

NSX - Preliminary Final Report

Name of entity:	IQNOVATE LTD
ACN:	149 731 644
Reporting Period:	Twelve months ending 30 June 2019
Previous Corresponding Period:	Twelve months ending 30 June 2018

Results for announcement to the market

	Movement	Percentage change	2019
Revenue and net profit			
Revenue from ordinary activities	Up	172%	12,866,606
Profit/(Loss) from ordinary activities after tax	Up	5%	(14,095,144)
Profit/(Loss) from ordinary activities after tax attributable to owners	Up	12%	(11,569,935)

	Dividend	Amount per security	Franked amount per security
Dividends			
Final dividend in respect of the twelve months ending 30 June 2019:	NIL	NIL	NIL

	2019	2018
Net tangible assets per security		
Net tangible assets per security (cents per security)	(6.29)	(4.54)

Commentary on results

Commentary for the preliminary final report for the twelve months ending 30 June 2019 is contained in the National Securities Exchange (NSX) release and on page 3 of this announcement.

Additional information

This report is based on unaudited financial statements which are currently in the process of being audited.

Additional Preliminary Final Report requirements can be found on pages 3 to 37 of this announcement.

CORPORATE DIRECTORY

ACN 149 731 644

Directors

Dr George Syrmalis, *Chair and Group Chief Executive Officer*

Con Tsigounis

Peter Buchanan Simpson

Company secretary

Gerardo Incollingo

Chief Executive Officer

Dr George Syrmalis

Registered office

Level 9, 85 Castlereagh Street

Sydney NSW 2000

Principal place of business

Level 9, 85 Castlereagh Street

Sydney NSW 2000

Share register

Boardroom Pty Limited

Level 12, 225 George Street

Sydney NSW 2000

Auditor

BDO East Coast Partnership

Level 11, 1 Margaret Street

Sydney NSW 2000

Stock exchange listings

iQNovate Ltd shares are listed on the National Securities Exchange (NSX:IQN).

Website address

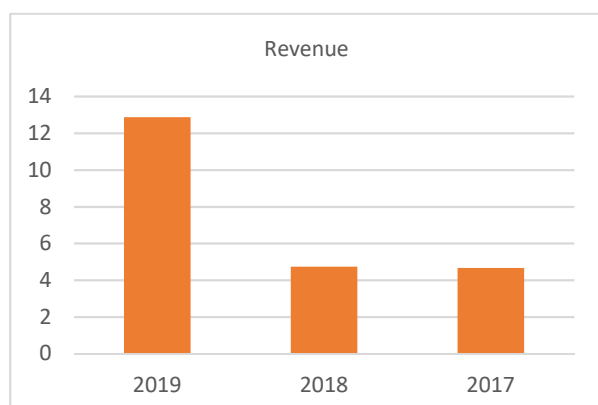
www.iqnovate.com

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review ("OFR") is provided to assist shareholders' understanding of the performance of iQnovate Ltd ("iQN" or the "Company") and its subsidiaries (collectively referred to as the "Group") and the factors underlying the Group's results and financial position for the period 1 July 2018 to 30 June 2019.

SUMMARY OF FINANCIAL RESULTS

- Revenue increased 172% to \$12.9m as a result of increased market share and revenue within the contract sales business unit (FarmaForce);
- Increase in loss after tax to \$14.9m;
- Additional expenditure on development, regulatory approval preparation, patents and staff to develop portfolio of projects.



About iQnovate Ltd

iQnovate Ltd is a scientifically driven life science asset management organisation. It has exceptional organic research and development capability. This enables iQnovate Ltd to conceptualise, source, validate and commercialise biotechnology assets that have extraordinary and potentially disruptive outcomes, thus advancing human health.
iqnovate.com

About FarmaForce

FarmaForce is a specialist Contract Sales Organisation offering innovative sales solutions to the Australian pharmaceutical industry, through the provision of a broad and unique range of sales force solutions.

FarmaForce provides a bespoke results-based solution to every client and is the only pharmaceutical CSO to be nominated as "best sales team".

farmaforce.com.au

About Clinical Research Corporation (CRC)

CRC provides contract medical affairs services to the pharmaceutical industry throughout the drug lifecycle.
crcaustralia.com

About The iQ Group Global

The iQ Group Global provides a turnkey solution for life sciences companies, spanning corporate advisory and investment banking, through to research, development, commercialisation and sales.

The Group facilitates an end to end solution along the drug lifecycle creating the medicines of tomorrow.
theigrouppglobal.com

IQNOVATE LTD AND CONROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2019

<i>In dollars</i>	<i>Note</i>	2019	2018
Revenue	6	12,866,606	4,729,026
Cost of sales		(9,116,142)	(4,723,175)
Gross profit		3,750,464	5,851
Other income	7(a)	316,512	1,812
Expenses			
Employee benefits expense	7(c)	(6,438,792)	(4,958,564)
Depreciation and amortisation expense		(103,180)	(136,122)
Overhead sharing costs		(1,655,081)	(1,738,834)
Other expenses	7(d)	(7,560,208)	(7,886,879)
Finance costs	7(b)	(1,073,273)	(268,037)
Share option expense		-	(176,250)
Share of loss of associated companies net of tax		(98,222)	(101,827)
Loss before income tax		(12,861,780)	(15,258,850)
Income tax benefit/(expense)		(1,233,364)	412,604
Loss for the period		(14,095,144)	(14,846,246)
Loss attributable to members of the parent		(11,569,935)	(13,174,652)
Loss attributable to non-controlling interest		(2,525,209)	(1,671,594)
Total loss attributed		(14,095,144)	(14,846,246)
Basic loss per share (cents per share)	18	(7.15)	(9.89)
Diluted loss per share (cents per share)	18	(7.15)	(9.89)

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

IQNOVATE LTD AND CONROLLED ENTITIES
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

<i>In dollars</i>	2019	2018
Net loss for the period	(14,095,144)	(14,846,246)
Other comprehensive income		
Exchange differences on translation of foreign operations, net of tax	(843,612)	-
Other comprehensive loss for the period, net of tax	(843,612)	-
Total comprehensive loss for the period	(14,938,756)	(14,846,246)
Comprehensive loss attributable to members of the parent	(12,426,132)	(13,174,652)
Comprehensive loss attributable to non-controlling interest	(2,512,624)	(1,671,594)
Total comprehensive loss attributed	(14,938,756)	(14,846,246)

The above consolidated statement of comprehensive income, should be read in conjunction with the accompanying notes to the consolidated financial statements.

IQNOVATE LTD AND CONROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2019

<i>In dollars</i>	<i>Note</i>	2019	2018
Assets			
Current assets			
Cash	8	503,603	1,422,636
Trade and other receivables	9	4,638,240	1,076,927
Prepayments		174,406	530,797
Current tax receivable		-	412,604
Total current assets		5,316,249	3,442,964
Non-current assets			
Property, plant and equipment	10	283,217	210,958
Intangible assets	11	3,984,364	4,451,068
Other receivables	9	101,582	-
Investment in associate	20	440,697	456,119
Deferred tax assets		-	1,233,364
Total non-current assets		4,809,860	6,351,509
Total Assets		10,126,109	9,794,473
Liabilities			
Current liabilities			
Trade and other payables	12	7,066,597	3,806,121
Employee benefit liabilities	13	1,009,146	910,954
Deferred revenue		382,826	292,124
Borrowings	14	5,603,440	5,670,097
Derivative financial instruments	15	1,238,349	1,238,349
Deferred tax liability		35,718	35,718
Total current liabilities		15,336,076	11,953,363
Non-current liabilities			
Employee benefit liabilities	13	108,734	83,533
Borrowings	14	876,418	-
Total non-current liabilities		985,152	83,533
Total liabilities		16,321,228	12,036,896
Net Asset/(liabilities)		(6,195,119)	(2,242,423)
Equity			
Contributed equity		38,068,207	25,275,757
Reserves	17	232,937	7,020,175
Accumulated losses		(46,658,075)	(35,309,143)
Total equity attributable to holders of the company		(8,356,931)	(3,013,210)
Total equity attributable to non-controlling interests		2,161,812	(770,787)
Total equity		(6,195,119)	(2,242,423)

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

IQNOVATE LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

<i>In dollars</i>	Contributed equity	Accumulated losses	Reserves	Non-controlling interest	Total
Balance at 1 July 2018	25,275,757	(35,309,142)	7,020,175	770,787	(2,242,423)
Adjustments to correct classifications in opening balances (Refer to Note 3)	6,111,069	-	(6,013,000)	(98,069)	-
Adoption of AASB 15 (1 July 2018)	-	221,000	-	-	221,000
Balance at 1 July 2018 (Restated)	31,386,827	(35,088,143)	1,007,175	672,718	(2,021,423)
Total comprehensive loss for the period					
Loss for the period	-	(11,569,935)	-	(2,525,209)	(14,095,144)
Other comprehensive profit for the period	-	-	(856,196)	12,584	(843,612)
Total comprehensive loss for the period	-	(11,569,935)	(856,196)	(2,512,625)	(14,938,756)
Transactions with owners recorded directly in equity					
Issued new equity	6,949,009	-	-	4,257,578	11,206,587
Capital raising costs	(267,630)	-	-	(255,860)	(523,490)
Cost of share based payments	-	-	81,959	-	81,959
Total transactions with owners recorded directly in equity	6,681,380	-	81,959	4,001,718	10,765,057
Balance at 30 June 2019	38,068,207	(46,658,075)	232,937	2,161,812	(6,195,119)
Balance at 1 July 2017	11,491,837	(22,134,491)	1,778,410	126,029	(8,738,215)
Total comprehensive loss for the period					
Loss for the period	-	(13,174,652)	-	(1,671,594)	(14,846,246)
Other comprehensive profit for the period	-	-	-	-	-
Total comprehensive loss for the period	-	(13,174,652)	-	(1,671,594)	(14,846,246)
Transaction with owners recorded directly in equity					
Issued new equity	861,251	-	-	-	861,251
Convertible notes issued/reconfigured during the period	10,152,414	-	-	-	10,152,414
Foreign transaction exchange differences	2,770,256	-	5,904,490	2,316,352	10,991,098
Capital raising costs	-	-	(663,725)	-	(662,725)
Total transactions with owners recorded directly in equity	13,783,921	-	5,240,765	2,316,352	21,342,038
Balance at 30 June 2018	25,275,757	(35,309,142)	7,020,175	770,787	(2,242,423)

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

IQNOVATE LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2019

<i>In dollars</i>	<i>Note</i>	2019	2018
Cash flows from operating activities			
Receipts from customers		11,095,260	4,945,045
Payments to suppliers and employees		(22,078,239)	(19,328,546)
Interest received		549	1,363
Interest paid		44,535	-
Net cash used in operating activities	23	(10,937,895)	(14,382,138)
Cash flows from investing activities			
Purchase of property, plant and equipment		(140,598)	(24,330)
Investment in associates		(82,800)	(73,200)
Bond issued to related party		876,418	-
Purchase of intangible assets		-	(228,089)
Net cash generated from/(used) in investing activities		653,020	(325,619)
Cash flows from financing activities			
Proceeds from contributed equity		9,270,351	11,439,490
Proceeds from the issue of convertible notes		619,030	5,054,690
Capital raising costs		(523,490)	(662,725)
Net cash generated from financing activities		9,365,891	15,831,455
Net decrease in cash and cash equivalents		(918,984)	1,123,699
Cash and cash equivalents at the beginning of the period		1,422,636	298,937
Effect of movements in exchange rates on cash held		(48)	-
Cash and cash equivalents at the end of the period	8	503,603	1,422,636

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

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. REPORTING ENTITY

iQNovate Ltd (“iQN” or the “Company”) is a for-profit company limited by shares which is incorporated and domiciled in Australia. These consolidated financial statements (“financial statements”) as at and for the year ended 30 June 2019 comprise of the Company and its subsidiaries (collectively referred to as the “Group”).

2. STATEMENT OF COMPLIANCE

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs”) adopted by the Australian Accounting Standards Board (“AASB”) and the *Corporations Act 2001*. The financial statements comply with international financial Reporting Standard (“IFRSs”) adopted by the International Accounting Standards Board (“IASB”)

3. SIGNIFICANT ACCOUNTING POLICIES

This section sets out the significant accounting policies upon which the financial statements are prepared as a whole. Specific accounting policies are described in their respective notes to the financial statements. This section also shows information on new accounting standards, amendments and interpretations, and whether they are effective in the current or later years.

Basis of preparation

These financial statements are presented in Australian dollars, which is the Company’s functional currency.

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 and in accordance with that instrument, all financial information presented in Australian dollars has been rounded to the nearest dollar unless otherwise stated.

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

The accounting policies have been consistently applied to all periods presented in these financial statements, unless otherwise stated.

Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any income and expenses arising from intra-group transactions, are eliminated.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars (AUD) at the exchange rate at the reporting date. The income and expenses of foreign operations are translated into AUD at the average exchange rate of the month in which the transaction occurs.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goods and Services Tax ("GST") and Value Added Tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of respective GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant taxation authority. In these circumstances, the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST or VAT receivable or payable. The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included with other payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST or VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the relevant taxation authority, are presented as operating cash flows in the consolidated statement of cash flows.

Uses of judgements and estimates

In preparing these financial statements, 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.

(i) Judgements

Significant judgement has been made in respect to the capitalisation of development costs for internally developed intangible assets, and the capitalisation costs of acquired IP intangible assets. See Note 11.

(ii) Estimates

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, including about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ending 30 June 2019 are included in the following notes:

- a. Note 20 - Investments

(iii) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

The financial reporting team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, management assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of judgements and estimates (continued)

(iii) Measurement of fair values (continued)

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group categorises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Re-classification of Reserves in Prior Year

The prior year classification of equity included amounts recorded as reserves. These components have been transferred to contributed equity and non-controlling interests. These reclassifications are reflected as adjustments to result in reclassified balances

New Accounting Standards and Interpretations not yet mandatory or early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) AASB 16 Leases

AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019 and it will replace AASB 117 *Lease and the related interpretations*. The Standard introduces a comprehensive model for the identification of lease arrangements and accounting treatment for both lessors and lessees.

AASB 16 distinguishes leases and service contracts on a basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and lease of low value assets. Lease expenses from short term leases and lease of low value assets are recognised as a straight-line expense over the lease term.

The right of use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Depreciation of the right of use asset and interest on the lease liability will be recognised over the lease term. Furthermore, the classification of cash flows will also be affected as operating lease payments under AASB 117 are presented as operating cash flows; whereas under the AASB 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operative cash flows respectively.

AASB 16 becomes mandatory for the Group's 2020 financial statements and removes the classification of leases between finance and operating leases, effectively treating all leases as finance leases for the lessee. The standard must be implemented retrospectively, either with the restatement of comparatives or with the cumulative impact of application recognized on the date of adoption under the modified retrospective approach. The Group will therefore adopt this standard for the financial period beginning 1 July 2019.

As the Group does not have any leases as at 30 June 2019, AASB 16 is not expected to have any impacts.

New or amended Accounting Standards and Interpretations adopted

A number of new or amended standards became applicable for the current reporting period:

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers*

The impact of the adoption of these standards and the new accounting policies are disclosed below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) AASB 9 Financial Instruments

In December 2014, the Australian Accounting Standards Board (“AASB”) issued the final version of AASB 9 *Financial Instruments* (“AASB 9”), and AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2014).

AASB 9 is the final version of a new principal standard that consolidates requirements for the classification and measurement of financial assets and liabilities, hedge accounting and impairment of financial assets. AASB 9 supersedes all previously issued and amended versions of AASB 139 *Financial Instruments: Recognition and Measurement*.

In relation to the impairment of financial assets, the Group applies the simplified approach to recognise lifetime expected credit losses (“ECL”) for trade and other receivables. AASB 9 did not have a significant impact on the Group’s financial statements for the year, particularly given the short-term nature of the Group’s receivables.

The adoption resulted in an immaterial additional impairment expense of \$13,520 for the year ended 30 June 2019. Refer to Note 19 (ii).

Classification and initial measurement of financial assets

Financial assets are classified according to their business model and characteristics of their contractual flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price when the right to consideration becomes unconditional in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised costs;
- Financial assets at fair value through profit or loss (“FVTPL”);
- Debt instruments at fair value through other comprehensive income (“FVTOCI”); or
- Equity instruments at FVTOCI

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other income or finance costs, except for impairment of trade receivables. The entity does not have any debt instruments at FVTOCI or equity instruments at FVTOCI.

Financial assets at amortised cost

The Group’s trade and most other receivables fall into this category of financial instruments and are accounted for at amortised cost using the effective interest method.

Financial assets at FVTPL

Investments in equity instruments fall into this category unless the entity irrevocably elects at inception to account for them as equity instruments at FVTOCI. The Company has not made this election and will continue to account for its investments in equity instruments at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other receivables and other current assets

The Group makes use of a simplified approach in accounting for the impairment of trade and other receivables as well as other current assets and records the loss allowance at the amount equal to the lifetime ECL. In using this practical expedient, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. From this calculation, it was determined that the ECL in trade and other receivables was immaterial to be disclosed separately.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Company's financial liabilities were not impacted by the adopted of AASB 9.

The Group's financial liabilities include trade and other payables, contract liabilities and employee benefit liabilities. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within other income or finance costs.

(ii) AASB 15 Revenue from contracts with customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces AASB 118: *Revenue and related interpretations*.

The core principle of AASB15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

- Step 1: identify the contract(s) with a customer
- Step 2: identify the performance obligations in the contract;
- Step 3: determine the transaction price;
- Step 4: allocation the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Management of the Group reviewed the customer contracts, defined a relevant portfolio basis where applicable and assessed the impact on revenue recognition by the adoption of AASB 15.

The Group generates revenue (as reported in Note 6) through contract sales and marketing services with external customers and related party entities. These services are rendered based on either a fixed price or an hourly rate. The revenue for these services is recognised over the service period which aligns with the delivery of the performance obligation (provision of services).

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has adopted AASB 15 from 1 July 2018, using the modified retrospective approach, with the effect of initially applying this standard recognised at the date of application. Therefore, comparative prior periods have not been adjusted and continue to be reported under AASB 118. The impact of adoption of opening retained earnings as at 1 July 2018 was as follows:

Deferred Revenue	\$ 221,000
Tax effect on adjustment	-
Impact on opening retained earnings at 1 July 2018	\$221,000

4. GOING CONCERN

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the Group incurred a loss of \$14,938,756 for the year ended 30 June 2019. As at that date the Group had net current liabilities of \$10,019,827, net liabilities of \$6,195,119 and net operating cash outflows of \$10,937,895. The loss and operating net cash outflows may prima facie give rise to a material uncertainty that may cast doubt upon the Group's ability to continue as a going concern. Despite this the directors have a reasonable expectation that the Group has adequate financial resources to continue as a going concern based on the following:

- The company's business model is based upon generating returns by acquiring early stage life science IP and with its specialist inhouse knowledge, developing the acquired IP in to diagnostic or therapeutic bioscience assets. Accordingly, profits are generated by increase in the value of the assets as they are developed and reach clinical milestones. Expenditure on improving these assets is expensed. The value of these assets cannot be recognised in the financial statements until they are realized.
- The outflows and funding of the development of these assets will be funded as done in the past, by continued capital raisings in relation to projects the company is involved in and continued revenue from providing specialist health services.

In the event that the Group does not meet the above factors, it may not be able to continue its operations as a going concern and therefore face may not be able to realise its assets and discharge its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Group were not to operate as a going concern.

5. OPERATING SEGMENTS

The Group has identified operating segments based on internal reporting that is reviewed and used by the chief operating decision makers (the Group CEO and Operating Officer) in assessing the performance of the respective segments. The operating segments are identified by management based on the nature of services provided, with each operating segment representing a strategic business that serves a different segment of the market.

In the year 2019, the Group provided two types of services being: (1) contract sales and marketing services to external customers; and (2) shared services to related parties. Segment analysis of revenue and gross profit is provided below. Information on net assets by segment is not provided to the chief operating decision makers.

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

5. OPERATING SEGMENTS (CONTINUED)

<i>In dollars</i>	2019	2018
Revenue		
Contract sales and marketing services	10,834,738	4,263,752
Related party services	2,031,868	465,274
Total revenue	12,866,606	4,729,026
Gross Profit		
Contract sales and marketing services	1,718,596	(459,423)
Related party services	2,031,868	465,274
Total gross profit	3,750,464	5,851

Information on geographical segments

One hundred percent of the Group's revenue, expenses and profit are derived in Australia.

6. REVENUE

<i>In dollars</i>	2019	2018
Contract and service fee revenue	10,834,738	4,263,752
Office and shared services revenue	2,031,868	465,274
Total revenue	12,866,606	4,729,026

6. REVENUE (CONTINUED)

Significant accounting policies

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established

7. INCOME AND EXPENSES

(a) Other income

<i>In dollars</i>	2019	2018
Finance Income	549	1,812
Other	315,963	-
Total other income	316,512	1,812

(b) Finance costs

<i>In dollars</i>	2019	2018
Bank fees	19,745	13,544
Interest on convertible notes	1,028,739	932,540
Other interest expense	24,789	(254,017)
Foreign currency	-	(424,030)
Total finance costs	1,073,273	268,037

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

7. INCOME AND EXPENSES (CONTINUED)

(c) Employee benefits expenses

<i>In dollars</i>	2019	2018
Wages and salaries	5,786,194	4,373,893
Compulsory superannuation contributions	553,627	467,576
Increase in liability for annual leave ¹	73,771	83,051
Increase in liability for long service leave	25,200	34,044
Total employee benefits expense	6,438,792	4,958,564

¹ Increase in liability for annual leave does not include the increase in liability for annual leave allocated to cost of sales.

(d) Other expenses

<i>In dollars</i>	2019	2018
Accounting fees	314,320	203,134
Advertising and marketing	425,847	190,716
Development & regulatory approval	-	1,102,923
Exchange and listing fees	1,798,324	1,234,236
Insurance	405,186	70,796
Legal and consulting fees	1,968,837	930,904
Loss on disposal of fixed assets	-	339,836
Occupancy costs	96,090	279,315
Recruitment fees	192,173	84,836
Software licensing and subscriptions	216,205	234,606
Travel and accommodation	206,845	184,511
Impairment	-	101,186
Other	1,936,381	2,929,880
Total other expenses	7,560,208	7,886,879

8. CASH

<i>In dollars</i>	2019	2018
Bank balance	503,603	1,422,636

Significant accounting policies:

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the interim statement of financial position.

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

9. TRADE AND OTHER RECEIVABLES

<i>In dollars</i>	2019	2018
Trade receivables	715,073	465,777
Allowance for expected credit loss	(13,520)	-
Other receivables	3,254,050	112,740
Related party receivables	784,219	498,410
Total trade and other receivables	4,739,822	1,076,927
Current	4,638,240	1,076,927
Non-current	101,582	-
Total trade and other receivables	4,739,822	1,076,927

Significant accounting policies

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30-60 days. The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

10. PROPERTY, PLANT AND EQUIPMENT

Cost

<i>In dollars</i>	Plant and equipment	Furniture, fixtures and fittings	Leasehold improvements	Total
Balance at 1 July 2017	272,197	129,994	519,884	922,075
Additions	24,330	-	-	24,330
Disposal	(17,062)	(35,990)	(479,209)	(532,261)
Effect of movement in foreign exchange	2,749	23	-	2,772
Balance at 30 June 2018	282,214	94,027	40,675	416,916
Additions	105,791	6,226	28,581	140,598
Balance at 30 June 2019	388,005	100,253	69,256	557,514

Accumulated depreciation

<i>In dollars</i>	Plant and equipment	Furniture, fixtures and fittings	Leasehold improvements	Total
Balance at 1 July 2017	130,852	29,665	136,408	296,925
Depreciation expense	48,616	12,029	37,811	98,456
Disposal	(9,580)	(16,916)	(162,792)	(189,288)
Effect of movement in foreign exchange	(137)	2	-	(135)
Balance at 30 June 2018	169,751	24,780	11,427	205,958
Depreciation expense	53,934	9,850	4,555	68,339
Balance at 30 June 2019	223,685	34,630	15,982	274,297

Carrying amount

<i>In dollars</i>	Plant and equipment	Furniture, fixtures and fittings	Leasehold improvements	Total
Carrying balance at 30 June 2019	164,320	65,623	53,274	283,217
Carrying balance at 30 June 2018	112,463	69,247	29,248	210,958

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Significant accounting policies

Carrying value

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the business and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit or loss during the reporting period.

Depreciation

Depreciation of assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

- Leasehold improvements – 5 to 10 years
- Plant and equipment – 5 to 10 years
- Furniture, fittings and equipment – 10 to 20 years

Impairment

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

11. INTANGIBLE ASSETS

Cost

<i>In dollars</i>	Acquired IP	Development expenditure	Website and software	Total
Balance at 1 July 2017	1,871,613	2,169,946	233,890	4,275,449
Additions	-	228,089	-	228,089
Balance at 30 June 2018	1,871,613	2,398,035	233,890	4,503,538
Additions	-	-	-	-
Reclassification of assets	-	(431,862)	-	(431,862)
Write off	-	-	-	-
Balance at 30 June 2019	1,871,613	1,966,173	233,890	4,071,676

11. INTANGIBLE ASSETS (CONTINUED)

Amortisation

<i>In dollars</i>	Acquired IP	Development expenditure	Website and software	Total
Balance at 1 July 2017	-	-	17,709	17,709
Amortisation expense	-	-	34,762	34,762
Balance at 30 June 2018	-	-	52,471	52,471
Amortisation expense	-	-	34,841	34,841
Balance at 30 June 2019	-	-	87,312	87,312

Carrying amount

<i>In dollars</i>	Acquired IP	Development expenditure	Website and software	Total
Carrying balance at 30 June 2019	1,871,613	1,966,173	146,578	3,984,364
Carrying balance at 30 June 2018	1,871,613	2,398,035	181,419	4,451,067

The recoverable amount of the consolidated entity's development expenditure has been determined using fair value less costs to sell, based the following key judgements approved by management: (a) it is technically feasible that the asset will be completed for use/sale; (b) the Group intends to complete and use/sell the asset; (c) the Group are able to use/sell the asset; (d) the Group has adequate resources available to complete the asset for use/sale; and (e) the Group is able to reliably measure expenditure during the development phase.

Significant accounting policies

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised.

Amortisation

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets.

11. INTANGIBLE ASSETS (CONTINUED)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Acquired IP with a finite useful life, is not amortised until it is ready for use.

Impairment

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Website and software

Costs incurred in acquiring website software and licenses that will contribute to future financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project.

Amortisation is calculated on a straight-line basis over periods generally ranging from three to five years

Website development costs include only those directly attributable to the development phase and are only recognised following completion of technical feasibility and where the business has an intention and ability to use the asset. The website and software have finite useful life and are amortised as follows:

- Website and software – 3 years

Research and development costs

Research expenditure is recognised as an expense as incurred. Development costs include externally acquired and internally generated costs of materials and services, which can be directly attributable to the development activities of acquiring or generating an intangible asset.

Costs incurred on development projects (relating to the design and testing of new or improved intangible assets) are recognised only when it is probable that the future economic benefits that are attributable to the asset will flow to the Group, the cost of the asset can be measured reliably, technical and commercial feasibility of the asset for sale or use have been established, and the Group intends and is able to complete the intangible asset and either use it or sell it.

Capitalised development costs are recorded as an intangible asset and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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12. TRADE AND OTHER PAYABLES

<i>In dollars</i>	2019	2018
Trade payables	1,616,499	518,654
Sundry payables and accrued expenses	3,225,112	1,297,347
Related party payables	2,224,986	1,990,120
Total trade and other payables	7,066,597	3,806,121
Current	7,066,597	3,806,121
Non-current	-	-
Total trade and other payables	7,066,597	3,806,121

Significant accounting policies

Trade and other payables represent liabilities for goods and services provided to the business prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Contract liabilities

Contract liabilities are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier), before the Group has transferred the goods or services to the customer. The liability is the Group's obligation to transfer goods or services to a customer from which it has received consideration.

13. EMPLOYEE BENEFIT LIABILITIES

<i>In dollars</i>	2019	2018
Liability for annual leave		
Opening balance	457,174	334,022
Additional provision	405,352	542,497
Utilisation	(234,212)	(419,345)
Closing balance	628,314	457,174
Liability for long service leave		
Opening balance	83,533	49,489
Additional provision	25,201	34,044
Utilisation	-	-
Closing balance	108,734	83,533
Liability for superannuation	378,056	234,422
Liability for bonus	-	110,772
Liability for payroll	2,776	108,586
Total employee benefit liabilities	1,117,880	994,487
Current	1,009,146	910,954
Non-current	108,734	83,533
Total employee benefit liabilities	1,117,880	994,487

13. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

Significant accounting policies

Employee benefits represents amounts accrued for employee payroll, superannuation, annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled in the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The Group recognises a liability for long service leave and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods to service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

14. BORROWINGS

<i>In dollars</i>	2019	2018
Convertible notes	5,603,440	5,670,097
Bond with related party	876,418	-
Total Borrowings	6,479,858	5,670,097
Current	5,603,440	5,670,097
Non-current	876,418	-
Total Borrowings	6,479,858	5,670,097

Significant accounting policies

Convertible notes that are compound financial instruments are separated into liability and equity components based on the terms of the contract. On issuance of the convertible notes, the fair value of the liability component is estimated using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Convertible notes that are hybrid contracts containing an embedded derivative are separated between the host contract and the embedded derivative on initial recognition. The embedded derivative is measured at fair value on initial and subsequent recognition. The host contract is initially recorded at the residual amount and subsequently at amortised cost.

15. DERIVATIVE FINANCIAL INSTRUMENTS

<i>In dollars</i>	2019	2018
Convertible note options	1,238,349	1,238,349

During FY2017 the Company's subsidiary Glucose Biosensor Systems (Greater China) Pty Ltd ("GBSGC") issued Convertible Notes (expiring 31 December 2019) valued at \$5,013,800. Of this amount, \$1,238,349 has been classified as a derivative financial instrument as the notes benefit from a 15% discount on the Initial Public Offering Price from the date of GBSGCs (or its nominee entity's) admission on an approved stock exchange.

Significant accounting policies

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

16. SHARE CAPITAL

	Number of shares	\$
In issue at 1 July 2017	124,339,170	4,697,661
Shares issued during the reporting period	32,272,862	11,013,665
In issue at 30 June 2018	156,612,032	15,711,326
Shares issued during the reporting period	6,279,560	2,386,233
In issue at 30 June 2019	162,891,592	18,097,559

All ordinary shares rank equally with regard to the Company's residual assets. The holders of these shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

The Company does not have authorised capital or par value in respect of its shares. All issued shares are fully paid.

Share issued

	Number of shares	\$
Number of shares at 30 June 2018	156,612,032	15,711,326
Capital raised for business objectives 6/8/2018	1,599,343	607,750
Capital raised for business objectives 18/9/2018	4,456,533	1,693,483
Strategic placement of shares 19/9/2018	223,684	85,000
Number of shares at 30 June 2019	162,891,592	18,097,559

Dividends

No dividends were declared or paid by the Company for the year (2018: nil).

16. SHARE CAPITAL (CONTINUED)

Significant accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

17. RESERVES

<i>In dollars</i>	Subscriptions for equity	Options reserve	Share based payments reserve	Foreign currency translation reserves	Total
Balance at 1 July 2017	1,648,044	142,605	-	(12,239)	1,778,410
Subscriptions for equity issued	4,413,544	-	-	-	4,413,544
Reporting translation differences			-	828,221	828,221
Balance at 30 June 2018	6,061,588	142,065	-	815,982	7,020,175
Adjustment required to reclassify subscriptions received from reserves as contributed equity (Refer to Note 3)	(6,013,000)	-	-	-	(6,013,000)
Balance at 1 July 2018 (Restated)	48,588	142,605	-	815,982	1,007,175
Share based payment expenses		-	81,959	-	81,959
Reporting translation differences	-	-	-	(856,196)	(856,196)
Balance at 30 June 2019	48,588	142,605	81,959	(40,214)	232,938

Subscriptions for equity

This reserve relates to subscriptions for equity in subsidiary entities that has not yet been issued into equity.

Options reserve

Relates to equity credit ensures from performance rights charges to profit and loss.

Foreign currency translation reserve (FCTR)

The FCTR comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the Group's presentation currency.

Share based payments reserves

Share based payment reserve represent fair value of performance rights granted to the employees.

18. EARNINGS PER SHARE (EPS)

The calculation of basic earnings per share has been based on the following loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

Loss attributable to ordinary shareholders

<i>In dollars</i>	2019	2018
Loss for the period attributable to owners of iQNovate Ltd	(11,569,935)	(13,174,652)

Weighted-average number of ordinary shares

<i>In number of shares</i>	2019	2018
Weighted-average number of ordinary shares at end of the period	161,720,257	133,276,896
Weighted-average number of securities if outstanding options Exercised	161,720,257	133,276,896

Earnings per share

<i>In cents per share</i>	2019	2018
Basic loss per share	(7.15)	(9.89)
Diluted loss per share	(7.15)	(9.89)

Basic earnings per share is calculated as earnings for the period attributable to the Company over the weighted average number of shares.

Diluted earnings per share is calculated as earnings for the period attributable to the Company over the weighted average number of shares which has been adjusted to reflect the number of shares which would be issued if outstanding options and performance rights were to be exercised. However, due to the statutory loss attributable to the Company for both the financial year ended 30 June 2019 and the comparative period ended 30 June 2018, the effect of these instruments has been excluded from the calculations of diluted earnings per share for both periods as they would reduce the loss per share.

19. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

Accounting classifications and fair values

The Group has financial assets of cash and cash equivalents, and trade and other receivables. The shares in a listed company are valued at fair value. The financial assets are measured at amortised cost, and the carrying amount is a reasonable approximation of fair value at 30 June 2019.

The Group has financial liabilities of derivatives and trade and other payables. Derivatives are measured at fair value. Other financial liabilities are measured at amortised cost, and the carrying amount is a reasonable approximation of fair value at 30 June 2019.

19. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Financial risk management

There have been no substantive changes in the types of risk the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risk from the previous period. The Group has exposure to the following risk arising from financial instruments:

- credit risk – refer (ii)
- liquidity risk – refer (iii)
- market risk – refer (iv)

(i) Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit and Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risk faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all workplace participants understand their roles and obligations.

The Board of Directors has also established a Finance Committee, consisting of senior executives of the Group, which meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The finance committee's overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. The finance committee operates under policies approved by the Board of Directors.

(ii) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 9.

The Company applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped by past due date. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 30 June 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

19. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(ii) (Credit risk continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 90 days past due.

On that basis, the loss allowance as at 30 June 2019 (on adoption of AASB 9) was determined to be \$13,520 for trade receivables and other receivables.

Trade and other receivables

The main source of credit risk to the Group is considered to relate to the class of assets described as trade and other receivables. Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 9.

No collateral is held over other receivables.

The ageing of the trade and other receivables that were not impaired as at 30 June 2019 are set out in the following table.

<i>In dollars</i>	2019	2018
Neither past due not impaired	4,608,675	928,050
30 to 60 days past due but not impaired	79,841	-
60 to 90 days past due but not impaired	51,306	148,877
Over 90 days past due but not impaired	-	-
Total trade and other receivables	4,739,822	1,076,927

Cash and cash equivalents

The Group held cash and cash equivalents of \$503,603 at 30 June 2019. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on rating agency Standard and Poor's ratings.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

IQNovate Ltd has an interest free, \$2 million working capital loan facility in place with its subsidiary FarmaForce. As at 30 June 2019, \$838,517 has been used by FarmaForce Limited under this facility (2018: \$Nil).

19. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(iii) Liquidity risk (continued)

The Group aims to maintain cash at a level appropriate to fund operations. At 30 June 2019, the expected cash flows from trade and other receivables maturing within two months were \$4,737,822.

Non-derivative financial liabilities

<i>In dollars</i>	Within 1 year		1 to 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Trade and other payables	7,066,597	3,806,120	-	-	-	-	7,066,597	3,806,120
Convertible notes	5,603,440	5,670,097	-	-	-	-	5,603,440	5,670,097
Total non-derivative financial liabilities	12,670,037	9,476,217	-	-	-	-	12,670,037	9,476,217

Derivate financial liabilities

<i>In dollars</i>	Within 1 year		1 to 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Derivatives	1,238,349	1,238,349	-	-	-	-	1,238,349	1,238,349
Total derivative financial liabilities	1,238,349	1,238,349	-	-	-	-	1,238,349	1,238,349

(iv) Market risk

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

Currency risk

The Group's exposure to foreign currency risk is limited due to the natural hedge afforded to the Group by predominately purchasing and selling in local currency in all countries in which it operates. The Group does not hold any foreign currency contracts.

The following significant exchange rates have been applied in preparing the consolidated statement of financial position and consolidated statement of profit or loss.

<i>In AUD</i>	USD	
	2019	2018
Average rate	0.72	0.79
Year-end spot rate	0.70	0.77

19. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

Fair value measurement

(i) Fair value hierarchy

The following table detail the Group's assets and liabilities for the current reporting period measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs for the asset or liability.

2019

<i>In dollars</i>	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative convertible note options	-	-	1,238,349	1,238,349
Total liabilities	-	-	1,238,349	1,238,349

2018

<i>In dollars</i>	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative convertible note options	-	-	1,238,349	1,238,349
Total liabilities	-	-	1,238,349	1,238,349

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The gain/loss recognised in profit or loss for the period from level 2 and 3 valuations is nil (2018: nil).

Valuation techniques for fair value measurements categorised within level 3

The derivative convertible note options were revalued on 30 June 2019 based on internal assessments performed by management, with reference to the terms of the underlying convertible notes.

Significant accounting policies

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

20. INVESTMENTS

The percentage ownership interest is equivalent to the percentage voting rights for all investments.

(a) Interests in subsidiaries, associates, and joint venture

Entity name	Country of incorporation	Ownership interest 2019	Ownership interest 2018
Subsidiaries			
FarmaForce Limited	Australia	70.42%	70.6%
Clinical Research Corporation Pty Ltd	Australia	100%	100%
Life Science Biosensor Diagnostics Pty Ltd	Australia	81%	81%
Glucose Biosensor Systems (GC) Holdings Inc	USA	81%	81%
Glucose Biosensor Systems (GC) Pty Ltd	Australia	81%	81%
Antisoma Therapeutics Pty Ltd	Australia	100%	100%
Associates¹			
New Frontier Holdings LLC ("New Frontier")	USA	20%	34.1%
Nereid Enterprises Pty Ltd	Australia	20%	34.1%
Nereid Enterprises LLC	USA	20%	34.1%
OnCotex Pty Ltd	Australia	40.5%	-

¹ Percentage shown is net of non-controlling interest.

Nereid Enterprises Pty Ltd provides corporate events and promotional services to the healthcare industry and related parties of iQnovate Ltd.

20. INVESTMENTS (CONTINUED)

Summary financial information

None of the associates are listed on a stock exchange. The investments in associates is equity accounted using audited financial information.

(b) Investment in associates accounted for using equity method

<i>In dollars</i>	2019	2018
(i) Summarised statement of comprehensive income		
Revenue	36,809	54,101
Loss from continuing operations	(391,039)	(198,283)
Other comprehensive income	145,487	1,206
Total comprehensive loss	(245,552)	(197,077)
(ii) Summarised balance sheet		
Total current assets	13,026	10,381
Total non-current assets	1,092,651	1,158,359
Total current liabilities	(3,932)	(28,441)
Net assets	1,101,745	1,140,299
(iii) Reconciliation to carrying amount		
Opening balance as at 1 July 2018	1,140,299	1,100,565
Additional investment	206,999	68,387
Loss for the period	(391,039)	(28,653)
Other comprehensive income	145,487	-
Total loss and other comprehensive Income	(245,552)	(28,653)
Net asset balance as at 30 June 2019	1,101,746	1,140,299
Company's share in %	40%	40%
Carrying amount as at 30 June 2019	440,697	456,119

(c) Shares of Loss in OnCotex Pty Ltd

As at 30 June 2019, Oncotex Pty Ltd has a loss of \$2,101,797 (FY 2018: nil). The group's share of this loss from associate being 40.5%, \$840,719 has not been recognised as the net investment in OnCotex Pty Ltd is nil, as at 30 June 2019. The cumulative net loss not recognised as at 30 June 2019 is \$840,719 (FY 2018: nil).

20. INVESTMENTS (CONTINUED)

Significant accounting policies:

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to or has rights to variable rates of returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for in the Group's financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of the associates post-acquisition profits or losses are recognised in the statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses is equal or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Shares in listed companies

Shares in listed companies are a financial asset carried at fair value, or the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value at measurement date.

To the extent possible, market information is extracted from either the principal market for the asset, or in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period.

21. SHARE-BASED PAYMENTS

Share based compensation benefits are provided to employees via the Employee Benefit Plan. This is a plan under which directors, employees may become holders of Options and Performance Rights to acquire beneficial interests in the Shares of the Company. The object of this Plan is to help the Group recruit, reward, retain and motivate its directors and employees. After 12 months of service an employee will annually receive a lot of shares based on an agreed quantity per their individual employment contract. The shares granted under this employee share plan will vest after an employee has served a further 3 years after receiving rights to the shares.

The inputs for the rights granted during the year ended 30 June 2019 included:

- Grant date: After 12 months of service from director/employee commencement date;
- Rights are granted for no consideration;
- Share price: Share price at the grant date (after 12 months of service);
- Vesting date: 3 years after receiving rights to shares.

21. SHARE-BASED PAYMENTS (CONTINUED)

For the year ended 30 June 2019, the Company has recognised \$81,962 share-based payment expense.

Significant accounting policies:

Share based compensation benefits are provided to employees via the Employee Benefit Plan.

The fair value of equity-settled share-based payments is recognised as an expense proportionally over the vesting period with a corresponding increase in equity. The fair value of instruments is calculated under the grant date model where the Group measures the fair value of a share-based payment award issued to an employee on the grant date and recognised over the period during which the employees become unconditionally entitled to shares.

The fair value is calculated at grant date as the fair value of each share granted multiplied by the number of shares expected to eventually vest. There is a service condition (non-market vesting condition) which is taken into account by adjusting the number of shares which will eventually vest and are not taken into account in the determination of the grant date fair value.

22. CONTINGENCIES

The Group has no contingent liabilities or assets as at the reporting date (2018: None).

IQNOVATE LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

23. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

<i>In dollars</i>	2019	2018
Cash flows from operating activities		
Loss for the period	(14,095,144)	(14,846,246)
Adjustments for:		
Impact of AASB 15 revenue from contracts with customers	221,000	-
Income on partial disposal of the subsidiary	(100,275)	-
Interest on the convertible notes	476,366	932,540
Non-cash employee benefit – Share expenses	132,962	-
Bad debt expenses written off	122,986	-
Non-cash capital raising costs	284,355	-
Share subscription classified from other payables to equity	659,536	-
Intangible expensed as research and development costs	431,860	-
Share of loss in associates	98,222	101,827
Other	111,458	-
Depreciation	103,180	136,122
	(11,553,493)	(13,675,757)
Changes in:		
Trade and other receivables	(3,561,313)	(482,481)
Trade and other payables	3,260,477	615,498
Prepayments	356,391	(414,160)
Other assets	412,604	-
Borrowings	(66,657)	-
Income in advance	90,702	59,121
Employee benefits	123,393	94,453
	615,597	(706,381)
Net cash used in operating activities	(10,937,895)	(14,382,138)

24. AUDITORS' REMUNERATION

<i>In dollars</i>	2019	2018
Audit and review services		
Auditors of the Group at June 2019– BDO East Coast Partnership	64,000	-
Auditors of for Glucose Biosensor Systems– BDO East Coast Partnership	100,197	-
Auditors of the Group at December 2018– RSM Australia Partners	26,800	8,000
Auditors of the Group at June 2018– RSM Australia Partners	-	65,000
Other auditors	-	44,000
Other services		
Tax advice – BDO East Coast Partnership	75,981	-
Independent Expert Report – RSM Australia Partners	16,715	-
Other auditors	-	-

25. SUBSEQUENT EVENTS

The following subsequent events detailed below pertain to the subsidiary of the Group, Glucose Biosensor Systems (Greater China) Inc. Holdings:

The Company has applied to list its common stock in the USA. The initial public filing of prospectus made on 5 July 2019 with intent to raise USD \$23m. Although the company expects common stock to be listed, there can be no assurance that an active trading market will develop.

Subsequent to 30 June 2019, the Company has received further cash subscriptions or the subscription agreements for 1,119,780 shares (USD \$450,000), which will be allotted as additional convertible preference shares prior to the IPO.

On 3 July 2019 and the 12 September 2019, the Company entered into an amended and reinstated license agreement. As per the new agreement there is no set expiration date for the agreement. The exclusivity of the license granted under the license agreement runs until the expiration of the patent portfolio covered by the license agreement, which is currently until 2033.

No other events have arisen in the interval between the end of the financial year ended 30 June 2019 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors to affect significantly the operations or state of affairs of the Group in future financial years.

Subsequent to 30 June 2019, iQnovate Limited has raised the following amounts in in unsecured bonds:

- \$945,000 repayable in 12-months from issue at an interest rate of 9% pa paid quarterly in arrears
- \$1,165,000 repayable in 24-months from issue at an interest rate of 11% pa paid quarterly in arrears