

PACIFIC EDGE ADOPTS NEW ACCOUNTING STANDARD AND CONFIRMS FORECAST

TEST NUMBERS AND CASH FLOWS ARE IN LINE WITH EXPECTATIONS AND ON A LIKE-FOR-LIKE BASIS¹,
REVENUE IS IN LINE WITH FORECAST

Adoption of new revenue accounting standard for Pacific Edge's FY18 financial accounts

Listed cancer diagnostics company, Pacific Edge Limited (NZX: PEB), advises that it has elected to adopt the new revenue accounting standard (NZ IFRS 15), and this will be reflected in the Company's financial statements for the year ending 31 March 2018. Adoption of the new revenue accounting standard is optional for PEB in FY18 and mandatory in FY19. The Board believes this will provide more relevant information on Pacific Edge's revenues, particularly from the US where the reimbursement system is complex and time to recovery of cash can be slow.

New revenue accounting standard NZ IFRS 15, *Revenue from contracts with customers*, deals with revenue recognition and establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The Company's US revenue is dominated by contracts with individual patients where payment timing and receipt of cash vary considerably. This variability in trading terms means the application of NZ IFRS 15 results in revenue being recognised when the cash is received for these US based customers. This accounting treatment is likely to continue until such time as PEB is included in the Local Coverage Determination (LCD) and coverage contracts are established with commercial insurers. Both of these will provide significant positive impacts on the timing and collectability of revenue from the individual patient contracts.

The adoption of the new revenue accounting standard (NZ IFRS 15) and the move to accounting for US revenue when cash is recovered will have several implications for Pacific Edge's 2018 financial statements:

- **US revenue will be accounted for on a cash basis:**
The majority of the Company's revenue is derived from the US and in particular from individual contracts with US patients. Pacific Edge will continue to invoice all customers for every billable test performed in the US, however revenue will only be recognised when the cash is received. The balance of billed tests completed during the year, for which cash has not yet been received, remain in the Company's 'billing and reimbursement' process and recognised when the cash is collected. As Pacific Edge progresses in the US market and concludes the LCD with the CMS and completes other large contracts thereby gaining greater certainty around payment trading terms and revenue collections then PEB will revert to recognising US revenue when the test is delivered to the customer.
- **Revenue recognition for non-US customers will remain unchanged:**
Non-US customer revenue will be recognised under the new standard on a consistent basis. However, non-US customer revenue is a much smaller proportion of Pacific Edge's total revenue.
- **The revenue number in the financial accounts for FY18 will be lower than under the previous revenue accounting standard:**
Under the previous accounting standard as used by Pacific Edge for FY17 financial results, revenue was recognised when tests were performed. This per test revenue was set using an average of the historic per test revenue that had been received from a large number of tests completed, for these patients to date. With the change to the new standard, where revenue for these US customers will be recognised when the cash is received, there will be a reduction in the reported sales revenue for these US tests. The change will mean that Pacific Edge will no longer report accrued test revenue for the US component of the revenue.

1. Like-for-like basis assumes the same accounting standards, calculations and assumptions as was used to define the forecast.

- **No change to the cash flows of the Company:**
There will be no change to the cash flow statement.
- **Tests sold during the year will remain in the billing and reimbursement process:**
The revenue for these will be accounted for when the cash is received.
- **No bad debt expense and provision for doubtful debts for US customers:**
As revenue from US-based customers is only recognised on a cash basis under NZ IFRS 15 there is no bad debt expense and no provision for doubtful debts.
- **Key metrics for Pacific Edge are cash and number of billable tests:**
The key performance metrics for Pacific Edge will be the number of billable tests and cash receipts from test sales. The Company will report on these in its half and full year reports to shareholders.

FY18 financial performance metrics in line with forecast expectations

Billable test numbers and net cash outflow

Pacific Edge confirms that it expects its billable test numbers and net cash outflow for the year to 31 March 2018 to be generally in line with expectations. Pacific Edge's FY18 plan included a small contribution to the FY18 revenue from Kaiser Permanente however the Company has not yet generated any sales from Kaiser Permanente. The commercial agreement continues to move forward however this is taking longer than anticipated to finalise. In addition, early sales to the Veterans Administration have been lower than expected.

In October 2017, the Company forecast it would complete approximately 12,400 billable tests. The Company has today confirmed it has achieved 96% of this target. The Company also confirms net cash outflow will be in line with its forecast of \$(18) million for the year.

Revenue performance against the forecast (October 2017)

The Company forecast total revenue of approximately \$12.6 million. On a like-for-like basis¹, using the same assumptions and accounting standards that were used in the Company's financial forecast, the Company achieved 95% of this target.

PEB has decided to restate comparatives on adoption of NZ IFRS 15 to provide meaningful analysis for the readers of the financial statements. Full comparative information and explanations of all changes as a result of the new accounting standard will be included in the FY18 financial statements.

Pacific Edge will report its full year results on Tuesday 29 May 2018. Details of the results call have been announced to the NZX.

ENDS

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OVERVIEW www.pacifedge.co.nz www.pacifedgedx.com

Pacific Edge Limited (NZX: PEB) is a New Zealand publicly listed, cancer diagnostic company specialising in the discovery and commercialisation of diagnostic and prognostic tests for better detection and management of cancer. Its Cxbladder suite of non-invasive, simple to use and accurate diagnostic tests provide actionable results, and better detection and management of urothelial cancer. The Company is developing and commercialising its range of Cxbladder bladder cancer tests globally through its wholly owned central laboratories in New Zealand and the USA. The Company's products have been tested and validated in international multi-centre clinical studies.

ABOUT Cxbladder Triage www.cxbladder.com

Cxbladder Triage combines the power of the genomic biomarkers with additional phenotypic and clinical risk factors to accurately identify patients with haematuria who have a low probability of bladder cancer and may not require a more extensive urological evaluation. Cxbladder Triage is a tool for use by clinicians and physicians in primary evaluation of patients with haematuria and is intended to reduce the need for an expensive and invasive work-up in patients who have a low probability of having urothelial carcinoma.

ABOUT Cxbladder Detect www.cxbladder.com

Cxbladder Detect enables the non-invasive detection of bladder and other urinary tract cancers from a small volume of a patients' urine. Cxbladder Detect provides clinicians with a quick, cost effective and accurate measure of the presence of the cancer as an effective adjunct to cystoscopy.

ABOUT Cxbladder Monitor www.cxbladder.com

Cxbladder Monitor allows urologists to monitor bladder cancer patients for recurrence of the disease. Bladder cancer has a recurrence rate of 50-80% and requires life-long surveillance. Cxbladder Monitor accurately identifies patients with a prior history of urothelial cancer (UC) whose Cxbladder Monitor score shows that they have a low probability of recurrent urothelial carcinoma. Cxbladder Monitor is designed to be used as the preferred adjunct test to cystoscopy in the management of patients for ongoing evaluation of recurrent bladder cancer.

ABOUT Cxbladder Resolve www.cxbladder.com

Cxbladder Resolve identifies those patients who are likely to have aggressive or more advanced bladder cancer. Cxbladder Resolve, when used as part of the primary evaluation of haematuria and/or in conjunction with other Cxbladder tests (Triage, Detect), is designed to assist clinicians by accurately identifying patients with a high probability of having high grade or late stage bladder cancer, for whom alternative or expedited treatment options may be warranted, or who can be prioritised for further investigation in high throughput settings.

Refer to www.cxbladder.com for more information.