging times.

I would also like to acknowledge the excellent cooperation between the Federal and State governments, state health systems and private pathology operators to service the Australian community.

Importantly, I would like to thank our shareholders and all stakeholders, including the general practitioners and specialist communities we work with every day for their support of ACL.

Yours sincerely,

Michael Alscher
Chair

Letter from the CEO

Dear Fellow Shareholder,

The past 12 months have been both challenging and rewarding for ACL. The business upgraded its Queensland laboratory, acquired Medlab Pathology and expanded our NSW lab to take on extra testing capacity. We also undertook a complex technological upgrade to our Oracle laboratory system to enable further efficiencies and service improvements and invested in further digitisation. We have grown to over 1300 collection centres.

Since establishment, the business has continued to improve both service and financial performance every year. At the end FY22, ACL was again in a stronger position in terms of its employees and team capabilities, management, financial performance, technological platform and operating position than it was at the start of the year. For this, I would like to thank ACL's 5,400 staff who have worked tirelessly over the past 12 months. It is humbling to witness every day the passion and enthusiasm with which all ACL team members focus on the job at hand, as they live and breathe every day our mission to improve and save patients' lives.

Key Financial Metrics

In the 12 months to 30th June 2022, ACL has achieved:

- Revenue increase of 48% to $995.6m;
- NPAT increase of 101% to $178.2m;
- Non-COVID revenue increase of 8% to $556.4m;
- EBIT margins increase to 26.8% (up from 20.8% in FY21) demonstrating strong operational management in an environment of a fee cuts and increases consumables costs;
- Cash flow prior to financing activities increase of 76% to $171.2m. Cash EBITDA to operating cash flow conversion of 96%;
- Net debt excluding lease liabilities improvement of $90.5m from a net debt position of $64.1m to a net cash position of $26.4m;
- Declared a full year fully franked dividends of 53 cps: 12 cps interim dividend and 41 cps final fully franked dividend. Pro-forma net debt as at 30th June 2022 post payment of dividend of $56m remains lower than the $93m of net debt at time of IPO.

… the business has continued to improve both service and financial performance every year. … For this, I would like to thank ACL's 5,400 staff who have worked tirelessly over the past 12 months. It is humbling to witness every day the passion and enthusiasm with which all ACL team members focus on the job at hand, as they live and breathe every day our mission to improve and save patients' lives.

Strategic progress

In December 2021 ACL acquired Medlab Pathology, a NSW and Queensland pathology business. This acquisition added just under 300 ACCs and around $80m of non-COVID revenue (around a 15% growth for ACL's non-COVID testing revenue). Medlab has allowed ACL to materially increase its scale in NSW and Queensland which in turn has enabled strategic benefits for ACL's investment in a new automated laboratory in Queensland (opened in April 2022). ACL now has a national footprint (ex Tasmania) which will allow it to compete for larger nationally focused tenders and grow its market share.

The integration of Medlab, though complex, has been faster than planned. By 30th June 2022 ACL had integrated Medlab into ACL's main laboratories, established a new Queensland laboratory, rebranded more than 75% of Medlab's Collection Centres and renegotiated material supply contracts. Operationally Medlab is now substantially integrated into ACL which demonstrates our capacity to manage material acquisitions with operational complexity efficiently at the same time as business as usual. The synergies from this integration are starting to flow through, with run rate synergies of $20m p.a. largely achieved by the end of this calendar year as the full benefits of labour efficiencies and new purchasing arrangements come into force.

Concurrent with this material acquisition, ACL continued to invest in upgrading its core unified pathology system. This has involved upgrading the underlying database to Oracle which will support ACL's focus on digitisation and scalability into the future. This complex change was led by our IT team supported by in house subject matter experts and a team of over 140 working on the project. I should note that at the same time, these subject matter experts were also the on the ground leaders of the COVID-19 response – an outstanding demonstration of whole of company teamwork of which I am very proud.

Pandemic response

ACL's contribution to Australia's response to the COVID-19 pandemic has been significant and a clear demonstration of our values:

- ACL continued to play a critical role in Australia's testing process for patients and hospitals
- ACL's front-line pathologists, scientists, phlebotomists, couriers, call centre and lab employees provided caring, professional service at all times, supported in their professionalism by many other teams and individuals behind the scenes. This included urgent testing in regional and rural Australia, carried out by special "SWAT" teams
- ACL's teams managed incredibly complex environments, including multiple flood events, at sometimes even retrieving samples in boats and on bicycles
- Moved work around laboratories despite logistics impacted by lockdowns & travel restrictions, 24-hour laboratory services provided by dedicated staff

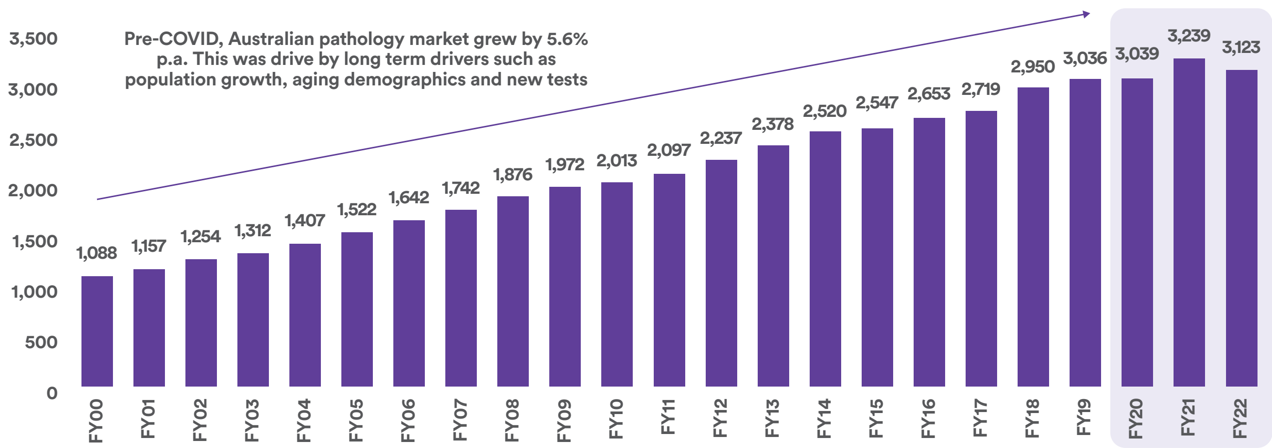
Managed testing responses over the Christmas 2021 Omicron outbreak with many staff giving up their own Christmas breaks for the second year in a row to enable Australians to understand their COVID status and facilitate their travel. ACL is grateful for the outstanding effort by staff in a very difficult environment. Resolute focus on delivering accurate, rapid results to Australians and Hospitals.

Letter from the CEO Continued

Outlook

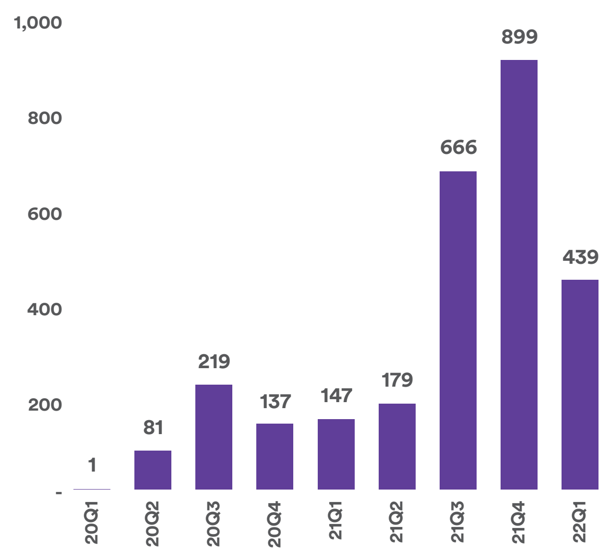
It remains complex to provide a meaningful outlook for ACL for the next 12 months. This is due to the volatility of COVID-19 testing and uncertainty related to the timing of a rebound in non-COVID testing. In effect it is easier to provide longer term views on the market. ACL accepts that there is uncertainty, both up and down, in the upcoming 'transition' period. Our teams have demonstrated agility for many years and is a key part of our performance culture and will continue as we move forward.

Medicare funding for Pathology (ex COVID) for 12 month periods (Sm)



Until 2019, non-COVID outlays grew at a consistent rate of around 5.6% p.a. This consistency in growth was underpinned by long term demographic drivers linked to population growth, aging demographics (older patients require more testing), improved medical technology, new tests and increased reliance on pathology testing. The COVID pandemic effectively stopped growth in non-COVID testing revenue. This has been due to lockdowns, doctor access issues, decreased levels of testing for non-COVID services (eg flu) and social factors (reluctance to visit medical practitioners). As the impact of the pandemic decreases, there should be a rebound in non-COVID testing revenue as underlying drivers still apply. The timing of the rebound in non-COVID testing revenue will be a key driver of ACL's outlook. This is hard to forecast in the short term.

Medicare funding for COVID on quarterly basis (Sm)



In addition, there remains volatility in COVID-19 testing volumes. In the June 2022 quarter, COVID-19 revenue was 28% of ACL's revenue during this quarter. In the December 2021 quarter, COVID-19 testing was 54% of ACL's revenue. This level of variation can lead to material changes in ACL's revenue and outlook. The level of COVID testing revenue will be a key driver of ACL's outlook and is hard to forecast in the short term.

In the long term, ACL expects that non-COVID-19 volumes will return to historic trends and that COVID-19 testing will start to follow the trends of seasonal flu, albeit at a higher level. We expect drive throughs for collection (and their costs) to be removed and for patients with flu symptoms to return to see their GPs in practice. However, the timing of this is hard to predict and in the short to medium term there will be volatility related to the rebound of Business As Usual (BAU) growth or changes in COVID-19 revenue. For this reason, ACL is not providing any guidance for 2022.

Focus going forward

In FY23, there are a number of key areas that ACL will focus on, including:

- Meeting the testing needs of the community for both BAU and COVID testing, responding efficiently and effectively to diagnostic and clinical best practice.
- Operational efficiency and flexibility in a dynamic environment with lowered COVID revenues. This is enabled by our agile teams, national approach and further investment this year in an upgrade to our laboratory information system, completed in February 2022.
- Targeted growth, at an effective margin, employing capital well, as we have this year with our investments in Medlab Pathology, Bella Vista lab and our Queensland clinical trials laboratories.
- Continuing to focus on value maximising ESG targets. In 2023 these will include an internal audit of gender pay equity and the implementation of the Reflect reconciliation action plan.

I would like to thank all our stakeholders, our 5,400 employees, our many supportive medical professionals for assisting us over the past 12 months, our excellent management team, our shareholders who have backed us through this period, Federal and State governments and State Health systems with whom we have worked extremely effectively.

ACL commits to continuing to focus on supporting our community, both within ACL and externally in 2023. We will focus on delivering on our core mission of supporting talented people with scientific leadership, innovative thinking and technologies to empower decision making that saves and improves patients' lives.

Kind regards,

Melinda McGrath
CEO

Melinda McGrath

Directors' Report
for the year ended 30 June 2022

The Directors of Australian Clinical Labs Limited (referred to as "the Company") present their Report for the financial year ended 30 June 2022 (referred to as "the year") accompanied by the Financial Report of Australian Clinical Labs Limited and the entities it controlled (referred to as "Clinical Labs", "ACL" or "the Group") from time to time during the year. Pursuant to the requirements of the *Corporations Act 2001* (Cth) (Corporations Act), the Directors' Report as follows:

1. Directors

The following persons were Directors of the Company during the year (or, where indicated, during part of the year) and/or up to the date of this Report:

Current Directors	Position	Date Appointed
Michael Alscher	Non-Executive Director	19 December 2020
Melinda McGrath	Chief Executive Officer and Executive Director	19 December 2020
Nathanial Thomson	Non-Executive Director	19 December 2020
Andrew Dutton	Independent Non-Executive Director	28 April 2021
Dr Leanne Rowe AM	Independent Non-Executive Director	28 April 2021
Dr Michael Stanford AM	Independent Non-Executive Director	28 April 2021
Mark Haberlin	Independent Non-Executive Director	28 April 2021

Name	Expertise, experience and qualifications
 **Michael Alscher** *Non-Executive Director* *Chair Member –* *Audit Committee* *(appointed* *25 November 2021)*	Mr Michael Alscher was appointed Chair of ACL's predecessor corporate vehicle, Clinical Laboratories Pty Ltd in 2015 following its acquisition by Crescent Capital Partners in 2015. Michael was appointed a Director of ACL on 19 December 2020 and Chair of ACL as part of the IPO process on 19 December 2020. Michael is the Managing Partner and founder of Crescent, a leading Australian private equity investment firm, specialising in high growth companies and certain industry sectors such as healthcare. Michael is the current Chair of Cardno Limited, National Dental Care Limited, 24-7 Healthcare Pty Ltd and is a Non-Executive Director of Clearview Wealth Limited, Green Leaves Early Learning Centres Pty Ltd and Aurora Expeditions Holdings Pty Ltd. Michael's former director roles include Chair of Cover-More Group Limited, LifeHealthcare Group Limited and Director of Metro Performance Glass Limited, Crumpler Pty Ltd and Intega Group Limited. Prior to founding Crescent in 2000, Michael was a strategy consultant at Bain International and LEK Partnership as well as holding several senior operating roles. Michael holds a Bachelor of Commerce (Finance and Mathematics) Degree from the University of New South Wales.
 **Melinda McGrath** *Chief Executive Officer* *and Executive Director*	Ms Melinda McGrath has been the Chief Executive Officer and Executive Director of ACL's predecessor corporate vehicle, Clinical Laboratories Pty Ltd since 2015. Melinda was appointed an Executive Director of ACL on 19 December 2020. Melinda has more than 30 years' experience in healthcare with over 25 years of experience in chief executive roles and over 15 years of experience in pathology CEO roles. Melinda has led the organisation's restructure and transformation, building ACL's scale and operational performance improvement over the past seven years, overseeing the integration of Healthscope's Australian pathology business, St John of God Health Care's pathology business, Perth Pathology, SunDoctors and MedLab Pathology. She has also driven the establishment of one performance oriented culture across the organisation, via one unified integrated pathology system. Melinda was Chief Executive Officer of QML Pathology (part of Healius/Primary Healthcare) from 2008 to 2015, where she developed five QML brands and established Tasmania Medical Laboratories. Prior to that, Melinda held various transformative chief executive roles at private regional and tertiary referral hospitals in Queensland including The Sunshine Coast Private Hospital, St Andrew's War Memorial Hospital and St Stephens Private Hospital. Melinda has held board member positions at Metro North Hospitals and Health Service including Royal Brisbane, Prince Charles, Redcliffe, Caboolture and related health services, Geneseq Biosciences and a superannuation fund, UC Super. Melinda holds a Bachelor of Human Movement Studies Degree and a Bachelor of Arts Degree from the University of Queensland, a Master of Business Administration from the University of Central Queensland, and a Certificate in Governance Practice from the Governance Institute of Australia.

Name	Expertise, experience and qualifications
 **Nathanial Thomson** ***Non-Executive Director*** ***Member – Nomination and Remuneration Committee***	Mr Nathanial Thomson has been a Non-Executive Director of ACL's predecessor corporate vehicle, Clinical Laboratories Pty Ltd, since April 2018. Nathanial was appointed a Non-Executive Director of ACL on 19 December 2020. Nathanial is a Partner at Crescent, a leading Australian private equity investment firm. Nathanial has over 20 years of experience in strategy consulting, private equity and investment banking. He has significant consulting experience from his prior role at McKinsey & Co. Nathanial is the current Chair of Clover Insurance and a Non-executive Director of Cardno Limited, National Dental Care Limited, Clearview Wealth Limited and 24-7 Healthcare Pty Ltd. Nathanial's former director roles include Deputy Chair of Cover-More Group Limited and a Non-Executive Director of Metro Performance Glass Limited. Nathanial holds a Bachelor of Commerce Degree and Bachelor of Laws Degree from the University of Western Australia.
 **Andrew Dutton GAICD** ***Independent Non-Executive Director*** ***Chair – Nomination and Remuneration Committee*** ***Member – Audit Committee***	Mr Andrew Dutton has been a Non-Executive Director of ACL since 28 April 2021. Andrew has 30 years of management, business development and technology experience across Australia, Asia and Europe. Andrew is the current Chair of Land Registry Services and was recently an Advisor to FinancialForce APJ. He has had extensive Chief Executive Officer and Board experience globally and within Australia. Andrew's former roles include Chair of NVOI Pty Ltd and SAI Global Pty Ltd, Chief Executive Officer at Land Registry Services and Integrated Research Limited, Managing Director of the Asia Pacific/Japan region for VMware Inc., and senior executive positions at IBM, Computer Associates, BEA Systems Inc., Lendlease and Norwich Union Financial Services Group including roles as CFO, CMO, CRO and Divisional Heads. At IBM, Andrew was elected to the Worldwide Senior Leadership Team. Andrew holds a Bachelor of Science Degree from the University of Sydney and is a member of the Australian Institute of Company Directors.
 **Dr Leanne Rowe AM, MD, MB BS, FRACGP, FAICD, HonLLD Monash** ***Independent Non-Executive Director*** ***Member – Nomination and Remuneration Committee*** ***Member – Risk Committee***	Dr Leanne Rowe has been a Non-Executive Director of ACL since 28 April 2021. Leanne is a clinical professor and medical practitioner with over 30 years of clinical experience in the public and private health systems across acute care, aged care, mental health and community health. Leanne is currently Chair of Nexus Hospitals and a Presiding Member for Medical Panels Victoria. She has previously served on a wide range of board as a Non-Executive Director including Japara Healthcare Limited, Medibank Private, I-MED Radiology, the Medical Indemnity Protection Society, the Royal Australian College of General Practitioners Barwon Health and beyondblue. Leanne is a former Deputy Chancellor of Monash University and has been awarded a Doctor of Laws (Honoris Causa) for her services. Leanne has also received a Member of the Order of Australia for her services to medicine. Her other qualifications include a Doctor of Medicine, Bachelor of Medicine Degree and Bachelor of Surgery Degree, Fellowship of the Royal Australian College of General Practitioners and Fellowship of the Australian Institute of Company Directors.

Name	Expertise, experience and qualifications
 **Dr Michael Stanford AM, MB BS, MBA, FAICD** ***Independent Non-Executive Director*** ***Chair – Risk Committee*** ***Member – Audit Committee***	Dr Michael Stanford has been a Non-Executive Director of ACL since 28 April 2021. Michael has over 25 years of Non-Executive Director experience across a range of industries including healthcare services, diagnostics, biotech, pharmaceutical, property, aged care and higher education. Michael is the President and Chair of Diabetes Australia, a Non-Executive Director of NorthWest Healthcare Property Management Limited and Chair of the Save the Children Australia Social Impact Fund advisory board. Michael's former roles include Non-Executive Director for ACL between 2016 and 2019, Nucleus Network Limited, Healthscope Limited, Virtus Health Limited, and Deputy Chancellor of Curtin University. He was in Group Chief Executive Officer roles for 23 years including 16 years at St John of God Health Care. Michael has also received a Member of the Order of Australia for his service to the health sector to tertiary education and in the community of Western Australia. Michael holds a Bachelor of Medicine Degree and Bachelor of Surgery Degree from the University of New South Wales and a Master of Business Administration from Macquarie University. Michael is also a fellow of the Australasian Institute of Company Directors and was formerly a specialist in public health medicine.
 **Mark Haberlin** ***Independent Non-Executive Director*** ***Chair – Audit Committee*** ***Member – Risk Committee***	Mr Mark Haberlin has been a Non-Executive Director of ACL since 28 April 2021. Mark has over 25 years of audit, risk management, capital transactions and mergers and acquisitions experience across industries including healthcare, real estate and financial services. Mark is the Lead Independent Director and Chair of the Audit and Risk Committee of Abacus Property Group. Mark is also an Independent Non-Executive Director and the Chair of the Audit and Risk Committee of Laybuy Group Limited. Previously, Mark was the Chair of PwC Australia and PwC's Public Reporting Panel, as well as a Director of the European Australia Business Council and PwC Asia Pacific. Mark holds a Bachelor of Science (Civil Engineering) (Honours) from Imperial College London and qualified as a Chartered Accountant in the United Kingdom.

Directors' Report
for the year ended 30 June 2022

2. Directorships of other listed companies

The following table shows, for each director, all directorships of companies that were listed on the ASX, other than the Company, from 30 June 2019, and the period for which each directorship has been held:

Director	Listed Entity	Period Directorship Held
Michael Alscher	Cardno Limited ClearView Wealth Limited Intega Group Limited	November 2015 – present November 2018 – present August 2019 – December 2021
Melinda McGrath	–	–
Nathanial Thomson	Cardno Limited ClearView Wealth Limited	May 2016 – present October 2012 – present
Andrew Dutton	–	–
Dr Leanne Rowe AM	Japara Healthcare Limited Doctor Care Anywhere Group PLC	July 2019 – November 2021 September 2020 – November 2021
Dr Michael Stanford AM	Virtus Heath Limited	September 2019 – February 2021
Mark Haberlin	Layby Group Holdings Limited Abacus Property Group	April 2020 – present November 2018 – present

3. Meetings of directors and board committees

The number of meetings of the Board and each of the Board Committees held during the year ended 30 June 2022, and the number of meetings attended by each Director are shown below.

From time to time, Directors attend meetings of Committees of which they are not currently members however, only attendance by Directors who are members of the relevant Committee are shown below:

	Board of Directors		Audit Committee		Remuneration and Nomination Committee		Risk Committee	
Current Directors	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Michael Alscher	16	16	3	3	–	–	–	–
Melinda McGrath	16	16	–	–	–	–	–	–
Nathanial Thomson	16	15	–	–	3	3	–	–
Andrew Dutton	16	16	4	4	3	3	–	–
Dr Leanne Rowe AM	16	15	–	–	3	3	5	5
Dr Michael Stanford AM	16	16	4	4	–	–	5	5
Mark Haberlin	16	15	4	4	–	–	5	5

Further meetings occurred during the year on specific issues, including meetings of the Chair with the CEO and meetings of Directors with management.

4. Director's relevant interests in shares

The following table sets out the relevant interests that each Director and their immediate family has in the Company's ordinary shares as at the date of this report:

Director	Ordinary Shares	Performance Rights
Michael Alscher	255,928	–
Melinda McGrath	2,857,673	247,252
Nathanial Thomson	–	–
Andrew Dutton	81,897	–
Dr Leanne Rowe AM	37,500	–
Dr Michael Stanford AM	38,000	–
Mark Haberlin	47,500	–

5. Company Secretary

Eleanor Padman was appointed Company Secretary on 28 April 2021. Eleanor is a graduate of the University of Oxford and a corporate lawyer and governance expert with more than 25 years' experience gained in the UK and Australia. During the last 10 years Eleanor has held the roles of General Counsel, Company Secretary and Head of Risk and Compliance at various ASX listed companies. Eleanor established her own boutique advisory business in 2019 and provides corporate governance services to ACL, as well as acting as Company Secretary to the Board and its Committees. Eleanor combines multi-disciplinary technical abilities with a strong commercial approach and a focus on promoting good corporate governance. Eleanor is a Fellow of the Governance Institute of Australia, a Graduate of the Australian Institute of Company Directors and has held executive director positions on various public companies as well as having been the Chair of the Sydney Airport Trust (part of the ASX listed stapled security for Sydney Airport Limited).

6. Principal Activities

During the year the principal continuing activity of the Group was the provision of pathology diagnostic services.

7. Operating and Financial Review

Key financial highlights in the financial year ended 30 June 2022 compared to pro forma FY21 include:

- Total revenue increased by 48% to $995.6m.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 62% to $372.7m.
- Earnings before interest and tax (EBIT) increased by 90% to $266.6m.
- Net profit after tax (NPAT) increased by 101% to $178.2m.
- Cash flow prior to investing activities of $171.2m.
- Cash EBITDA to operating cash flow conversion of 96%.
- Net debt excluding lease liabilities decreased by $90.5m, net cash position $26.4m.
- Basic earnings per share of 88.55 cents.

Acquisition of Medlab Pathology (Medlab)

- NSW and Queensland focused pathology business. Added around 300 Accredited Collection Centres (ACCs) and increased ACL's non-COVID-19 testing revenue by around 15%.
- The acquisition was completed on 20 December 2021.
- Upfront payment was reduced to $50.5m from $60.0m due to contracted purchase price adjustments. ACL is expected to make a final payment of $10.0m for Medlab in December 2022. Deferred and contingent consideration has been recognised on balance sheet.
- Medlab NSW now fully integrated into the ACL Bella Vista laboratory with the majority of synergies forecast to be achieved by 31 December 2022 with a run-rate EBIT contribution of >$20.0m.
- One-off transaction related costs of $6.4m (including stamp duty) included in FY22 EBITDA ($1.3m in 1H and $5.1m in 2H). In addition, there was $6.3m in capex in FY22 primarily associated with NSW laboratory integration and capacity expansion.

ACL achieved revenue growth for the year of 48% against pro forma FY21. The revenue growth reflected the increased testing in response to the COVID-19 pandemic, particularly during 1HFY22 coupled with the Medlab acquisition which completed on 20 December 2021. Excluding COVID-19, acquisitions and non-Medicare testing ACL's growth in its core pathology revenue was -0.7% versus market growth of -4.3%[1].

ACL continued to benefit from the previous investments it had made in its systems and processes with further improvement in its operating leverage during the year. Operating costs (excluding consumables) were 41.8% of revenue, down from 47.7% in FY21 and labour efficiency as measured by episodes per full-time equivalent (FTE) employee increased 13.3% for the year.

The contribution from COVID-19 testing materially reduced in H2 following a 15% reduction in the Medicare rate on 1 January 2022 coupled with a reduction in test pooling and increased consumables costs due to the increased positivity rates.

The combination of revenue growth, operating efficiency and cost control throughout the year has enabled ACL to increase its EBIT margin to 26.8% from 20.8% in FY21.

ACL achieved a conversion of EBITDA to operating cash flow of 96.4%. Net cash flow excluding financing and investing activities was $171.2m or 95.9% of NPAT. During the year ACL repaid all its external debt and ended the year with a $26.4m net cash positive position.

AASB 16 right of use assets and associated lease liabilities increased during the year due to the Medlab acquisition and a number of key sites being renewed.

Capital expenditure of $21.0m included development capital of $10.7m primarily in relation to the expansion of the NSW Bella Vista laboratory to include the Medlab NSW operations and future growth $6.3m, Oracle upgrade and Queensland laboratory expansion. Excluding these one off capex items, the FY22 capex level was consistent with FY21 levels.

Impact of COVID-19

Throughout FY22, ACL continued to play a critical role in Australia's testing process for patients and hospitals. ACL's frontline pathologists, scientists, phlebotomists, couriers, call centre and lab employees provided caring, professional service, supported in their professionalism by many other teams and individuals behind the scenes. This included urgent testing in regional and rural Australia, carried out by special "SWAT" teams. ACL's teams managed incredibly complex environments, including multiple flood events, at times even retrieving samples in boats and on bicycles. ACL moved work around laboratories despite logistics impacted by lockdowns and travel restrictions, 24-hour laboratory services provided by dedicated staff and managed testing responses over the Christmas 2021 Omicron outbreak with many staff giving up their own Christmas breaks for the second year in a row to enable Australians to understand their COVID-19 status and facilitate their travel.

As a result of the significant investment in upgrading systems and processes that was completed prior to 2020, ACL was well placed to respond to the COVID-19 pandemic. ACL was able to secure consistent supply of reagents as well as PPE and consumables to ensure patients and staff safety, despite global shortages. ACL was able to move work around between laboratories despite logistics being impacted by government-mandated lockdowns and travel restrictions.

The ACL Board acknowledge and thank all our staff, led by the Executive Team, for their significant efforts, throughout FY22. Responding to COVID-19 was at times challenging for all of our staff, and we take this opportunity to thank each and every one of them.

FY22 Operations

ACL is one of the largest providers of pathology services in Australia by revenue, with operations in Victoria, New South Wales, Western Australia, South Australia, Queensland and the Northern Territory with a heritage of hospital based pathology and the skills to deliver time-critical and complex hospital pathology, as well as the scale to efficiently provide community pathology.

1 ACL FY22 normalised for full year Medlab and excluding COVID and non-MBS revenue. Market data based on Medicare statistics adjusted for COVID testing outlays and estimated associated PEI and BBI outlays. ACL and Market data VIC, NSW, SA, WA and NT only.

ACL's network comprises;

- More than 5,400 scientists, collectors and support staff
- 76 accredited laboratories
- 1,336 collection centres
- 31 specialist skin cancer clinics

ACL delivered improved logistics and courier automation benefits that delivered both financial benefits to the Group as well as environmental benefits of a reduced carbon footprint.

In FY22, the acquisition of Medlab provided ACL with sufficient scale in Queensland to allow an investment in a new dedicated Queensland laboratory. ACL continued its investment in it's core IT systems with a material upgrade of its underlying database to Oracle to allow for future growth and digitisation.

ACL continued to realise efficiencies across the business driven by its dedicated performance improvement team. Overall, as a result of these efficiencies, ACL delivered a reduced cost per episode, including compliance costs.

8. Significant changes in State of Affairs

On 20 December 2021, the Group successfully completed the acquisition of Medlab, a leading Australian privately-owned independent pathology provider, with two laboratories and around 300 collection centres across NSW and Queensland.

There was no other significant change in the state of affairs of the Group during the year.

9. Business Strategies and Future Developments

The Board and the Executive Management Team continue to focus on delivery against the well-defined growth strategy that is comprised of five core strategic initiatives:

(1) Organic Market Growth
    (a) The Australian pathology market is forecast to grow between 4-6% per annum due to predictable drivers including growing and ageing population and increasing testing rates.
    (b) ACL anticipates COVID-19 will be additive to the size of the pathology market and become endemic in nature over time.
(2) Embedded Revenue Opportunities
    (a) Broaden general practitioner relationships, broadening existing contracts and commercial COVID-19 testing.
(3) Operational Performance Improvements
    (a) Continuous improvement program, further benefits from the unified pathology system and further opportunities exist from SunDoctors and Medlab integration.
(4) Footprint Expansion
    (a) Opportunities exist to grow revenues in NSW growth corridors and in Queensland
    (b) Introduction of additional services.
(5) Strategic Acquisitions and alliances

10. Key Risks and Uncertainties

ACL is subject to risks both specific to ACL and ACL's business activities, as well as general risks.

Government policy and regulation may change

ACL seeks to provide affordable pathology services to its patients. This is facilitated through bulk-billing the vast majority of its services to patients and receiving reimbursements through the Australian Government's Medicare Benefits Schedule (MBS). The MBS is subject to continual review and change, with the included services and prices being determined by the Federal Government.

Any changes to the MBS or any other Government funding initiatives, including reduction in fees or tests that will be covered by the MBS, could lead to a reduction in revenue for ACL and may adversely affect ACL's ability to provide testing and demand for ACL's services. This could include a reduction in COVID-19 fees or the fee paid for any particular test.

The nature, timing and impact of future changes to laws, government policies and regulations are not predictable and are beyond ACL's control. Failure by ACL to comply with applicable laws, regulations and other professional standards and accreditation may lead to enforcement actions that disrupt ACL's operations and result in it being subject to fines, penalties, damages and disruption to its operations.

ACL monitors legislative and regulatory developments and engages proactively with key stakeholders to manage this risk.

COVID-19 or another pandemic may impact ACL's business

Pandemic risks, such as COVID-19, pose business continuity risk to ACL. There is the risk from lockdowns across communities in response to a pandemic that the volume of routine (non-COVID-19) pathology testing may be adversely impacted.

There is a risk that staff and laboratories are adversely impacted by a pandemic, such as COVID-19, which limits ACL's ability to provide testing facilities. ACL staff are front line personnel providing collection services to customers potentially infected by COVID-19. Notwithstanding policies and procedures in place to mitigate such risks, there is a risk that staff in key operational roles are infected, impacting ACL's operations.

The COVID-19 pandemic has also affected the rate of growth of non-COVID-19 pathology testing revenue and decreased the rate of growth from the level prior to the pandemic. It is unclear when this growth will return or whether there will be a catch up of lost growth that has occurred over the past two years.

IT system may fail and may be subject to cyber security risks

ACL is heavily dependent on technology for the delivery of the services it provides its customers. Any information technology system is potentially vulnerable to interruption and/or damage from a number of sources, including but not limited to computer viruses, cyber security attacks and other security breaches, power, systems, internet and data network failures, and natural disasters.

ACL is committed to preventing and reducing cybersecurity risks. ACL has an information security policy and standards framework established in accordance with the international standard Information Security Management (ISO27001). ACL implements and operates IT security in-house with the assistance of partners and common IT security technologies to protect, detect and respond to security concerns. ACL conducts routine testing of systems and works closely with third-party security specialists to implement its security roadmap.

ACL may be unable to recruit and retain key personnel

The successful operation of ACL's business relies on its ability to recruit and retain experienced and high-performing management, pathologists, scientists, and IT and operating staff. Relationships with certain referrers may be heavily reliant on particular ACL personnel (especially pathologists and scientists), such that their departure from the business could have an adverse impact on ACL's relationship with the referrer. There is significant competition to recruit these personnel, which can lead to increased labour costs.

ACL's focus on diagnostic excellence through its centres of excellence and commitment to continuing professional education for staff and referrers, including training the next generation of pathologists and scientists, help to attract and retain a professional workforce. ACL's unified pathology system also provides flexibility to its national workplace.

ACL's exposure to international developments may impact its operations

ACL sources testing supplies such as reagents and equipment from international markets. Prices of these supplies and equipment are subject to change driven by, among other factors, foreign exchange rates, market demand and supply, and scientific and technological advancements. ACL is unable to pass on cost increases as a substantial portion of ACL's revenue is derived from the MBS with almost all community pathology being bulk-billed under the MBS and some private hospital contracts linked to services in the MBS. Any adverse movements in testing supplies and equipment may increase ACL's costs of business and may have a material adverse impact on ACL's performance.

ACL manages supply price risk by entering into long-term fixed price arrangements with major suppliers for consumable products and by sourcing consumables locally in Australia. ACL remains vigilant in actively monitoring international developments, and managing supply costs and disruptions. For example, ACL has successfully managed the surge in demand for COVID-19 testing with no material operational disruptions.

ACL has specific risks associated with integration of acquisitions

In FY22 ACL integrated Medlab into its operations. This has involved the movement of pathology testing between laboratories and the change in branding of the Medlab sites to the ACL brand. These changes may lead to increased staff turnover and the loss of ACCs over time and create lost revenue and additional costs for ACL. In addition, inherent in acquisitions and the operational changes that are associated with them are increased risks associated with operational failures.

11. Matters Subsequent to the end of the financial year

Since the end of the financial year, the Directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

12. Dividends

In respect of the full year ended 30 June 2022, a final dividend of 41.00 cents per share (100% franked) has been declared with a record date of 24 August 2022 and payable 15 September 2022, bringing total dividends for FY22 to 53.00 cents per share (100% franked). This represented a dividend payout ratio of 60% of FY22 NPAT which is consistent with ACL's policy of paying out 50% to 70% of NPAT as a dividend.

The dividend reinvestment plan will continue. The last day for the receipt of an election notice for participation is Thursday 25 August 2022.

13. Rights and options granted over unissued shares

Performance Rights

The Australian Clinical Labs Long-Term Variable Remuneration (LTVR) plan was created in March 2021 for selected senior executives including Key Management Personnel (KMP). The purpose of the plan is to provide at-risk remuneration and incentives that rewards executives for performance against long term value creation objectives set by the Board at the beginning of the financial year and to align the interests of executives with the interests of shareholders through "skin in the game".

On 25 May 2021, the Company granted 804,532 Performance Rights under the LTVR plan. The Performance Rights granted during the financial year have an Indexed Total Shareholder Return (iTSR) vesting condition (100% weighting). The vesting of such Performance Rights will be determined by comparing the Company's TSR over the Measurement Period with the TSR of the S&P/ASX 300 industrials Ex-Financials and Resources Index.

Each Performance Right entitles the holder to acquire one ordinary fully paid share in the Company.

On 13 July 2021 a further 104,025 Performance Rights were issued under the LTVR plan and are subject to the same vesting conditions.

There have been no further issues of Performance Rights during the year ended 30 June 2022.

The table in section 14 sets out the details of Performance Rights that have been granted under the LTVR plan which remain on issue as at the date of the Directors' Report.

Further information about Performance Rights issued under the LTVR plan is included in the Remuneration Report.

Service Rights

The LTVR plan also includes Services Rights that have been issued to key operational staff. The vesting conditions associated with Service Rights are time based to encourage staff to remain with the Company.

Like the Performance Rights, each Service Right entitles the holder to acquire one ordinary fully paid share in the Company.

On 20 November 2021, the Company granted 811,641 Service Rights under the LTVR plan.

The table in section 14 sets out the details of Service Rights that have been granted under the LTVR plan which remain on issue as at the date of the Directors' Report.

14. Shares issued on the exercise of Rights

During the financial year ended 30 June 2022 there were no shares issued on exercise of Performance Rights or Service Rights.

The following table shows those Performance Rights and Service Rights that have been granted up to the date of this report.

Type	Date performance right granted	Expiry date	Issue price	Number of Performance Rights on issue
Performance Rights	25 May 2021	24 May 2026	Nil	804,532
Performance Rights	13 July 2021	12 July 2026	Nil	77,452
Service Rights	20 November 2021	19 November 2026	Nil	792,702
Closing balance of Rights				**1,674,686**

15. Remuneration Report

The Remuneration Report which forms part of this Directors' Report is presented separately from page 21.

16. Indemnification and insurance of Directors and Officers

The Company's Constitution provides that the Company may indemnify current and former Directors, alternate Directors, Executive Officers, Officers and auditors of the Company on a full indemnity basis and to the extent permitted by the law against all liabilities and losses incurred as an officer of the Group, except to the extent covered by insurance. Further, the Company's Constitution permits the Company to maintain and pay insurance premiums for director and officer liability insurance, to the extent permitted by law.

Consistent with (and in addition to) the provisions in the Company's Constitution outlined above, the Company has also entered into deeds of access, indemnity and insurance with all Directors and certain Officers of the Company which provide indemnities against losses incurred in their role, subject to certain exclusions, including to the extent that such indemnity is prohibited by the *Corporations Act 2001* (Cth) or any other applicable law.

During the financial period, the Company paid insurance premiums for a directors' and officers' liability insurance contract that provides cover for the current and former Directors, alternate Directors, Secretaries, Executive Officers and Officers of the Company and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

The Group's auditor is Pitcher Partners (Melbourne) (PP). No payment has been made to indemnify PP during or up to the date of this report. No premium has been paid by the Group in respect of any insurance for PP. No Officers of the Group were Partners or Directors of PP whilst PP conducted audits of the Group.

17. Proceedings on behalf of the company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Group by a member or other person entitled to do so under section 237 of the Corporations Act.

18. Environmental regulation

The operations of the Group are not subject to any site-specific environmental licences or permits which would constitute particular or significant environmental regulation under the laws of the Australian Government or an Australian Territory.

ACL, through its internal policy and processes, is committed to managing operations in an environmentally sustainable manner to maximise resource efficiency in relation to the consumption of energy and natural resources and minimise waste.

ACL published its first Environmental, Social and Governance statement during FY22 and will release the FY22 statement in conjunction with the Annual Report.

19. Non-audit services

There is no person who has acted as an officer of the Group during the year who has previously been a partner at Pitcher Partners when that firm conducted Clinical Labs' audit.

During the year Pitcher Partners did not provide any non-audit services.

20. Auditors independence declaration

AUSTRALIAN CLINICAL LABS LIMITED
ABN: 94 645 711 128

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF
AUSTRALIAN CLINICAL LABS LIMITED

In relation to the independent audit for the year ended 30 June 2022, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Australian Clinical Labs Limited and the entities it controlled during the year.

S D WHITCHURCH
Partner

PITCHER PARTNERS
Melbourne

Date: 9 August 2022

Pitcher Partners. An independent Victorian Partnership ABN 27 975 255 196. Level 13, 664 Collins Street, Docklands, VIC 3008
Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities

Adelaide Brisbane Melbourne Newcastle Sydney Perth

21. Rounding amounts

The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in this report and the financial report are rounded off to the nearest thousand dollars or, in certain cases, to the nearest dollar.

Some numerical figures included in this report have been subject to rounding adjustments. Any differences between totals and sums of components in tables or figures contained in this report are due to rounding.

22. Annual general meeting

ACL will be holding its AGM on 26 October 2022.

Signing of Directors' Report

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001.* On behalf of the Directors.

Michael Alscher
Chair

9 August 2022

Remuneration Report

Overview

The Remuneration Report for the year ended 30 June 2022 (2022 Financial Year or FY22) forms part of the Directors' Report. It has been prepared in accordance with the *Corporations Act 2001* (Cth) (the Act), Corporations Regulation 2M.3.03, in compliance with AASB124 Related Party Disclosures, and audited as required by section 208(3C) of the Act. It also includes additional information and disclosures that are intended to support a deeper understanding of remuneration governance and practices, for shareholders, where statutory requirements are not sufficient.

Report structure

The report is divided into the following sections:

Section		Description
1	Letter from the Chair of the Nomination and Remuneration Committee	A brief introduction from the Chair of the Nomination and Remuneration Committee outlining the Board's view of performance and reward in FY22.
2	People covered by this report	This section provides details of the Directors and Executives who are subject to the disclosure requirements of this report, together with the Key Management Personnel (KMP), including roles and changes in roles.
3	Remuneration overview	This section provides an overview of performance and reward for FY22, including "at-a-glance" summaries, as well as key governance matters.
4	The Australian Clinical Labs Remuneration Strategy, Policy and Framework	This section provides details of the elements of the remuneration framework, including market positioning, changes to fixed pay, variable remuneration principles, and the terms of variable remuneration
5	The Link Between Performance and Reward in FY22	This section addresses FY22 short and long term variable remuneration outcomes based on performance measurement periods completed during FY22, as well as the "achieved" remuneration outcomes for executives.
6	Statutory Tables and Disclosures	This section provides the statutory disclosures not addressed by preceding sections of the report, including statutory remuneration tables, changes in equity, KMP service agreements, related party loans/ transactions, and the engagement of external remuneration consultants.

Letter from the Chair of the Nomination and Remuneration Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 30 June 2022 (FY22).

FY22 has been another successful year for ACL, its first full year as an ASX listed business.

While our staff, communities, markets and businesses continued to struggle with the effects of COVID-19, the Company and its shareholders have continued to enjoy a high level of year-on-year growth despite a background of market and sector volatility. The individual efforts of our teams during the last year cannot be underestimated.

The acquisition of Medlab Pathology, during this health epidemic, stretched our management team and process structure. Our management's combined efforts drove the integration to completion faster than planned and under budget. The East Coast rains flooded one of our newly-acquired labs but the impact was unseen by our customers as management and staff worked tirelessly to transfer work to other facilities.

ACL is fortunate to have personnel with extraordinary experience in many facets of pathology and health systems. Our goal is to ensure remuneration meets or exceeds our competitors and correctly recognises the efforts of our people in our collective drive to grow and expand your business. Your company is managed strongly and effectively with enthusiasm and skill.

Your Board has implemented a remuneration framework appropriate for a listed company, to provide a clear line of sight between Company performance and remuneration outcomes, in addition to creating a strong alignment between the interests of directors, employees and shareholders.

I welcome feedback on this report as an input into future considerations. You will notice that the remuneration emphasis is on Short-Term Variable Remuneration (STVR) and Long-Term Variable Remuneration (LTVR), not just base remuneration which allows increased focus and alignment to the goals of shareholders.

To further align our employees with the goals of the shareholders we instigated the "Employee Share Trust / Emerging Leaders" equity fund in 1H21. Forty key employees have been offered service rights vesting in December 2023 to deepen the incentive and demand structure in the business.

As I highlighted last year, some of the structures outlined in this report will not be evident for some time as the measurement periods for the first grant of LTVR will not conclude until the end of FY24.

While some key executives hold shares under a legacy (pre-listing) Management Equity Plan (MEP), a minimum of 30% of these shares remain in escrow which are subject to a service condition only.

On behalf of the Committee and the Board, I would like to thank shareholders for their ongoing support of the Company.

Mr. Andrew Dutton
Chair, Remuneration & Nomination Committee

a. People covered in this Report

This Report covers KMP which are defined as those who have the authority and responsibility for planning, directing and controlling the activities of ACL.

			Committee membership		
Name	**Role at year end**	**Appointed**	**Audit**	**Remuneration and Nomination**	**Risk**
Non-executive KMP					
Michael Alscher*	Board Chair	19/12/2020	M		
Nathanial Thomson*	Non-executive Director	19/12/2020		M	
Andrew Dutton	Independent Non-executive Director	28/4/2021	M	C	
Dr Leanne Rowe AM	Independent Non-executive Director	28/4/2021		M	M
Dr Michael Stanford AM	Independent Non-executive Director	28/4/2021	M		C
Mark Haberlin	Independent Non-executive Director	28/4/2021	C		M
Executive KMP					
Melinda McGrath*	Chief Executive Officer and Executive Director	9/11/2015			
James Davison	Chief Financial Officer	1/2/2011			

* were previously directors of Clinical Laboratories Pty Ltd prior to the incorporation of Australian Clinical Labs Limited

M = Member, C = Chair

Note: Appointment dates of non-executive KMPs above is the appointment date in Australian Clinical Labs Limited. Michael Alscher and Nathanial Thompson were appointed as Directors of Clinical Laboratories Pty Ltd, the preceding parent entity of the Group, on 11 August 2015 and 30 April 2018 respectively.

b. Remuneration overview

FY22 Remuneration executive structure at-a-glance

The following diagram outlines the executive KMP remuneration cycle under the remuneration framework.

Component	FY22	FY23	FY24	FY25	FY26
Fixed	Fixed Pay Cash & Benefits				
Short Term	STVR Performance Period	Audit & Metric Assessment Cash Award			
Long Term	LTVR Performance Period - Performance Rights and SARs with a TSR Vesting Condition			Audit, Metric Assessment, Vesting, Exercise up to 5th Yr.	

The table above represents the components of the FY22 remuneration being fixed component payable during the year, short term payable in FY23 as a results of audit and matrix assessment based on the FY22 year and long term exercisable in FY26 based on TSR from FY22 to FY24.

FY22 Company performance at-a-glance

The following outlines the Company's performance, which is intended to assist in demonstrating the link between performance, value creation for shareholders, and executive reward:

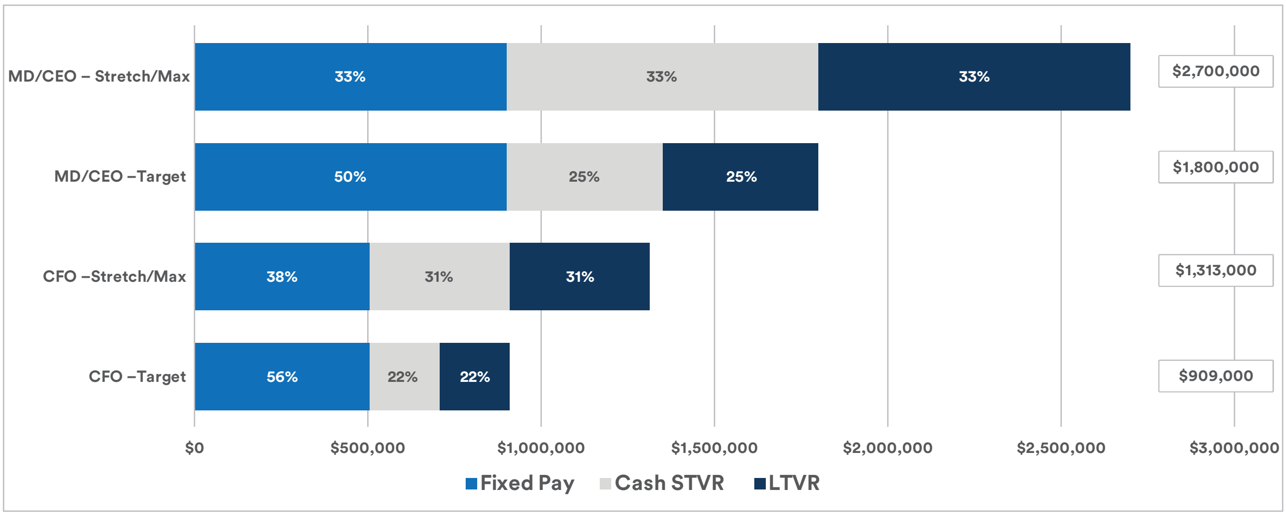
FY End Date	Pro Forma Net Profit After Tax	Share Price (end of year) $	Pro Forma Revenue Growth Year on Year %	Pro Forma EBITDA Growth Year on Year %	Pro Forma NPAT Growth Year on Year %
30/06/2022	$178.2m	$4.59	47.6%	61.6%	100.9%
30/06/2021	$88.7m	$3.40	29.0%	98.4%	659.1%

In addition to these metrics linked to value creation and the variable remuneration structures, the following were notable performance achievements for the year:

- Successful integration of SunDoctors;
- Acquisition of Medlab Pathology; and
- NPAT growth year on year of 100.9%.

FY23 Executive remuneration opportunities

During FY22 there have been no changes to existing STVR plan or LTVR plan or any issue of new rights associated with the LTVR. The following charts outline the remuneration opportunities for FY23 under the current remuneration structures, with the outcomes dependent on performance over FY23 for STVR and over FY22 to FY24 for LTVR.



Key KMP Remuneration Governance Development in FY22

There were no key remuneration governance developments that occurred in FY22.

c. The Australian Clinical Labs remuneration strategy, policy and framework

Executive remuneration – Fixed Pay (FP), Total Remuneration Package (TRP) and the variable remuneration framework

Fixed Pay (FP) comprises base salary plus any other fixed elements such as superannuation, allowances, benefits and fringe benefits tax for example. Fixed Pay is intended to be positioned at P50 of market benchmarks for comparably designed roles.

Total Remuneration Package (TRP) is intended to be composed of an appropriate mix of remuneration elements including FP, Short-Term Variable Remuneration (STVR) and Long-Term Variable Remuneration (LTVR). The Target TRP (TTRP), being the TRP value at target/expected performance) is generally intended to fall around the P62.5 of market benchmarks, subject to smoothing for volatility across role samples at the same level. The Board views P62.5 market positioning as an indicator of P50 TTRP opportunities due to the impact of AASB2/IFRS2 and nil (sometimes negative) values that often appear in market data based on statutory disclosure, dragging down the market data compared to actual remuneration opportunities. That is, share based payment expenses for accounting purposes may be nil (sometimes negative) in market data therefore the Board views P62.5 market positioning as an indicator of P50.

Variable remuneration is not a "bonus", but a blend of at-risk remuneration (below target) and incentives (above target and up to stretch/maximum). Metrics selected are intended to be linked to the primary drivers of value creation for stakeholders, and successful implementation of the long term strategy over both the short and long term. Thresholds are intended to be a near-miss of expectations, while target is intended to be a challenging but realistically achievable objective with a probability of around 50% to 60%. Stretch on the other hand is designed to be exceptionally challenging with a probability of around 10% to 20%.

The Board's approach to the variable remuneration framework and how it fits within the remuneration policy is demonstrated in the below graphic:

Variable Remuneration Component	Policy Market Position – TRP	Performance
Target to Stretch – Incentive / Upside	P100+ P62.5 to P100	Exceeds Expectations
Target – Expected Reward	P62.5	Meets Expectations
Threshold to Target – At Risk/Down Side	P50 to P62.5 P50	Below Expectations
Fixed Pay Only	P10-(P50 of Fixed Pay Benchmarks)	Below Threshold

Executive KMP remuneration will be tested annually by reference to appropriate independently sourced comparable benchmark data, and specific advice as may be appropriate from time to time. Benchmark groups are generally designed to be based on 20 companies from the same market sector, within a range of 50% to 200% of the market value of the Company at the time, and evenly balanced to ensure measures of central tendency are highly relevant. Benchmarks may be adjusted upwards or downwards for variations in role design compared to market benchmark roles, and individual remuneration may vary by +/- 20% compared to the policy midpoint, to reflect individual/incumbent factors such as experience, qualifications and performance.

Short-Term Variable Remuneration (STVR) plan

A description of the STVR structure is set out below. No changes will be made to this plan for FY23.

Purpose	To provide at-risk remuneration and incentives that rewards executives for performance against annual objectives set by the Board at the beginning of the financial year. Objectives selected are designed to support long-term value creation for shareholders, and link to the long-term strategy on an annual basis.
Measurement Period	The financial year of the Company.
Opportunity	The target value is 50% of Fixed Pay for the CEO, with a maximum/Stretch of 100% of Fixed Pay. The target value is 40% of Fixed Pay for the CFO, with a maximum/Stretch of 80% of Fixed Pay.
Outcome Metrics and Weightings	The STVR is dependent on meeting group performance objectives. The metrics are based off EBITDA performance. This metrics was selected because it is viewed by the Board as the primary drivers of value creation for the business.
Settlement	Awards are determined following auditing of accounts after the end of the financial year.
Service condition	STVR is subject to the participant remaining employed on the last day of the financial year unless otherwise determined by the Board.
Malus and Clawback	The STVR is currently not subject to any malus or clawback clauses or policies, however this will be reviewed in FY23.
Board Discretions	The Board has discretion to modify the awards payable to participants regardless of any performance outcome or gate, to ensure that outcomes are appropriate to the circumstances that prevailed over the Measurement Period.
Corporate Actions	The Board has discretion to determine the treatment of unpaid STVR in the case of major corporate actions such as a change in control, delisting, major return of capital or demerger.

Long-Term Variable Remuneration (LTVR) plan

A description of the LTVR structure is set out below. No changes will be made to this plan for FY23. Details of the Company's legacy equity plan, the Management Equity Plan, under which the CEO and CFO currently also hold shares, are provided later in this section of the report.

Purpose	To provide at-risk remuneration and incentives that rewards executives for performance against long-term value creation objectives set by the Board at the beginning of the financial year and to align the interests of executives with the interests of shareholders through "skin in the game".
Measurement Period	Three financial years including the financial year of grant.
Opportunity	The target value is 50% of Fixed Pay for the CEO, with a maximum/stretch of double the target, or 100% of Fixed Pay. The target value is 40% of Fixed Pay for the CFO, with a maximum/stretch of 80% of Fixed Pay.
Instrument	The Awards that may be offered under the LTVR Plan consist of Performance Rights for the CEO and CFO.
Price and exercise price	The Price is nil, because it forms part of the remuneration of the participant. The Exercise Price is nil.

Allocation method	The Rights are valued using the following method: Right Value = Share Price – (Annual Dividend x Years to First Exercise) The Number of Rights to be granted = FP$ x Target LTVR % ÷ Target Vesting % ÷ Right Value Share Price = Volume Weighted Average Price during last 21 days or listing price if less than 21 days. Note: dividing target $ by the vesting % at target grosses the grant up to the stretch $ level.
Performance Metrics and Weightings	Granted Performance Rights have an Indexed Total Shareholder Return (iTSR) vesting condition (100% weighting). The vesting of such Performance Rights will be determined by comparing the Company's TSR over the Measurement Period with the TSR of the S&P/ASX 300 industrials Ex-Financials and Resources Index.

50% of the Performance Rights will vest based on the following vesting schedule:

Performance Level	Company's TSR compared to S&P/ASX300 Ex- Financials and Resources Index over performance period	% of Tranche Vesting
Target	**Index TSR + 5% CAGR**	**100%**
Threshold	Index TSR	50%

Outcomes that fall between the threshold and target level of performance will result in a pro-rata calculation being applied.

50% of the Performance Rights will vest based on the following vesting schedule:

Performance Level	Company's TSR compared to S&P/ASX300 Ex- Financials and Resources Index over performance period	% of Tranche Vesting
Stretch	**index movement + 10% CAGR**	**100%**
Below stretch	< Index TSR +10% CAGR	0%

There will be no pro-rata calculation applied for outcomes that fall below the stretch level of performance.

TSR is the sum of share price appreciation and dividends (assumed to be reinvested in shares) during the measurement period. It is annualised for the purposes of the above vesting scale. The TSR of the Company over the measurement period will be calculated and converted to a compound annual growth rate (CAGR) value for the purposes of assessment against this scale. During periods of nil dividends being declared, TSR is equal to change in share price.

This metric was selected because it is the best measure of value creation for shareholders that adjusts for windfall gains and losses arising from broad market movements.

Equity grants are tested against the performance measures set. If the performance hurdles are not met at the vesting date, Performance Rights lapse.

Gate	iTSR Performance Rights are subject to a gate of TSR for ACL being positive for the Measurement Period to ensure the grant does not vest when shareholders are losing value.
Settlement	The Rights are "Indeterminate" which may be settled in the form of a Company Share (including a Restricted Share), or cash equivalent, upon valid exercise.
Term	Rights must be exercised within 5 years of the Grant Date, otherwise they lapse.
Service condition	In addition to the performance conditions, continued service during the full Measurement Period is a requirement in order for any Rights to become eligible to vest.

Malus and Clawback	The LTVR plan includes malus and clawback clauses which will result in forfeiture of unvested Rights in a range of circumstances, including material misstatements resulting in overpayment, the participant joining a competitor or being involved in actions that are deemed to have harmed other stakeholders.
Board discretions	The Board has discretion to modify vesting to participants regardless of any performance outcome or gate, to ensure that outcomes are appropriate to the circumstances that prevailed over the Measurement Period.
Corporate actions	In the case of a Change in Control, unvested Rights will vest in the proportion that the elapsed portion of the Measurement period bears to the full Measurement period. The Board, in its discretion, may determine that none, some or all of the remaining unvested Rights also vest. Any Rights that remain unvested following exercise of the Board's discretion will lapse. In the case of a major return of capital or demerger, the Board has discretion to bring forward vesting or to alter the number of Rights or the Exercise Price or to alter Vesting Conditions to ensure that the outcomes is fair to participants. This is because following such an event the share price is likely to be materially different from the basis of the grant, and performance conditions set may be unable to be met.

Management Equity Plan (MEP/Legacy Plan)

The Group has previously established an equity incentive plan under which certain senior executives received ordinary shares as part of their incentive arrangements (Management Equity Plan and MEP Shares). Equity issued under the Management Equity Plan will be dealt with as described below to ensure that participants continue to be motivated to achieve sustained growth for shareholders.

Under the arrangements for the issue of the MEP Shares, if a participant ceases to be employed by the Group, the participant will no longer have an entitlement to MEP Shares still under escrow.

There are currently 2,408,043 MEP Shares which are being held in escrow as follows:

- One-half will be released from escrow following announcement of the Company's financial results for the period ended 30 June 2022
- One-half will be released from escrow following announcement of the Company's financial results for the period ended 31 December 2022

No further shares will be issued under the Legacy Plan.

Non-Executive Director (NED) fee policy

The following outlines the principles that Australian Clinical Labs applies to governing NED remuneration:

Principle	Comment
Fees are set by reference to key considerations	Fees for Non-executive Directors are based on the nature of the Directors' work and their responsibilities, taking into account the nature and complexity of the Company and the skills and experience of the Director. Non-executive Directors' fees are recommended by the Nomination & Remuneration Committee and determined by the Board. External consultants may be used to source the relevant data and commentary or to obtain independent recommendations given the potential for a conflict of interest in the Board setting its own fees.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, Non-executive Directors are not entitled to any form of variable remuneration payments and the level of their fees is not set with reference to measures of the Company's performance. Non-executive Directors are encouraged to hold shares in the company, however they do not currently receive equity as part of their remuneration.
Aggregate board fees	The total amount of fees paid to Non-executive Directors is within the aggregate amount disclosed in the Company Constitution of $1,500,000 per annum.

The following outlines the Board Fees applicable as at the end of FY22:

Role / Function	Main Board	Audit Committee	Remuneration and Nomination Committee	Risk Committee
Chair	$180,000	$15,000	$15,000	$15,000
Member	$120,000	$10,000	$10,000	$10,000

Note: Fees are expressed as inclusive of superannuation. Non-executive Directors are also reimbursed for their reasonable out-of-pocket expenses that are incurred in the discharge of their role.

There are no planned increases in the table above for FY23.

Other elements of the KMP remuneration governance framework

The following outlines the other elements that together with the foregoing form the KMP remuneration governance framework:

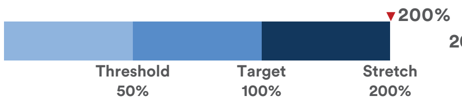
- The Nomination and Remuneration Committee Charter, which outlines the roles and responsibilities of the committee. This is available for inspection on the Company website.
- The Securities Trading Policy, which outlines under what circumstances and when trading in ACL securities by KMP and other nominated employees may be permitted or prohibited.
- External Remuneration Consultant (ERC) Engagement Policy which is intended to ensure the independence of any recommendation received regarding KMP remuneration, and which supports the Board's published statements regarding such recommendations. In addition to the requirements outlined in the Corporations Act, it requires the ERC to notify the Board if management makes contact with the ERC on remuneration matters outside of interactions approved or supervised by the Board, such as the provision of factual information for benchmarking purposes.

d. The link between performance and reward in FY22

The Board views the outcomes of remuneration for FY22 performance as appropriately aligned with stakeholder interests generally, given the strong group and individual performance against annual objectives, the substantial shareholder value created through share price growth, and progress towards strategy objectives made by the executive team.

FY22 STVR Outcomes

The STVR plan is designed to reward executives for the achievement against annual performance objectives set by the Board at the beginning of the performance period. The payment of an STVR is dependent on delivery of performance against a range of outcome metrics. The primary metrics and outcomes of assessment against those metrics are summarised below:

Metric/Measure	Weight	Performance	Outcome (% of Target)	% of Target $ Payable
Financial Performance	100%			
This metric is viewed as the primary financial driver of shareholder value creation under the current strategy.		>150% of EBITDA vs Budget achieved		**200% of Target $ Payable**

Directors' Report
for the year ended 30 June 2022

Achieved total remuneration package for FY22

The following outlines "Achieved" total remuneration, including the portions of maximum variable remuneration that were awarded or vested, and portions that were forfeited or lapsed as the result of performance assessments:

Name	Role(s)	Year	Fixed Pay (incl Super)		Total STVR Awarded Following Completion of the Financial Year				Value of MEP Shares that Vested Following Completion of the Measurement Period/FY				Achieved Total Remuneration Package (TRP)	Gains/Losses on Vested LTVR from Change in Value Before Vesting[iii]
			Amount	% of TRP	Amount[i]	% of Max Awarded	% of Max Forfeited	% of TRP	Amount[ii]	% of Max Vested	% of Max Lapsed	% of TRP		
Ms Melinda McGrath	Chief Executive Officer and Executive Director	FY22	$908,771	50%	$900,000	100%	0%	50%	$0	0%	0%	0%	$1,808,771	$0
		FY21	$919,328	41%	$900,000	100%	0%	40%	$425,872	100%	0%	19%	$2,245,200	$2,263,592
Mr James Davison	Chief Financial Officer	FY22	$504,996	56%	$404,000	100%	0%	44%	$0	0%	0%	0%	$908,996	$0
		FY21	$500,667	52%	$346,678	100%	0%	36%	$115,091	100%	0%	12%	$962,436	$611,730

(i) This is the value of the total STVR award calculated and accrued during the FY22. It will be settled following the release of the FY22 full year results.
(ii) This is the grant value of the LTVR that vested at IPO i.e. number that vested multiplied by the Black-Scholes value at grant.
(iii) This is the difference between the Black-Scholes value at grant, and the realisable value based on the market value of a share at the time of vesting, for the LTVR that vested at IPO.

e. Statutory tables and supporting disclosures

The following table outlines the statutory remuneration of executive KMP. These disclosures have been calculated in accordance with the Australian accounting standards:

			Fixed Pay					Variable Remuneration								Total for Year	Other Statutory Items	
Name	Role(s)	FY	Salary	Super	Other Benefits(v)	Total Fixed Pay		Cash STVR(i)		LTVR(ii)		MEP(iii)		MEP Accelerated(iv)		Statutory Total Remuneration Package (TRP)	Change in Accrued Leave	Termination Benefits
						Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP			
Ms Melinda McGrath	Chief Executive Officer and Executive Director	FY22	$872,508	$27,058	$9,205	$908,771	47%	$900,000	46%	$134,432	7%	$0	0%	$0	0%	$1,943,202	($2,747)	$0
		FY21	$875,418	$24,600	$19,311	$919,328	40%	$900,000	39%	$13,259	1%	$110,115	5%	$368,993	16%	$2,311,695	$73,115	$0
Mr James Davison	Chief Financial Officer	FY22	$467,520	$27,480	$9,996	$504,996	52%	$404,000	42%	$60,345	6%	$0	0%	$0	0%	$969,341	$27,091	$0
		FY21	$466,071	$24,600	$9,996	$500,667	51%	$346,678	35%	$5,952	1%	$29,758	3%	$99,719	10%	$982,774	($6,043)	$0

(i) Note that the STVR value reported in this table is the STVR that was accrued during the reporting period. This will be paid following the release of the FY22 full year results.

(ii) Note that the LTVR value reported in this table is the amortised accounting charge of all grants that have not lapsed or vested as at the start of the reporting period. Where a market based measure of performance is used such as TSR, no adjustments can be made to reflect actual LTVR vesting.

(iii) Note that the MEP value reported in this table is the amortised accounting charge of all grants that had not lapsed or vested up to IPO.

(iv) Note that the MEP accelerated value reported in this table is the accelerated accounting charge of all grants that vested at IPO including those are held within escrow.

(v) Other benefits include items such as car parking, car allowances, FBT, etc.

Non-executive Director KMP statutory remuneration of FY22

The following table outlines the statutory and audited (A-IFRS) remuneration of NEDs ($, except where otherwise indicated):

Name	Role(s)	Year	Cash Board Fees	Committee Fees	Superannuation	Other Benefits[(i)]	Total
Mr Michael Alscher	Board Chair	2022	$180,000	$5,973	$0	$0	$185,973
		2021	$127,097	$0	$0	$0	$127,097
Mr Nathanial Thomson	Non-executive Director	2022	$120,000	$10,000	$0	$0	$130,000
		2021	$66,616	$1,663	$0	$0	$68,279
Mr Andrew Dutton	Independent Non-executive Director	2022	$109,091	$22,727	$13,182	$0	$145,000
		2021	$19,951	$4,156	$2,290	$28,274	$54,671
Dr Leanne Rowe AM	Independent Non-executive Director	2022	$109,091	$18,182	$12,727	$0	$140,000
		2021	$19,951	$3,325	$2,211	$26,301	$51,788
Dr Michael Stanford AM	Independent Non-executive Director	2022	$109,091	$22,727	$13,182	$0	$145,000
		2021	$19,951	$4,156	$2,290	$28,274	$54,671
Mr Mark Haberlin	Independent Non-executive Director	2022	$109,091	$22,727	$13,182	$0	$145,000
		2021	$19,951	$4,156	$2,290	$15,781	$42,178
Mr Michael Lukin	Independent Non-executive Director	2022	$0	$0	$0	$0	$0
		2021	$52,903	$0	$0	$0	$52,903
Mr Joel Mahemoff	Independent Non-executive Director	2022	$0	$0	$0	$0	$0
		2021	$52,903	$0	$0	$0	$52,903
Dr Shane Kelly	Independent Non-executive Director	2022	$0	$0	$0	$0	$0
		2021	$30,000	$0	$0	$0	$30,000

(i) Other benefits relates to consulting fees that were paid prior to the Director being appointed as a Director of the Company.

KMP equity interests and changes during FY22

Movements in equity interests held by executive KMP during the reporting period, including their related parties, are set out below. All equity interests are granted by the listed entity unless otherwise specified:

		Number Held at Open FY22	FY22 Purchased/ Other	FY22 Sold	Number Held at Close FY22	Shares held in escrow (MEP)
Name	Instrument	Number	Number	Number	Number	Number
	Shares	2,791,473	66,200	-	2,857,673	1,905,116
Ms Melinda McGrath	Unvested Rights	247,252	-	-	247,252	-
	Shares	754,390	-	(191,291)	563,099	502,927
Mr James Davison	Unvested Rights	110,988	-	-	110,988	-
TOTALS		**3,904,103**	**66,200**	**(191,291)**	**3,779,012**	**2,408,043**

Movements in equity interests held by non-executive KMP during the reporting period, including their related parties, are set out below:

		Number Held at Open FY22	FY22 Purchased/ Other	Number Held at Close FY22[(ii)]
Name	Instrument	Number	Number	Number
Mr Michael Alscher	Shares	250,000	5,928	255,928
Mr Andrew Dutton	Shares	80,000	1,897	81,897
Dr Leanne Rowe AM	Shares	37,500	-	37,500
Dr Michael Stanford AM	Shares	30,000	8,000	38,000
Mr Mark Haberlin	Shares	25,000	22,500	47,500

The following outlines the accounting values and potential future costs of equity remuneration granted for executive KMP:

Equity Grants Name	Tranche	Grant Type	Number	Vesting Conditions	Grant Date	Fair Value Each At Grant Date	Total Fair Value at Grant	Value Expensed in FY22	Max Value to be Expensed in Future Years
Ms Melinda McGrath	Tranche 1	LTVR Rights	123,626	iTSR	25/05/2021	3.64	449,999	80,259	152,822
	Tranche 2	LTVR Rights	123,626	iTSR	25/05/2021	3.64	449,999	54,173	103,151
Mr James Davison	Tranche 1	LTVR Rights	55,494	iTSR	25/05/2021	3.64	201,998	36,027	68,600
	Tranche 2	LTVR Rights	55,494	iTSR	25/05/2021	3.64	201,998	24,317	46,303
TOTALS	**n/a**	**n/a**	**358,240**	**n/a**	**n/a**	**n/a**	**1,303,994**	**194,776**	**370,875**

Note: All Rights granted under the LTVR in FY21 will expire in FY26. They may only be exercised after vesting which is expected to occur after release of the year ended 30 June 2024 results.

The total fair value at grant date differs from the total value expected to be expensed through the profit and loss due to the measure of the plan using the Monte Carlo valuation for accounting purposes, which is different to the valuation at grant date.

KMP Service Agreements

Executive KMP Service Agreements

The following outlines current executive KMP service agreements:

				Period of Notice	
Name	Position Held at Close of FY22	Employing Company	Duration of Contract	From Company	From KMP
Ms Melinda McGrath	Chief Executive Officer and Executive Director	Australian Clinical Labs Limited	No fixed term	6 months	6 months
Mr James Davison	Chief Financial Officer	Australian Clinical Labs Limited	No fixed term	6 months	6 months

Non-executive Directors service agreements

Non-executive Directors are appointed under a service agreement. The service agreements stipulate that Non-executive Directors' fees are inclusive of superannuation and that Non-executive Directors are not eligible for any termination benefits or other contractual or statutory entitlements (other than superannuation) following termination of their office.

Other statutory disclosures

Loans to KMP and their related parties

During the financial year and to the date of this report, the Company has not made any loans to Directors and other KMP.

There are no loan balances outstanding as at 30 June 2022 with any related parties.

Other transactions with KMP

Certain Directors and KMP, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the FY22 reporting period. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

During the year the Group paid for convertible notes in Geneseq Pty Ltd (Geneseq). Certain KMP are also appointed Directors of Geneseq and also hold shares in the entity. The terms and conditions of the acquisition were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

There were no transactions which occurred with entities controlled by Related Parties.

Financial Statements

Consolidated statement of profit or loss

for the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Revenue	3	995,604	646,702
Other income	3	1,561	(2,034)
Total		**997,165**	**644,668**
Consumables		(207,592)	(119,585)
Labour costs		(314,003)	(249,685)
Property costs		(17,325)	(14,017)
Repairs and maintenance		(8,061)	(6,889)
IPO transaction costs		–	(17,420)
Acquisition related expenses		(7,379)	–
Insurance write-off and associated costs		(1,561)	–
Other operating expenses		(68,544)	(40,473)
Depreciation	4	(12,145)	(10,160)
Depreciation of right-of-use assets	4	(93,724)	(77,865)
Amortisation of customer lists	4	(227)	(27)
Total operating costs		**(730,561)**	**(536,121)**
Earnings before interest and tax		**266,604**	**108,547**
Net finance costs	5	(11,704)	(21,894)
Profit before income tax		**254,900**	**86,653**
Income tax expense	6	(76,498)	(26,264)
Profit for the year		**178,402**	**60,389**
Net (profit) attributable to non-controlling interests		(158)	(16)
Net profit to members of Australian Clinical Labs Limited		**178,244**	**60,373**

Earnings per share

		Cents per share	Cents per share
Basic earnings per share from continuing operations	22	88.55	39.69
Diluted earnings per share from continuing operations	22	88.46	39.69

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

Consolidated statement of other comprehensive income
for the year ended 30 June 2022

	2022 $'000	2021 $'000
Profit for the year	178,402	60,389
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	6	(36)
Other comprehensive income for the year, net of tax	**6**	**(36)**
Total comprehensive income for the year	**178,408**	**60,353**
Total comprehensive income attributable to:		
Members of Australian Clinical Labs Limited	178,250	60,337
Non-controlling interests	158	16
	178,408	**60,353**

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

Consolidated statement of financial position
as at 30 June 2022

	Note	2022 $'000	2021 $'000
CURRENT ASSETS			
Cash and cash equivalents	28(a)	26,372	35,233
Trade and other receivables	7	91,114	62,976
Inventories	8	20,088	13,356
Other assets	9	5,271	5,661
Current tax assets		26	–
TOTAL CURRENT ASSETS		**142,871**	**117,226**
NON-CURRENT ASSETS			
Plant and equipment	10	58,145	42,287
Right-of-use assets*	11	252,055	196,057
Intangible assets	12	165,400	112,906
Other assets		150	–
Deferred tax assets	13	9,421	15,625
TOTAL NON-CURRENT ASSETS		**485,171**	**366,875**
TOTAL ASSETS		**628,042**	**484,101**
CURRENT LIABILITIES			
Trade and other payables	14	59,189	42,438
Lease liabilities*	15	94,767	69,996
Provisions	17	53,770	48,648
Deferred consideration	18	10,235	675
Current tax liabilities		5,615	4,019
Other liabilities		1,587	–
TOTAL CURRENT LIABILITIES		**225,163**	**165,776**
NON-CURRENT LIABILITIES			
Lease liabilities*	15	167,610	134,344
Borrowings	16	–	99,511
Provisions	17	2,712	2,556
TOTAL NON-CURRENT LIABILITIES		**170,322**	**236,411**
TOTAL LIABILITIES		**395,485**	**402,187**
NET ASSETS		**232,557**	**81,914**

* ACL has revised the previous year financial statements. Refer to notes 11 and 15 for further details.

Consolidated statement of financial position
as at 30 June 2022

	Note	2022 $'000	2021 $'000
EQUITY			
Issued capital	19	793,031	797,975
Reserves	20	(776,807)	(778,271)
Retained earnings		216,220	62,194
Total parent entity interest		**232,444**	**81,898**
Non-controlling Interest		113	16
TOTAL EQUITY		**232,557**	**81,914**

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 30 June 2022

2021	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interest $'000	Total $'000
Opening balance at 1 July 2020	**146,505**	**(118,772)**	**41,255**	**68,988**	–	**68,988**
Profit for the year	–	–	60,373	**60,373**	16	**60,389**
Exchange differences on translation of foreign operations	–	(36)	–	**(36)**	–	**(36)**
Total other comprehensive income for the year net of tax	**–**	**(36)**	**–**	**(36)**	**–**	**(36)**
Total comprehensive income for the year	**–**	**(36)**	**60,373**	**60,337**	**16**	**60,353**
Transactions with owners in their capacity as owners						
Share based payments	–	1,235	–	**1,235**	–	**1,235**
Dividend declared and paid	–	–	(42,000)	**(42,000)**	–	**(42,000)**
Reverse existing capital resulting from restructure	(146,505)	–	–	**(146,505)**	–	**(146,505)**
Ordinary shares issued net of transaction costs	797,975	–	–	**797,975**	–	**797,975**
Common control reserve from acquisition	–	(645,632)	–	**(645,632)**	–	**(645,632)**
Payment of promissory note	–	(12,500)	–	**(12,500)**	–	**(12,500)**
Reclassification of pre IPO Management Equity Plan	–	(2,566)	2,566	**–**	–	**–**
Closing balance at 30 June 2021	**797,975**	**(778,271)**	**62,194**	**81,898**	**16**	**81,914**

2022	$'000	$'000	$'000	$'000	$'000	$'000
Opening balance at 1 July 2021	**797,975**	**(778,271)**	**62,194**	**81,898**	**16**	**81,914**
Profit for the year	–	–	178,244	**178,244**	158	**178,402**
Exchange differences on translation of foreign operations	–	6	–	**6**	–	**6**
Total other comprehensive income for the year net of tax	**–**	**6**	**–**	**6**	**–**	**6**
Total comprehensive income for the year	**–**	**6**	**178,244**	**178,250**	**158**	**178,408**
Transactions with owners in their capacity as owners						
Share based payments	–	1,458	–	**1,458**	–	**1,458**
Dividend declared and paid	–	–	(24,218)	**(24,218)**	–	**(24,218)**
Dividend paid to minority interest in controlled entities	–	–	–	–	(61)	**(61)**
Acquisition of treasury shares	(4,944)	–	–	**(4,944)**	–	**(4,944)**
Closing balance at 30 June 2022	**793,031**	**(776,807)**	**216,220**	**232,444**	**113**	**232,557**

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 30 June 2022

	Note	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and government grants		990,238	661,967
Payments to suppliers and employees		(625,932)	(450,224)
Cash provided by operations		**364,306**	**211,743**
Interest received		45	75
Interest and costs of finance paid		(11,392)	(39,390)
Income tax paid		(68,872)	(18,564)
Net cash provided by operating activities	28(b)	**284,087**	**153,864**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant and equipment		273	112
Proceeds from disposal of investments		–	1,066
Purchase of plant and equipment		(21,252)	(9,506)
Inflows from/(payments for) business combinations (net of cash acquired)		(51,064)	2,252
Net cash used in investing activities		**(72,043)**	**(6,076)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(91,687)	(75,134)
Proceeds from new shares issued net of transaction costs		–	146,254
Repayment of borrowings		(100,000)	(269,590)
Proceeds from borrowings		–	321,600
Payment for common control restructure		–	(216,000)
Dividends paid		(24,218)	(42,000)
Dividend paid to minority interest in controlled entities		(61)	–
Payment of promissory note		–	(12,500)
Payment for treasury shares		(4,944)	–
Net cash used in financing activities		**(220,910)**	**(147,370)**
Net (decrease)/increase in cash and cash equivalents		**(8,866)**	**418**
Foreign exchange differences on cash holdings		5	(34)
Cash and cash equivalents at the beginning of the year		35,233	34,849
Cash and cash equivalents at the end of the year	28(a)	**26,372**	**35,233**

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

Notes to the financial statements
for the year ended 30 June 2022

Note 1: Summary of Significant Accounting Policies

The principal accounting policies adopted in the presentation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, interpretations issued by the Australian Accounting Standards Board (AASB), all other applicable authoritative pronouncements of the AASB and the *Corporations Act 2001*.

The financial report includes financial statements for the Consolidated Group ('the Group') consisting of Australian Clinical Labs Limited ('Parent Company' or 'Company') and its subsidiaries. Australian Clinical Labs Limited is a for-profit entity domiciled in Australia.

The financial report was authorised for issue by the Directors on 9 August 2022.

Compliance with IFRS

The financial report of the Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Parent Company financial information included in Note 30 also complies with IFRS.

Basis of measurement

The financial report has been prepared on the basis of historical cost except for the revaluation of financial assets and liabilities at fair value through profit or loss. Cost is based on the fair values of the consideration given in exchange for assets.

Where applicable, comparatives may be restated in line with current year presentation.

Going concern

As at 30 June 2022, the Group recorded a deficiency in current assets of $82.3m. This has been caused by AASB 16 *Leases*, whereby $94.8m of lease liability has been recognised as current, however the corresponding right-of-use asset is non-current. Excluding the current portion of the lease liability, the Group has a current asset surplus of $12.5m.

The Directors have concluded that the Group will be able to pay its debts as and when they fall due with consideration of the above factors, profitability and operating cash flows of the Group. Accordingly, the financial report has been prepared on a going concern basis.

(b) Basis of consolidation

The financial report incorporates the assets and liabilities of all subsidiaries controlled by Australian Clinical Labs Limited as at 30 June 2022 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

When control of an entity is obtained during a financial year, its results are included in the statement of profit and loss from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Non-controlling interests in the results and equity of controlled entities are shown separately in the statement of profit and loss, statement of comprehensive income, statement of financial position and statement of changes in equity.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Associates

An associate is an entity over which the Group is able to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Note 1: Summary of Significant Accounting Policies (continued)

The Group's interests in associates are accounted for using the equity method after initially being recognised at cost. Under the equity method, the Group's share of the profits or losses of the associate is recognised in the Group's profit or loss and the Group's share of other comprehensive income items is recognised in the Group's other comprehensive income.

Unrealised gains and losses on transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

(c) Business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method unless it is a common control acquisition.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the amount of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the acquisition date amount of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss. Acquisition related costs are expensed as incurred.

Common control acquisition

A common control acquisition is a transaction whereby the direct ownership changes as a result of a restructure, however there is ultimately no change in control over the assets.

Common control acquisitions are recognised in accordance with Australian Accounting Standards and are presented as a continuation of the pre-existing entity.

(d) Foreign currency translation and balances

Functional and presentation currency

The financial statements for each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the Group's functional currency.

Transactions and balances

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. All resulting exchange arising on settlement or restatement are recognised as revenue or expenses for the financial year.

Foreign subsidiaries

Subsidiaries that have a functional currency different to the presentation currency of the consolidated Group are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or other similar allowances.

Rendering of services

Revenue from the provision of services is recognised when the related services are completed. Revenue is accrued at balance date for services which are completed but yet to be invoiced.

Clinic revenue

Clinic revenue represents support services provided to doctors (enabling them to treat patients), in consideration for a percentage share of billings as determined by each doctor's medical services agreement. Revenue is recognised in the period in which doctors' services are rendered to patients.

(f) Other income

Government grant income is only recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them, and the grant will be received.

(g) Income tax

Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

Current tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before income tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial report and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Note 1: Summary of Significant Accounting Policies (continued)

Tax consolidation

Australian Clinical Labs Limited and its wholly-owned Australian controlled entities have implemented the Australian tax consolidation legislation on 6 November 2020.

Australian Clinical Labs Limited and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries in the tax consolidated group recognise current or deferred tax amounts arising in respect of their own transactions, events and balances;
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiaries in the tax consolidated group to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Inventories

Inventories represent medical and laboratory supplies. They are measured at the lower of cost and net realisable value.

(j) Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses.

- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.

Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

The ranges of depreciation rates used for each class of depreciable assets are:

Class of property, plant and equipment	Depreciation rate
Leasehold improvements	2% to 100%
Plant & equipment	5% to 50%

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in operating profit before income tax of the Group in the year of disposal.

(k) Leases

At the commencement date of a lease (other than leases of 12 months or less and leases of low value assets), the Group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the Group, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any re-measurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments. These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments reduced by rental accruals for missed lease payments. Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments (once confirmed) and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12 months or less and leases of low value assets

Lease payments made in relation to leases of 12 months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense as incurred.

COVID-19 related rent concessions

The Group has elected to apply the practical expedient (as permitted by Australian Accounting Standards) not to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications, and to account for any changes in lease payments resulting from the rent concessions as if the changes were not lease modifications. Any gains arising from COVID-19 related rent concessions are recognised in profit or loss.

The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments due on or before 30 June 2022; and

(c) there is no substantive change to other terms and conditions of the lease.

(l) Intangible assets

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in the case of a step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Note 1: Summary of Significant Accounting Policies (continued)

Intangibles assets acquired in a business combination

Intangibles acquired in a business combination are initially recognised at fair value (which, for accounting purposes, is treated as the cost of the intangible asset), and are subsequently amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost, less accumulated amortisation and any accumulated impairment losses.

(m) Impairment testing of tangible and intangible 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.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives such as goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell 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 the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit other than goodwill) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Financial instruments

Recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Classification of financial assets

Financial assets recognised by the Group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the Group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

(a) the Group's business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the Group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the Group are subsequently measured at amortised cost.

Trade and other receivables

Trade and other receivables arise from the Group's transactions with its customers.

Consistent with both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

Impairment of financial assets

Receivables from customers are tested for impairment by applying the 'expected credit loss' impairment model.

The Group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for both receivables from contracts with customers and contract assets. Under the AASB 9 simplified approach, the Group determines the allowance for credit losses for receivables from contracts with customers and contract assets on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

The Group consider a range of information when assessing whether the credit risk has increased since initial recognition. This includes such factors as the identification of significant changes in external market indicators of credit risk, significant adverse changes in the financial performance or financial position of the counterparty, significant changes in the value of collateral, and past due information.

The Group assumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 120 days past due.

The Group determines expected credit losses using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The gross carrying amount of a financial asset is written off (i.e., reduced directly) when the counterparty is in severe financial difficulty and the Group has no realistic expectation of recovery of the financial asset. Financial assets written off remain subject to enforcement action by the Group. Recoveries, if any, are recognised in profit or loss.

(o) Employee benefits

Short-term employee benefit obligations

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

Long-term employee benefit obligations

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Retirement benefit obligations

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Share based payments

The Group operates share based payment employee share and option schemes for accounting purposes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

Note 1: Summary of Significant Accounting Policies (continued)

Bonus plan

The Group recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(q) Australian Clinical Labs Employee Share Trust ('ACLEST')

The Group has formed a trust to obtain and hold shares for the purpose of providing shares under Australian Clinical Labs Limited Rights Plan. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held by ACLEST are disclosed as treasury shares and deducted from contributed equity.

(r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(s) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Some numerical figures included in this report have been subject to rounding adjustments. Any differences between totals and sums of components in tables or figures contained in this report are due to rounding.

(t) Significant accounting estimates and assumptions

In the financial report, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The following are the estimates and judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial report:

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in salaries and wages;
- Future on-cost rates;
- Experience of employee departures and period of service; and
- Appropriate discount rate to reflect long term liabilities at present value.

Impairment of tangible and intangible assets

Determining whether assets are impaired requires an estimation of recoverable amount for the cash-generating units to which these assets have been allocated. The recoverable amount of each cash-generating unit is the greater of its value in use or fair value less costs to sell.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the day on which they are granted. The fair value is determined using a Black-Scholes model or Monte Carlo model and is recognised as an expense over the vesting period, with a corresponding increase to an equity account.

Deferred tax balances

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Determination of the lease term as the non-cancellable term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal including penalties to terminate, the value of leasehold improvements remaining plus current and future expected economic performance from use of the asset.

After the commencement date, the Group generally can only make a reasonable certainty assessment if there is a significant event or change in circumstances that is within its control and affects the ability to exercise (or not exercise) the option to renew.

Calculation of incremental borrowing rates

Where the Group cannot readily determine the interest rate implicit in lease contracts, the present value of the Group's lease liabilities is estimated using the incremental borrowing rate as if leasing over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar economic environment. The Group uses observable inputs such as market interest rates as applicable.

(u) Adoption of new and revised Accounting Standards

The Group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2021. These standards do not have a material impact on the Group's financial results or position.

(v) Standards and interpretations issued but not yet effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt any of these new and amended pronouncements. These pronouncements are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

Note 2: Segment Information

The Group's Chief Executive Officer and the Board of Directors (the chief operating decision makers) review the Group's performance of the business to assess performance and determine the allocation of resources. Discrete financial information is reported to the chief operating decision makers on at least a monthly basis. The discrete financial information is provided by one operating segment and one geographical segment, being Australia.

The Group has the one reportable segment:

Pathology

Pathology/clinical laboratory services provided in Australia.

Note 3: Revenue and Other Income

	2022 $'000	2021 $'000
An analysis of the Group's revenue for the year is as follows:		
Pathology revenue	976,564	639,679
Clinic revenue	12,734	1,632
Rental revenue from subleasing right-of-use assets	645	673
Other revenue	5,661	4,718
Total revenue	**995,604**	**646,702**
Other		
JobKeeper income	–	(2,034)
Insurance claim proceeds	1,561	–
Total other income	**1,561**	**(2,034)**

During the year one of our laboratories based in Queensland was flooded with extensive damage caused to the laboratory equipment and consumables on hand.

Insurance claim proceeds have been recognised for specific equipment verified by the insurers at 30 June 2022. This is not the expected total insurance claim proceeds for the claim and as such, a contingent asset exists. Refer to Note 32 for full details.

The loss of assets, loss on consumables and associated insurance costs to date also total $1.6m and as such, there is no overall P&L impact to NPAT in FY22.

On 3rd March 2021, the Board chose to repay JobKeeper grants received in the financial year with the repayment conducted on 16 March 2021. The 2021 balance shown above was initially recognised as income in June 2020 as it related to the last fortnight in June. However, these funds were repaid in full in March 2021 resulting in a negative income amount shown above.

Note 4: Expenses

	2022 $'000	2021 $'000
Profit before income tax includes the following specific expenses:		
(a) Depreciation expense		
Leasehold improvements	3,732	3,733
Plant and equipment	8,413	6,427
Right-of-use assets	93,724	77,865
	105,869	**88,025**
(b) Amortisation expense		
Customer lists	227	27
(c) Lease rental expense		
Short term/low value lease payments	14,676	12,070

Note 5: Finance Income and Expenses

	2022 $'000	2021 $'000
Finance Income		
Bank deposits	45	75
Finance Expenses		
Interest expense – related parties	–	(1,046)
Interest expense – bank facilities	(1,339)	(3,054)
Interest expense – leasing arrangements	(10,410)	(11,030)
Other borrowing costs	–	(6,839)
	(11,749)	(21,969)
Net finance costs	**(11,704)**	**(21,894)**

Other borrowing costs

As part of the IPO in the 2021 financial year, the pre-existing debt facility was repaid in full resulting in $5.8m of transaction costs being released into the P&L through other borrowing costs.

Note 6: Income Tax

	2022 $'000	2021 $'000
(a) Components of income tax expense		
Current tax	70,367	33,401
Deferred tax	6,131	(7,137)
	76,498	**26,264**
(b) Income tax reconciliation		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax	254,900	86,653
Domestic tax rate	30%	30%
Expected income tax expense	**76,470**	**25,996**
Adjustments for non-deductible expenses:		
Other non-deductible expenses	28	268
Actual income tax expense	**76,498**	**26,264**
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in the net profit or loss or other comprehensive income but credited directly to equity		
Capital raising costs	**–**	**6,208**

Note 7: Trade and Other Receivables

	2022 $'000	2021 $'000
CURRENT		
Trade receivables	64,888	44,117
Allowance for expected credit loss	(4,199)	(2,342)
	60,689	**41,775**
Accrued revenue	26,782	19,744
Other receivables	3,643	1,457
	91,114	**62,976**

a) At 30 June, the ageing analysis of trade receivables is as follows:

	Gross Value	
	2022 $'000	2021 $'000
Current	32,684	31,131
30 to 60 days	16,871	6,783
60 to 90 days	4,994	1,551
90 to 120 days	1,932	965
120 days +	8,407	3,687
Closing balance at 30 June	**64,888**	**44,117**

b) Allowance for expected credit loss

The Group applies the simplified approach to measure the expected credit losses, using a provision matrix for all trade receivables and adjusts for any known forward-looking issues specific to the debtors and the economic environment. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision matrix assesses all debtors based on past experience. As at 30 June 2022 current trade receivables for the Group with a nominal value of $4.2m (2021: $2.3m) were impaired.

	2022 $'000	2021 $'000
Movement in allowance for expected credit losses		
Opening balance at 1 July	2,342	1,969
Provision for impairment expensed	2,907	1,476
Receivables written off	(1,050)	(1,103)
Closing balance at 30 June	**4,199**	**2,342**

Amounts charged to the allowance for expected credit loss are generally written off when there is no expectation of recovering additional cash in excess of the cost of recovery.

Note 7: Trade and Other Receivables (continued)

c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 29. All carrying amounts of the Group's trade debtors are denominated in functional currency.

d) Fair value and credit risk

Due to the short-term nature of these receivables, the carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

Note 8: Inventories

	2022 $'000	2021 $'000
Consumable supplies at cost	**20,088**	**13,356**

Note 9: Other Assets

	2022 $'000	2021 $'000
CURRENT		
Prepayments	4,137	4,612
Bonds and securities	1,134	1,049
	5,271	**5,661**

Note 10: Plant and Equipment

2022	Leasehold improvements $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Gross carrying amount	51,727	106,269	3,348	161,344
Accumulated depreciation	(35,294)	(67,905)	–	(103,199)
Total plant and equipment as at 30 June 2022	**16,433**	**38,364**	**3,348**	**58,145**

2021				
Gross carrying amount	44,973	87,762	1,687	134,422
Accumulated depreciation	(31,559)	(60,576)	–	(92,135)
Total plant and equipment as at 30 June 2021	**13,414**	**27,186**	**1,687**	**42,287**

2022	Leasehold improvements $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2021	44,973	87,762	1,687	134,422
Additions	5,579	14,599	1,696	21,874
Additions through business combination	1,031	4,412	1,603	7,046
Disposals	(4)	(2,020)	–	(2,024)
Capitalisation of work in progress	139	1,499	(1,638)	–
Net exchange differences	9	17	–	26
Balance at 30 June 2022	**51,727**	**106,269**	**3,348**	**161,344**
Accumulated depreciation				
Balance at 1 July 2021	(31,559)	(60,576)	–	(92,135)
Disposals	–	1,092	–	1,092
Net exchange differences	(3)	(8)	–	(11)
Depreciation	(3,732)	(8,413)	–	(12,145)
Balance at 30 June 2022	**(35,294)**	**(67,905)**	**–**	**(103,199)**
Carrying amount at 30 June 2022	**16,433**	**38,364**	**3,348**	**58,145**

2021	Leasehold improvements $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Gross carrying amount				
Balance 1 July 2020	42,194	81,197	482	123,873
Additions	2,246	5,793	1,507	9,546
Additions through business combination	1,571	2,429	499	4,499
Disposals	(1,153)	(2,287)	–	(3,440)
Capitalisation of work in progress	135	666	(801)	–
Net exchange differences	(20)	(36)	–	(56)
Balance at 30 June 2021	**44,973**	**87,762**	**1,687**	**134,422**
Accumulated depreciation				
Balance 1 July 2020	(28,845)	(56,438)	–	(85,283)
Disposals	1,045	2,248	–	3,293
Net exchange differences Depreciation	4	11	–	15
Depreciation	(3,763)	(6,397)	–	(10,160)
Balance at 30 June 2021	**(31,559)**	**(60,576)**	**–**	**(92,135)**
Carrying amount at 30 June 2021	**13,414**	**27,186**	**1,687**	**42,287**

Note 11: Right-of-use Assets

	2022 $'000	2021 $'000
Carrying amount of lease assets, by class of underlying asset:		
Buildings under lease arrangements		
At cost*	490,235	340,503
Accumulated depreciation	(238,180)	(144,446)
Total carrying amount of lease assets	**252,055**	**196,057**
Additions to right-of-use assets		
Buildings under lease arrangements*	116,180	113,509

* Right-of-use assets in FY21 have been restated retrospectively due to omitted lease extensions. The previously reported balance was cost $331.1m ($9.4m increase) and carrying amount $186.7m ($9.4m increase) with additions in FY21 $9.4m higher.

Note 12: Intangible Assets

2022	Goodwill $'000	Brand names $'000	Customer lists $'000	Total $'000
Gross carrying amount	158,684	5,600	1,370	165,654
Accumulated amortisation	–	–	(254)	(254)
Total intangibles as at 30 June 2022	**158,684**	**5,600**	**1,116**	**165,400**

2021				
Gross carrying amount	105,983	5,600	1,350	112,933
Accumulated amortisation	–	–	(27)	(27)
Total intangibles as at 30 June 2021	**105,983**	**5,600**	**1,323**	**112,906**

2022	Goodwill $'000	Brand names $'000	Customer lists $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2021	105,983	5,600	1,350	112,933
Additions through business combination	52,701	–	20	52,721
Balance at 30 June 2022	**158,684**	**5,600**	**1,370**	**165,654**
Accumulated amortisation				
Balance at 1 July 2021	–	–	(27)	(27)
Amortisation	–	–	(227)	(227)
Balance at 30 June 2022	**–**	**–**	**(254)**	**(254)**
Carrying amount at 30 June 2022	**158,684**	**5,600**	**1,116**	**165,400**

2021	Goodwill $'000	Brand names $'000	Customer lists $'000	Total $'000
Gross carrying amount				
Balance 1 July 2020	35,748	–	–	35,748
Additions through business combination	70,235	5,600	1,350	77,185
Balance at 30 June 2021	**105,983**	**5,600**	**1,350**	**112,933**
Accumulated amortisation				
Balance 1 July 2020	–	–	–	–
Amortisation	–	–	(27)	(27)
Balance at 30 June 2021	**–**	**–**	**(27)**	**(27)**
Carrying amount at 30 June 2021	**105,983**	**5,600**	**1,323**	**112,906**

On 20 December 2021, the Group acquired Medlab Pathology, refer to Note 24 for full details.

On 18 May 2021, the Group acquired the SunDoctors Group and as a result brand name associated with SunDoctors was recognised along with associated customer lists.

Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill is allocated to a cash generating unit or units (CGU) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. Management have assessed that only one CGU exists, being the Australian pathology business.

The recoverable amount of a CGU is based on value-in-use calculations. These calculations use cash projections based on financial budgets/forecasts approved by management for covering a minimum period of one year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 5.4% (2021: 5.4%) for cash flows in year two to five which is based on historic growth rate and industry trends and a terminal value growth rate of 3.1% (2021: 3.5%) a discount rate of 9.2% (2021: 9.3%) to determine value-in-use.

The carrying value of brand names at 30 June 2022 relates solely to SunDoctors. The recoverable amount of the SunDoctors brand is based on value-in-use calculations via the relief from royalty valuation method. Under this method, the fair value is based on the present value of future foregone royalty payments over the life of the asset by virtue of owning the asset. The present value of future cash flows has been calculated using a royalty rate of 3.0% (2021: 3.0%), an indefinite useful life and a discount rate of 8.7% (2021: 8.7%).

Management have determined that this brand will be used as part of the wider pathology business with synergies from the existing pathology operations and as such, the brand relates solely to the existing one CGU and the recoverable amounts are assessed as part of the recoverable amount of the CGU.

After performing sensitivity analysis, management believes that any reasonably possible change in the key assumptions on which the recoverable amount has been assessed would not cause the carrying amount to exceed the recoverable amount.

Notes to the financial statements
for the year ended 30 June 2022

Note 13: Deferred Tax Assets

Deferred taxes arising from temporary differences and unused tax losses are summarised as follows:

	2022 $'000	2021 $'000
Doubtful debts	1,260	703
Employee benefits	17,103	15,211
Sundry accruals	1,813	1,320
Lease liability	78,219	58,407
Share issue costs	1,615	2,682
Capitalised costs	1,126	1,502
Less: deferred tax liabilities offset against deferred tax assets	(91,715)	(64,200)
	9,421	**15,625**
Deferred tax liabilities offset against deferred tax assets		
Prepayments and sundry debtors	(337)	(197)
Inventories	(6,026)	(4,007)
Accrued revenue	(468)	–
Right-of-use assets	(75,135)	(55,832)
Intangibles	(2,013)	(2,085)
Plant and equipment	(7,652)	(1,966)
Capitalised costs	(84)	(113)
	(91,715)	**(64,200)**

Movement	2022 $'000	2021 $'000
Opening balance at 1 July	15,625	23,164
Amounts recognised in profit or loss	(5,685)	(7,014)
Amounts recognised in business combination	(144)	(2,027)
Amounts recognised directly in equity	(375)	1,502
Closing balance at 30 June	**9,421**	**15,625**

Note 14: Trade and Other Payables

	2022 $'000	2021 $'000
CURRENT		
Trade creditors	26,468	18,572
Sundry creditors and accruals	32,721	23,866
	59,189	**42,438**

Due to the short-term nature of these payables, the carrying values is assumed to approximate their fair value.

Note 15: Lease Liabilities

Lease liabilities	2022 $'000	2021 $'000
Current lease liabilities*	94,767	69,996
Non-current lease liabilities*	167,610	134,344
Total carrying amount of lease liabilities	**262,377**	**204,340**

Cash outflow	2022 $'000	2021 $'000
Total cash outflow in relation to lease liabilities and associated interest	(102,097)	(86,164)

* Lease liabilities in FY21 have been restated retrospectively due to omitted lease extensions. The previously reported balance was current lease liabilities $70.4m ($400k decrease) and non-current lease liabilities $124.5m ($9.8m increase). The restatement has no impact on cash outflows associated with lease liabilities or associated interest.

Lease arrangements

The above information is presented in accordance with AASB 16 *Leases*. Leases relate to properties leased by the Group with lease terms between 1 and 15 years. Leases can contain market review/fixed increments/CPI increment within the lease period and can contain additional clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Note 16: Borrowings

	2022 $'000	2021 $'000
NON-CURRENT		
Unsecured – at amortised cost		
Bank loans	–	99,511

Details of the fair values and interest rate risk exposure relating to each of the unsecured liabilities are set out in Note 29.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

Loan	Currency	Nominal interest rate	Year of maturity	2022 $'000	2021 $'000
Bank loans	AUD	BBSY + 1.5% - 2.4%	2024	–	99,511

Note 17: Provisions

	2022 $'000	2021 $'000
CURRENT		
Employee benefits	46,331	42,770
Other	7,439	5,878
	53,770	**48,648**
NON-CURRENT		
Employee benefits	2,712	2,556

Note 18: Deferred Consideration

	2022 $'000	2021 $'000
CURRENT		
Deferred and contingent consideration	10,235	675

The majority of deferred and contingent consideration ($10.0m) is in relation to the Medlab business acquisition. Refer to Note 24 for full details.

Note 19: Issued Capital

a) Share capital

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Fully paid ordinary shares	201,834,015	201,834,015	797,975	797,975
Other equity securities				
Treasury shares	(1,023,715)	–	(4,944)	–
	200,810,300	**201,834,015**	**793,031**	**797,975**

b) Movements in ordinary share capital

Date 2022	Details	Number of shares	Value of shares $'000
1/07/2021	Opening balance of the Group	201,834,015	797,975
30/06/2022	**Closing balance of the Group**	**201,834,015**	**797,975**

2021			
1/07/2020	Opening balance of the Group	337,909,852	146,505
17/12/2020	Reverse existing capital resulting from restructure	(337,909,852)	(146,505)
6/11/2020	Incorporation of ACL Holdco Pty Ltd	1	–
16/12/2020	ACL Holdco Pty Ltd share issue	100,000	1
17/12/2020	Ordinary shares issued to existing shareholders	584,000,000	584,000
3/02/2021	Shares issued under Management Equity Plan	7,984,946	2,256
22/03/2021	Share consolidation	(489,113,638)	–
26/04/2021	Share split	44,355,737	–
18/05/2021	Shares issued under acquisition of SunDoctors	18,688,342	74,652
18/05/2021	Shares issued via Employee Gift Offer	183,000	732
18/05/2021	Shares issued via Priority Employee Discount Offer	332,058	1,328
18/05/2021	Shares issued under an Institutional Placement	35,303,569	141,215
18/05/2021	Transaction costs associated with issue of new shares	–	(6,209)
30/06/2021	**Closing balance of the Group**	**201,834,015**	**797,975**

c) Ordinary shares

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings of Australian Clinical Labs Limited.

d) Options and performance rights

Details of options and performance rights issued, exercised and forfeited during the financial year and options and performance rights outstanding at the end of the financial year are set out in Note 21.

e) Share restructure

Capital was reversed and reissued to existing shareholders as part of the common control acquisition in the 2021 financial year.

f) Shares issued as part of acquisition of business

Shares were issued in the Company as part of the SunDoctors acquisition in 2021. Refer to Note 24 for full details.

g) Employee gift shares

Eligible employees who elected to receive $1,000 worth of shares in the Company at no cost as part of the IPO.

h) Priority employee discount offer

Eligible employees who elected to acquire shares at a discounted price of 85% of the offer price as part of the IPO.

i) Treasury shares

Treasury shares in Clinical Labs are held by the Australian Clinical Labs Employee Share Trust ('ACLEST'). For further details, please refer to Note 1(q).

Notes to the financial statements
for the year ended 30 June 2022

Note 19: Issued Capital (continued)

Date 2022	Details	Number of shares	Value of shares $'000
1/07/2021	Opening balance of the Group	–	–
9/12/2021	Treasury shares acquired on market	(100,000)	(450)
10/12/2021	Treasury shares acquired on market	(100,000)	(458)
13/12/2021	Treasury shares acquired on market	(100,000)	(474)
14/12/2021	Treasury shares acquired on market	(100,000)	(481)
15/12/2021	Treasury shares acquired on market	(100,000)	(478)
16/12/2021	Treasury shares acquired on market	(100,000)	(491)
17/12/2021	Treasury shares acquired on market	(100,000)	(488)
20/12/2021	Treasury shares acquired on market	(100,000)	(504)
21/12/2021	Treasury shares acquired on market	(100,000)	(543)
22/12/2021	Treasury shares acquired on market	(100,000)	(577)
21/04/2022	Dividend reinvestment plan	(23,715)	–
30/06/2022	**Closing balance of the Group**	**(1,023,715)**	**(4,944)**

Note 20: Reserves and Retained Earnings

2021	Share based payment reserve $'000	Foreign currency translation reserve $'000	Common control reserve $'000	Loss reserve $'000	Total reserves $'000
Opening balance at 1 July 2020	1,374	142	–	(120,288)	**(118,772)**
Exchange differences on translation of foreign operations	–	(36)	–	–	**(36)**
Management share scheme – Legacy Plan	272	–	–	–	**272**
Management share scheme – Legacy Plan (acceleration)	920	–	–	–	**920**
Management share scheme – LTVR	43	–	–	–	**43**
Common control reserve from acquisition	–	–	(645,632)	–	**(645,632)**
Payment of promissory note	–	–	–	(12,500)	**(12,500)**
Reclassification of pre-IPO Management Equity Plan	(2,566)	–	–	–	**(2,566)**
Closing balance at 30 June 2021	**43**	**106**	**(645,632)**	**(132,788)**	**(778,271)**

2022	$'000	$'000	$'000	$'000	$'000
Opening balance at 1 July 2021	43	106	(645,632)	(132,788)	**(778,271)**
Exchange differences on translation of foreign operations	–	6	–	–	**6**
Management share scheme – LTVR	1,458	–	–	–	**1,458**
Closing balance at 30 June 2022	**1,501**	**112**	**(645,632)**	**(132,788)**	**(776,807)**

a) Share based payment reserve

The share based payment reserve reflects the fair value of equity-settled share based payments.

The Group established an equity incentive plan under which management received ordinary shares as part of their incentive arrangements (Legacy Plan). Equity issued under the Legacy Plan is treated as share options for accounting purposes and the expense associated with the current year is booked in the share based payment reserve.

The IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which lead to a one-off expense totalling $920k on the previous financial year.

Given the Legacy Plan has ceased for accounting purposes, the share based payment reserve associated with this reserve has been transferred to retained earnings.

Post IPO the Group established a Long-Term Variable Remuneration (LTVR) Plan commencing 25 May 2021.

Refer to Note 1(t), Note 27 and the Remuneration Report for full details.

b) Foreign currency translation reserve

Exchange differences arising on translation of the foreign subsidiary are taken to the foreign currency translation reserve as described in accounting policy Note 1(d).

c) Common control reserve

On 17 December 2020, a restructure took place that resulted in a newly incorporated company, Australian Clinical Labs Limited (formerly ACL Holdco Pty Ltd) obtaining control over Clinical Laboratories Pty Ltd and its controlled entities. Refer to Note 24(a) for full details.

The financial report is presented on the basis of historical cost however the debt and restructure occurred based on the fair value of the business which has not been reflected in the financial report resulting in the recognition of a common control reserve.

d) Loss reserve

The reserve is comprised of losses up to 30 June 2019 ($120.3m), and a $12.5m payment to Advanced Medical Technology Pty Ltd as a result of the restructure, where the Group recognised and settled a promissory note.

Note 21: Share Based Payments

The Group has equity-settled share based compensation plan for executives and employees. The fair value of equity remuneration granted under the plan is recognised as an expense with a corresponding increase in equity. Please refer to Note 1(t) for further details.

(a) Australian Clinical Labs Limited Rights Plan

Performance rights are granted under the Australian Clinical Labs Limited Rights Plan for no consideration and carry no dividend or voting rights. When exercisable, each performance right is convertible into one ordinary share.

Type 2022	Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Forfeited during the year	Balance at end of year	Exercisable at end of year	Balance at date of this report
Performance rights	25-May-21	24-May-26	Nil	804,532	–	–	804,532	–	804,532
Performance rights	13-Jul-21	12-Jul-26	Nil	–	104,025	(26,573)	77,452	–	77,452
Service rights	20-Nov-21	19-Nov-26	Nil	–	811,641	(18,939)	792,702	–	792,702
Total				**804,532**	**915,666**	**(45,512)**	**1,674,686**	**–**	**1,674,686**

Note 21: Share Based Payments (continued)

Type 2021	Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Forfeited during the year	Balance at end of year	Exercisable at end of year	Balance at date of this report
Performance rights	25-May-21	24-May-26	Nil	–	804,532	–	804,532	–	804,532
Total				**–**	**804,532**	**–**	**804,532**	**–**	**804,532**

Fair value of rights granted

The average assessed fair value of performance rights granted during the year ended 30 June 2022 was $1.927 per right (2021: $1.814). The average assessed fair value of service rights granted during the year ended 30 June 2022 was $4.054 per right (2021: $Nil). The service rights generally have a higher value than the performance rights given that the only condition is a service period and not Group performance. The valuation model inputs for rights granted during the year ended 30 June 2022 and 30 June 2021 included:

Type	Grant date	Expiry date	Exercise price	Share price at time of grant	Expected life (years from date of issue)	Share price volatility	Risk free rate	Dividend yield
Performance rights	25-May-21	24-May-26	Nil	$3.60	3.1	45%	0.15%	2.96%
Performance rights	13-Jul-21	12-Jul-26	Nil	$3.46	3.0	45%	0.21%	3.00%
Service rights	20-Nov-21	19-Nov-26	Nil	$4.34	2.0	31%	1.15%	3.40%

A Monte Carlo simulation was applied to fair value the TSR performance condition element of performance rights granted. The model simulated the Group's TSR and compared it against the peer group over the vesting periods. The service rights are valued using a Black-Scholes model.

(b) Legacy Plan

The Group established an equity incentive plan under which key management personnel received ordinary shares as part of their incentive arrangements (Legacy Plan/MEP). Equity issued under the Legacy Plan will be dealt with as described below to ensure that participants continue to be motivated to achieve sustained growth.

Under the arrangements for the issue of the MEP Shares, if a participant ceases to be employed by the Group, the participant will no longer have an entitlement to unvested MEP Shares.

Of the current MEP Shares, they will be held in escrow and released as follows:

One-third was released after the release of the Group's results for the period to 31 December 2021;

One-third will be released from escrow after the release of the Group's results for the period to 30 June 2022; and

One-third will be released from escrow after the release of the Group's results for the period to 31 December 2022.

The IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which lead to a one-off expense totalling $920k.

No further shares will be issued under the Legacy Plan.

(c) Expenses arising from share based payment transactions

Total expenses arising from equity-settled share based payment transactions recognised during the financial year as part of employee benefit expense were as follows:

	2022 $'000	2021 $'000
Employee gift offer	–	732
Priority employee discount offer	–	199
Share based payment expense	1,458	315
Share based payment expense (accelerated)	–	920
	1,458	**2,166**

In the prior financial year, the IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which lead to a one-off expense totalling $920k.

(d) Employee Share Schemes – Employee Gift Offer (IPO)

The Employee Gift Offer was an offer in conjunction with the IPO and was open to Eligible Employees, being persons who are full or part time employees of the Group, with a start date prior to 31 December 2020 who have a registered address in Australia and are not located in the United States, and who have received an offer from the Company to acquire $1,000 worth of shares in the Company at no cost and have not elected to receive the equivalent cash gift or receive the equivalent amount in cash.

Directors of the Company were not eligible to participate in the Employee Gift Offer

Eligible Employees may not sell, transfer or otherwise dispose of any shares acquired under the Employee Gift Offer for a minimum period of three years, unless the Eligible Gift Employee ceases to be employed by the Group or the dealing is required by law (in which case the shares will be released).

Grant date	No. of employee gift shares issued	Share price at grant date	Exercise price	Share based payment expense recognised
18 May 2021	183,000	$4.00	Nil	$732,000

(e) Employee Share Schemes – Priority Employee Discount Offer (IPO)

The Priority Employee Discount Offer was an offer in conjunction with the IPO and was open to Eligible Priority Employees. Eligible Priority Employees are persons who have a registered address in Australia and are not located in the United States, and are employees of the Group as management or pathologists.

Eligible Priority Employees who have received an offer from the Company to acquire shares at a discounted price of 85% of the Offer Price. The Offer Price for IPO was $4.00.

Eligible Priority Employees may not sell, transfer or otherwise dispose of any shares acquired under the Priority Employee Discount Offer until the release of 30 June 2022 results, unless the Eligible Priority Employee ceases to be employed by the Group or the dealing is required by law (in which case the shares will be released).

Grant date	No. of priority employee discount shares issued	Share price at grant date	Exercise price	Share based payment expense recognised
18 May 2021	332,058	$4.00	$3.40	$199,235

Note 22: Earnings Per Share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share ("EPS") has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares.

	2022 Cents	2021 Cents
Basic earnings per share	88.55	39.69
Diluted earnings per share	88.46	39.69

Earnings	2022 $'000	2021 $'000
The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the consolidated statement of profit or loss and other comprehensive income as follows:		
Profit for the year	178,402	60,389
Net (profit) attributable to non-controlling interests	(158)	(16)
Earnings used in calculating basic and diluted earnings per share	**178,244**	**60,373**

Weighted average number of shares	2022	2021
The weighted average number of shares used in the calculation of basic earnings per share	201,291,659	152,104,480
The weighted average number of shares and potential ordinary shares used in the calculation of diluted earnings per share	201,486,594	152,104,480

The number of ordinary shares in the 2021 financial year were adjusted retrospectively back to 1 July 2019 (see Note 19).

Performance rights under the Australian Clinical Labs Performance Rights Plan are determined to be contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time and therefore are not included in the determination of diluted earnings per share.

Details of the options and rights exercised, forfeited and issued in the period between the reporting date and the date of this report are detailed in Note 21.

Note 23: Dividends

(a) Dividends paid or declared	2022 $'000	2021 $'000
Final dividend for the year-ended 30 June 2020 of 6.21 cents per share paid on 29 September 2020 fully franked. On a retrospective basis, in line with the EPS calculation at Note 22, the dividend would have been 14.45 cents per share.	–	21,000
Pre IPO dividend of 14.25 cents per share paid on 18 May 2021 fully franked. On a retrospective basis, in line with the EPS calculation at Note 22, the dividend would have been 14.25 cents per share.	–	21,000
Interim dividend for the half-year ended 31 December 2021 of 12.00 cents (2021: Nil cents) per share paid on 21 April 2022 fully franked.	24,218	–
	24,218	**42,000**

(b) Dividends declared after the reporting period and not recognised		
Final dividend for the year-ended 30 June 2022 of 41.00 cents per share (2021: Nil cents) has been declared with a record date of 24 August 2022 and payable on 15 September 2022, fully franked.	82,752	–

(b) Franked dividends		
Franking credits available at year end for subsequent financial years based on a tax rate of 30%	69,994	11,687

Note 24: Changes to the Composition of the Group

Business combinations

a) Acquisition of Medlab Pathology

On 20 December 2021, the Group successfully completed the acquisition of Medlab Pathology (Medlab), a leading Australian privately-owned independent pathology provider, with two laboratories and around 300 collection centres across NSW and Queensland.

The details of the business combination are as follows:

	$'000
Fair value of consideration transferred	
Consideration transferred settled in cash	60,000
Deferred consideration	5,000
Contingent consideration	5,000
Free cashflow adjustment	(9,500)
Total	**60,500**
Recognised amounts of identifiable net assets	
Inventories	2,834
Other assets	119
Total current assets	**2,953**
Plant and equipment (Note 10)	7,046
Right-of-use assets	33,552
Total non-current assets	**40,598**
Lease liabilities	11,205
Provisions	1,988
Total current liabilities	**13,193**
Lease liabilities	21,769
Provisions	366
Deferred tax liability	144
Total non-current liabilities	**22,279**
Identifiable net assets	**8,079**
Goodwill on acquisition (Note 12)	**52,421**

Consideration transferred

The acquisition of Medlab is to be settled in cash totalling $60.5m.

Acquisition-related costs are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss.

Contingent consideration

Contingent consideration of $5.0m is payable if certain revenue targets are met for FY22. The full value of this contingent consideration has been recognised on acquisition as the targets are deemed probable of being achieved.

b) Acquisition of SunDoctors (prior year)

On 18 May 2021 in conjunction with the IPO, the Group acquired 100% of the issued share capital in Southern Sun Clinics Pty Ltd (SunDoctors).

The details of the business combination are as follows:

	2021 $'000
Fair value of consideration transferred	
Amount settled in cash	90
Shares issued in Australian Clinical Labs Limited	74,651
Total	**74,741**
Recognised amounts of identifiable net assets	
Cash and cash equivalents	2,358
Trade and other receivables	2,426
Inventories	597
Other assets	967
Total current assets	**6,348**
Plant and equipment (Note 10)	4,499
Right-of-use assets	4,942
Total non-current assets	**9,441**
Trade and other payables	4,701
Lease liabilities	1,807
Provisions	1,118
Current tax liabilities	26
Borrowings	4,661
Deferred consideration (CL)	664
Total current liabilities	**12,977**
Lease liabilities	3,229
Deferred tax liabilities	496
Total non-current liabilities	**3,725**
Identifiable net assets	**(913)**
Goodwill on acquisition (Note 12)	**70,235**
Brand value on acquisition (Note 12)	**5,600**
Customer lists on acquisition (Note 12)	**1,350**
Deferred tax on acquisition	**(1,531)**
Consideration transferred settled in cash	(90)
Cash and cash equivalents acquired	2,358
Net cash inflow on acquisition	**2,268**

Note 24: Changes to the Composition of the Group (continued)

Consideration transferred

The acquisition of SunDoctors was settled in cash of $90k and shares issued in the Company amounting to $74.7m.

Acquisition-related costs are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of other expenses in the prior financial year.

Identifiable net assets

The fair value of the trade and other receivables acquired as part of the business combination amounted to $2.4m, with a gross contractual amount of $2.4m. As of acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected is $nil.

c) Geneseq Pty Ltd

On 18 May 2021, the Group disposed of all shares in Geneseq Pty Ltd ("Geneseq"), an entity that the Group was deemed to have significant influence over, at cost price.

On 6 June 2022, the Group paid for convertible notes in Geneseq.

Note 25: Controlled Entities

The financial report includes the financial statements of Australian Clinical Labs Limited and its controlled entities as listed below:

	Country of incorporation	Percentage owned (%) 2022	Percentage owned (%) 2021
Parent Entity:			
Australian Clinical Labs Limited	Australia		
Subsidiaries of Australian Clinical Labs Limited:			
ACL MidCo Pty Ltd	Australia	100	100
ACL Finco Pty Ltd	Australia	100	100
Clinical Laboratories Pty Ltd	Australia	100	100
Clinical Laboratories (WA) Pty Ltd	Australia	100	100
Perth Medical Laboratories Pty Ltd	Australia	100	100
ACL Employee Share Trusco Pty Ltd	Australia	100	–
Malvern Pathology Laboratories Sdn Bhd.	Malaysia	100	100
Southern Sun Clinics Pty Ltd	Australia	100	100
SunDoctors Kalowen Pty Ltd	Australia	85	85
Southern Sun Practices Pty Ltd	Australia	100	100
SunDoctors Taree Pty Ltd	Australia	100	100
SunDoctors Coffs Harbour (Southern Cross) Pty Ltd	Australia	100	100
SunDoctors Pottsville Pty Ltd	Australia	100	100
SunDoctors Byron Bay Pty Ltd	Australia	100	100
SunDoctors Burleigh Heads Pty Ltd	Australia	100	100
SunDoctors Novocastrian Pty Ltd	Australia	100	100
Dermapath AI Pty Ltd	Australia	100	100
Southern Sun Pathology (Helix) Pty Ltd	Australia	100	100
Southern Sun Healthcare Pty Ltd	Australia	100	100
SunDoctors Nelson Bay Pty Ltd (formerly known as SunDoctors Joondalup Pty Ltd)	Australia	100	100
WSCC Healthcare Pty Ltd	Australia	50	50
Orange Skin Cancer Clinic Pty Ltd	Australia	100	100
Ryde Skin Cancer Clinic Pty Ltd	Australia	100	100
Bolton Street Cancer Clinic Pty Ltd	Australia	100	100
Gosford SCC Pty Ltd	Australia	100	100
Southern Sun Pathology Pty Ltd	Australia	100	100
Skin Cancer Clinic Parramatta Pty Ltd	Australia	100	100
Aussie Skin Cancer Clinics Pty Ltd	Australia	100	100
Wollongong SCC Pty Ltd	Australia	100	100

Malvern Pathology Laboratories Sdn Bhd. recharges its costs plus a mark-up to Clinical Laboratories Pty Ltd which is eliminated upon consolidation.

Note 26: Interests in Associates and Joint Arrangements

At the end of the 2020 financial year, the Group had a 20% ownership interest in Geneseq Pty Ltd. The interest was immaterial to the Group. The Group's interest in Geneseq was sold on 18 May 2021. Please refer to Note 24(c) for more details.

The Group paid for convertible notes in Geneseq on 6 June 2022. Please refer to Note 24(c) for more details.

Note 27: Related Parties

a) Parent entities and subsidiaries

Australian Clinical Labs Limited is the ultimate Parent Company in the Group comprising the Company and its subsidiaries as detailed in Note 25.

b) Key management personnel compensation

Details of remuneration of key management personnel and transactions with them have been disclosed in the Remuneration Report within the Directors' Report. The aggregate remuneration of the key management personnel is shown below:

	2022 $'000	2021 $'000
Short-term employee benefits:	3,508	3,159
Long-term employee benefits	18	51
Post-employment benefits	107	58
Share based payments	195	159
Share based payments (accelerated)	–	469
	3,828	**3,896**

The IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which lead to a one-off expense totalling $920k of which $469k was in relation to key management personnel. Refer to Note 21 for full details.

Note 28: Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	2022 $'000	2021 $'000
Cash and cash equivalents – at amortised cost	26,372	35,233

(b) Reconciliation of net profit for the year to net cash flows from operating activities

	2022 $'000	2021 $'000
Profit for the year before taxation	254,900	86,653
Non-cash flows in operating profit		
Depreciation	106,096	88,052
Loss on sale of assets	668	(26)
Share based payments expense	1,458	2,166
Accrued interest expense on borrowings	97	(16,672)
Capitalised borrowing costs	260	(749)
	363,479	**159,424**
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(28,119)	2,749
(Increase)/decrease in other assets	509	(1,251)
Increase in inventories	(3,898)	(2,261)
Increase in trade and other payables	16,487	5,175
Increase in provisions	2,915	8,592
Increase in other liabilities	1,587	–
Income tax paid	(68,873)	(18,564)
Net cash provided by operating activities	**284,087**	**153,864**

(c) Non-cash financing and investing activities

The following non-cash financing and investing activities occurred during the year and are not reflected in the statement of cash flows:

- Acquisition of right-of-use assets (Note 11)
- Options and rights issued to employees for no cash consideration (Note 21)

(d) Bank facilities and guarantees

At 30 June 2022, the Group had a bank overdraft available of $6.3m which had not been utilised at year end (2021: $6.5m, nil utilised).

Financial guarantees also existed in relation to rental properties. The Group has utilised $5.9m (2021: $5.1m) of its $7.0m (2021: $7.0m) facility with the Commonwealth Bank at 30 June 2022.

In order to enhance the Group's liquidity, the Group also has available the following unsecured debt facilities:

- $13.5m funded jointly with Commonwealth Bank and HSBC, which includes the bank overdraft and facility in relation to the financial guarantees above, $5.9m utilised (2021: $5.1m utilised, $13.5m limit).
- $100.0m funded jointly by Commonwealth Bank and HSBC which is unutilised as at 30 June 2022 (2021: $100.0m, fully utilised).

Note 29: Financial Risk Management

The Group's activities expose it to a variety of financial risks which includes market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's risk management is coordinated at its head office, in close cooperation with the board of directors, and focuses actively in ensuring the Group's short to medium-term cash flows by minimising potential adverse effects on the financial performance of the Group.

The Group's financial instruments consist mainly of deposit with banks, debt facilities, trade receivables and trade payables. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The below is an outline of key financial risks and the Group management's strategies for managing them.

Risk	Description	Strategy for management
Capital management risk	The Group manages its capital with the aim to ensure the Group's ability to continue to operate as a going concern so that it can continue to provide returns to its shareholders.	The Group proactively manages its capital structure and may issue new shares, or enter into rights issues or vary the amount of dividends paid to shareholders.
	The Group aims to optimise its debt and equity balance to reduce the cost of capital.	The capital structure of the Group is mainly monitored on the basis of the following ratios, which are also covenants under the Group's debt facilities: • Leverage Ratio. The Group's leverage ratio as at 30 June 2022 is -0.09, which is well under the upper threshold of 3.50. • Fixed Charge Cover Ratio. The Group's fixed charge ratio as at 30 June 2022 is approximately 15.57, which is well over the bottom threshold of 1.50.
Market risk		
Interest rate risk	The Group's exposure to market risk from changes interest rates relates primarily to its short-term cash investments and bank borrowings at variable interest rates.	The Group may enter into interest rate swap contracts to hedge against exposure to fluctuations in interest rates. The Group did not enter into any interest rate swaps in the current year.
Foreign exchange risk	The Group has minimum foreign currency risk from the following: • Translation of the net assets of the Group's foreign controlled entity, which operates using a different functional currency. • The Group has limited number of transactions that are required to be settled in foreign currencies.	The Group may enter into cash flow hedges for committed, large and known expenditure denominated in foreign currency to manage its foreign exchange risk.
Price risk	The Group does not have significant exposure to fluctuations in the fair values or future cash flows of financial instruments associated with changes in market prices.	The Group does not currently invest in equity securities or other financial instruments with market prices risk.

Risk	Description	Strategy for management
Credit risk	The exposure to credit risk at the balance date is the carrying amount of those assets, net any of provisions for impairment as disclosed in Note 7 of the financial report. The Group does not have any material exposure to any individual customers or counterparty other than certain government or statutory funded bodies which the Group operates.	The Group manages credit risk by performing ageing analysis on receivable balances on an ongoing basis. The Group also has a rigorous process in place to minimise bad debts which involve sending out reminder notices, demand for repayments and referral to debt collection agencies. The Group has not renegotiated any material collection/repayment terms of any financial assets in the current of previous financial year.
Liquidity risk	The Group is required to maintain a high level of liquidity to ensure that it is capable of meeting its obligations associated with its financial liabilities and to fund its long-term strategic initiatives and expansion plans.	The Group manages its liquidity risk by: • The Group has adequate debt facilities in place should they be required to refinance any short term liabilities. • Ongoing cash flow forecasting and reporting.

a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out in the below table. Exposure predominantly arises from the Group's borrowings at floating interest plus a fixed margin.

			Fixed interest rate			
2022	**Average interest rate %**	**Variable interest rate $'000**	**Less than 1 year $'000**	**1 to 5 years $'000**	**More than 5 years $'000**	**Total $'000**
Financial assets						
Cash	0.17%	26,372	–	–	–	26,372
Financial liabilities						
Bank loans	BBSY + 1.5% - 2.40%	–	–	–	–	–
Lease liabilities	2.05% - 7.00%	–	(94,767)	(154,374)	(13,236)	(262,377)
Total		**26,372**	**(94,767)**	**(154,374)**	**(13,236)**	**(236,005)**

			Fixed interest rate			
2021	**Average interest rate %**	**Variable interest rate $'000**	**Less than 1 year $'000**	**1 to 5 years $'000**	**More than 5 years $'000**	**Total $'000**
Financial assets						
Cash	0.15%	35,233	–	–	–	35,233
Financial liabilities						
Bank loans	BBSY + 1.5% - 2.40%	(99,511)	–	–	–	(99,511)
Lease liabilities*	2.05% - 7.00%	–	(69,996)	(119,862)	(14,482)	(204,340)
Total		**(64,278)**	**(69,996)**	**(119,862)**	**(14,482)**	**(268,618)**

* ACL has revised the previous year financial statements. Refer to notes 11 and 15 for further details.

Note 29: Financial Risk Management (continued)

b) Sensitivity Analysis

The following table summarises the sensitivity of the Group's financial asset and liabilities to interest rate risk. The analysis has been determined based on the Group's exposure to variable interest rates during the financial year projecting a reasonably possible change taking place at the beginning of the financial year, held constant throughout the financial year and applied to variable interest payments made throughout the financial year.

		Result		Equity	
2022	Carrying amount $'000	1.0%/100BP increase $'000	1.0%/100BP decrease $'000	1.0%/100BP increase $'000	1.0%/100BP decrease $'000
Financial assets					
Cash	26,372	264	(264)	264	(264)
Financial liabilities					
Bank loans	–	–	–	–	–
Total	**26,372**	**264**	**(264)**	**264**	**(264)**

		Result		Equity	
2021	Carrying amount $'000	0.5%/50BP increase $'000	0.5%/50BP decrease $'000	0.5%/50BP increase $'000	0.5%/50BP decrease $'000
Financial assets					
Cash	35,233	176	(176)	176	(176)
Financial liabilities					
Bank loans	(99,511)	(498)	498	(498)	498
Total	**(64,278)**	**(322)**	**322**	**(322)**	**322**

Note 30: Parent Entity Information

	2022 $'000	2021 $'000
Assets		
Current assets	230,613	226,984
Non-current assets	585,468	586,579
Total assets	**816,081**	**813,563**
Liabilities		
Current liabilities	148	865
Non-current liabilities	–	–
Total liabilities	**148**	**865**
Equity		
Issued capital	797,975	797,975
Reserves	1,501	43
Retained earnings	16,457	14,680
Total equity	**815,933**	**812,698**

	2022 $'000	2021 $'000
Financial performance		
Loss for the year	(1,505)	(9,353)
Total comprehensive income	**(1,505)**	**(9,353)**

Note 31: Auditors' Remuneration

	2022 $'000	2021 $'000
Auditor of Australian Clinical Labs Limited – Audit Services		
Audit of the financial report for the financial year	243	195
Review of the financial report for the half year	69	85
Total audit and other assurance services	**312**	**280**

Note 32: Contingent Asset

During the year one of our laboratories based in Queensland was flooded with extensive damage caused to the laboratory equipment and consumables on hand.

An insurance claim process is underway, however at 30 June 2022 the insurance claim had not been verified in its entirety and as such a receivable for the entire claim has not been recorded at 30 June 2022. The Group was able to get the insurers to agree to some specific items and as such, there was insurance income recorded for $1.6m in the statement of profit and loss. This was also in line with the value of assets and consumables written off during the year and as such there is no impact on the net profit after tax as a result of the insurance event.

The Group has a contingent asset for the remaining balance of the claim that has yet to be quantified and verified by the insurers, which has not been recognised in the financial statements.

Note 33: Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the relevant holding entity and each of the relevant subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that each holding entity guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries in each Group under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, each holding entity will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that each holding entity is wound up.

The parent entity and subsidiaries subject to the Deed of Cross Guarantee as at 30 June 2022 are as follows:

- Australian Clinical Labs Limited
- ACL MidCo Pty Ltd
- ACL FinCo Pty Ltd
- Clinical Laboratories Pty Ltd
- Clinical Laboratories (WA) Pty Ltd
- Southern Sun Clinics Pty Ltd
- Southern Sun Pathology Pty Ltd
- Southern Sun Healthcare Pty Ltd
- Southern Sun Pathology (Helix) Pty Ltd

These entities above represent a 'Closed Group' for the purposes of the Instrument.

Notes to the financial statements
for the year ended 30 June 2022

Note 33: Deed of Cross Guarantee (continued)

a) Consolidated statement of profit or loss of the Closed Group

	2022 $'000	2021 $'000
Revenue	985,212	641,616
Other income	1,561	(2,034)
Total	**986,773**	**639,582**
Consumables	(207,143)	(119,547)
Labour costs	(307,527)	(245,957)
Property costs	(17,096)	(14,015)
Repairs and maintenance	(7,972)	(6,859)
IPO transaction costs	–	(17,420)
Acquisition related expenses	(7,379)	–
Insurance write-off and associated costs	(1,561)	–
Other operating expenses	(67,462)	(40,008)
Depreciation	(10,888)	(9,720)
Depreciation of right-of-use assets	(93,724)	(77,865)
Amortisation of acquired intangible assets	196	7
Total operating costs	**(720,556)**	**(531,384)**
Earnings before interest and tax	**266,217**	**108,198**
Net finance costs	(11,635)	(21,848)
Profit before income tax	**254,582**	**86,350**
Income tax expense	(76,519)	(26,176)
Profit for the year	**178,063**	**60,174**
Net (profit) attributable to non-controlling interests	(158)	(16)
Net profit attributable to members of the Closed Group	**177,905**	**60,158**

b) Consolidated statement of other comprehensive income of the Closed Group

	2022 $'000	2021 $'000
Profit for the year	**178,063**	**60,174**
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	–	–
Other comprehensive income for the year, net of tax	**–**	**–**
Total comprehensive income for the year	**178,063**	**60,174**
Total comprehensive income attributable to:		
Members of the Closed Group	177,905	60,158
Non-controlling interests	158	16
	178,063	**60,174**

c) Reconciliation of retained earnings of the Closed Group

	2022 $'000	2021 $'000
Retained earnings at the beginning of the financial year	61,823	41,099
Profit from ordinary activities after income tax expense	177,906	60,158
Dividends paid during the year	(24,218)	(42,000)
Reclassification of pre IPO Management Equity Plan	–	2,566
Retained earnings at the end of the financial year	**215,511**	**61,823**

d) Consolidated Statement of Financial Position of the Closed Group

	2022 $'000	2021 $'000
CURRENT ASSETS		
Cash and cash equivalents	25,098	34,565
Trade and other receivables	90,834	62,864
Inventories	19,980	13,249
Other assets	12,516	7,159
TOTAL CURRENT ASSETS	**148,428**	**117,837**
NON-CURRENT ASSETS		
Plant and equipment	56,940	40,784
Right-of-use assets*	250,308	193,758
Intangible assets	163,739	111,371
Other assets	150	–
Deferred tax assets	9,803	16,145
TOTAL NON-CURRENT ASSETS	**480,940**	**362,058**
TOTAL ASSETS	**629,368**	**479,895**
CURRENT LIABILITIES		
Trade and other payables	58,934	42,072
Lease liabilities*	93,964	69,170
Provisions	53,593	48,441
Current tax liabilities	5,659	4,003
Deferred consideration	10,000	200
Other liabilities	1,587	–
TOTAL CURRENT LIABILITIES	**223,737**	**163,886**

* ACL has revised the previous year financial statements. Refer to notes 11 and 15 for further details.

Notes to the financial statements
for the year ended 30 June 2022

Note 33: Deed of Cross Guarantee (continued)

	2022 $'000	2021 $'000
NON-CURRENT LIABILITIES		
Lease liabilities*	**166,571**	132,838
Borrowings	**–**	99,511
Provisions	**2,712**	2,556
TOTAL NON-CURRENT LIABILITIES	**169,283**	**234,905**
TOTAL LIABILITIES	**393,020**	**398,791**
NET ASSETS	**236,348**	**81,104**
EQUITY		
Issued capital	**797,975**	797,975
Reserves	**(777,251)**	(778,710)
Retained earnings	**215,511**	61,823
Total Closed Group interest	**236,235**	**81,088**
Non-controlling Interest	**113**	16
TOTAL EQUITY	**236,348**	**81,104**

* ACL has revised the previous year financial statements. Refer to notes 11 and 15 for further details.

Note 34: Subsequent Events

There were no other significant changes in the Group's state of affairs that occurred following the end of the financial year and up to the date of the financial report, other than those referred to elsewhere in this report.

Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 37 to 82 are in accordance with the *Corporations Act* 2001, including:

(i) complying with Accounting Standards, the *Corporations Regulations* 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

c) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 33.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required under section 295A of the *Corporations Act* 2001.

This declaration is made in accordance with a resolution of the Directors.

Melinda McGrath

Michael Alscher
Chair
9 August 2022

Melinda McGrath
CEO and Executive Director
9 August 2022

Independent Auditor's Report

AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Clinical Labs Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
Carrying value of Goodwill Refer to Note 1(l) and Note 12	
At 30 June 2022 the Group's balance sheet includes goodwill relating to one cash generating unit ("CGU"). We believe due to the significance of the goodwill balance, that the carrying value is a key audit matter.	Our procedures included, amongst others: • Assessing management's determination of the Group's CGU based on our understanding of the nature of the Group's business and the economic environment in which it operates.

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AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED

Specifically, the key audit matter for us was whether the Group's value in use model for impairment included appropriate consideration and support for significant estimates and judgements and the selection of key external and internal inputs.	• Understanding and evaluating the design and implementation of management's process and controls regarding valuation of the Group's goodwill assets to determine any asset impairment including the procedures around the preparation and review of forecasts.
Management's assessment of impairment of the Group's goodwill balances incorporated significant estimates and judgements in respect of factors such as forecast: • revenues; • expenses; • capital expenditure; and • economic assumptions in the cash flow model such as, discount rates, growth rates and terminal growth rate.	• Evaluating the Group's significant estimates and judgements used to determine the recoverable value of its assets, including those relating to forecast revenue, expenses, capital expenditure, and other economic assumptions. • Engaging an auditor's expert to evaluate the key economic assumptions to external market data. • Recalculating the mathematical accuracy of the cash flow model. • Assessing the historical accuracy of forecasting of the Group. • Performing sensitivity analysis in relation to the significant estimates and judgements made by management. • Assessing the adequacy of disclosure in the financial statements.
Business combination of Medlabs Refer to Note 1(c) and Note 24	
On 20 December 2021 the Group acquired Medlabs pathology business for gross purchase consideration of $60.5 million. Accounting for this transaction is a complex and judgemental exercise, requiring management to assess the fair value of acquired assets and liabilities, in particular assessing the allocation of purchase consideration to goodwill and any separately identifiable intangible assets such as customer contracts and relationships. It is due to the size of the acquisition and the estimation process involved in accounting for it that this is a key area of audit focus.	Our procedures included, amongst others: • We read the sale and purchase agreement to understand key terms and conditions; • Evaluated the Group's purchase price allocation based on managements assumptions and estimates. • Recalculating the Group's purchase price allocation using observable inputs. • Performed substantive audit procedures on material acquired balances. • Assessing the adequacy of disclosure in the financial statements.

Independent Auditor's Report

AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128

INDEPENDENT AUDITOR'S REPORT
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AUSTRALIAN CLINICAL LABS LIMITED

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
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AUSTRALIAN CLINICAL LABS LIMITED

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 35 of the directors' report for the year ended 30 June 2022. In our opinion, the Remuneration Report of Australian Clinical Labs Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

S D WHITCHURCH
Partner

PITCHER PARTNERS
Melbourne

9 August 2022

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