

# 18

## ANNUAL REPORT

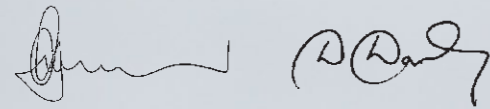
FOR THE  
YEAR ENDED  
31 MARCH 2018



**PACIFIC EDGE**   
CANCER DIAGNOSTICS COMPANY

The Board of Directors of Pacific Edge Limited is pleased to present the Annual Report for the year ended 31 March 2018. This provides a review of performance in the last year and our focus for the year ahead.

The Annual Report can also be viewed on our website [www.pacifiedgedx.com](http://www.pacifiedgedx.com)



Chris Gallaher  
Chairman

David Darling  
Chief Executive Officer

Our goals are to enable better patient care, better clinical decision making and better use of healthcare resources by providing faster, more accurate and less invasive diagnosis and management of bladder cancer.



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KEY DATES

End of Financial Year	31 March
Full Year Results	By 30 May
Annual Report	By 30 June
2018 Annual Meeting	16 August 2018
End of Half Year	30 September
Interim Results	By 30 November
Interim Report	By 31 December

## OUR BUSINESS IS GROWING

Pacific Edge is the world-leading provider of molecular diagnostic tests for the diagnosis and management of urothelial cancer, with a suite of tests providing increased resolution across the clinical pathway.

We have developed and are now commercialising our suite of non-invasive, highly accurate, urine-based diagnostic tests for urothelial and bladder cancer. While bladder cancer is by far the most common, our tests also detect other urothelial cancers in the upper urinary tract and renal pelvis areas which are notoriously difficult to identify.

We are seeking to change clinical practice for patients presenting with haematuria (blood in the urine) and those diagnosed with all urothelial cancers.

Haematuria is a key indicator of bladder cancer – the ninth most common cancer in the world and the fifth most common in the United States.

Every year, millions of people around the world are tested for bladder cancer and those who are detected positive must be regularly monitored for recurrence of the disease.

Historically, diagnosis and monitoring of bladder cancer has involved an arduous regime of invasive and expensive tests over the lifetime of the disease.

Now, Pacific Edge's suite of Cxbladder tests is providing a better clinical solution for both physicians and patients alike – they are non-invasive, faster and more accurate and can be used throughout the clinical pathway for bladder cancer.

### OUR OPPORTUNITY IS REAL AND SIGNIFICANT

The USA is the world's largest healthcare market and it remains Pacific Edge's primary focus, with an estimated market opportunity of up to US\$1.2 billion<sup>1</sup>.

The company also has commercial partnerships in New Zealand, Australia and Singapore.

Together, these markets offer Pacific Edge an estimated 5 million-plus test opportunities every year.

### OUR PRODUCTS ARE IN-MARKET AND BEING ADOPTED STRONGLY

Pacific Edge is the only company in the world to offer a suite of molecular diagnostic tests in a single cancer, and Cxbladder is the first new diagnostic test for bladder cancer in 16 years to be made commercially available in the US market.

The Cxbladder suite of tests encompasses many of the physician's decision points across the urothelial cancer pathway, from investigation of haematuria through to detection of cancer and management of patients for recurrence of the disease.

The multiple integrated products, ease of use, ability to transport across international borders and a fast laboratory turn-around, as well as the increase in clinical resolution, provide a unique 'one-stop-shop' that physicians and healthcare providers are looking for.



Four x Cxbladder tests covering the clinical pathway for urothelial and bladder cancer

Enables faster, more accurate and less invasive detection and management of the disease

Developed over 16 years of R&D and validated by world-leading physicians

Approx 7 million people presenting with haematuria every year (blood in the urine and a key indicator of bladder cancer)

79,000+ new bladder cancer cases diagnosed in the USA every year – the 9th most common cancer in the world and the 4th most common cancer in men

70% recurrence rate and highest medical cost of any cancer up to US\$240K per patient

Primary focus is the USA, the world's largest healthcare market

Estimated opportunity: 5 million tests per year worth up to US\$1.2 billion

Commercial partnerships in USA, NZ, Australia and Singapore

14,448 tests processed through Pacific Edge's two certified labs in NZ and USA in FY18

Laboratory throughput includes User Programmes and commercial sales and is a key indicator of adoption and growth

<sup>1</sup>EY-Parthenon Strategic Review of Bladder Cancer US Market for Pacific Edge

## OUR YEAR AT A GLANCE

### ACHIEVEMENTS AND SIGNIFICANT EVENTS

#### Continuing lift in test volumes and increasing percentage of billable tests

Laboratory throughput increased by 28% to 14,448 tests, including User Programmes and commercial sales, of which 82% of tests were billable. These are key indicators of business growth.

#### Increasing adoption of Cxbladder

Growing sales and revenue as more urologists and healthcare institutions adopt Cxbladder into use. MidCentral DHB signs up to use all four Cxbladder products.

#### Achieved reimbursement milestone in the USA

Issue of CPT codes for Cxbladder products by the American Medical Association.

#### Good progress with transformational customers

Progressed commercial negotiations with targeted large scale healthcare organisations including Kaiser Permanente and the Centers for Medicare and Medicaid Services. Global first as Cxbladder enters guidelines with Canterbury District Health Board (DHB) in New Zealand.

#### Expanded market presence

Continued focus on building the customer base, specifically in the USA, the world's largest healthcare market. Commenced commercial operations in South East Asia.

#### Increased availability to full suite of products

Rollout of Cxbladder Monitor in the USA and launch of Cxbladder Resolve in New Zealand and Australia.

#### Growing clinical recognition and validation of Cxbladder

Multiple papers reflecting the high performance, clinical utility and cost benefits of Cxbladder.

#### Investment into building the business

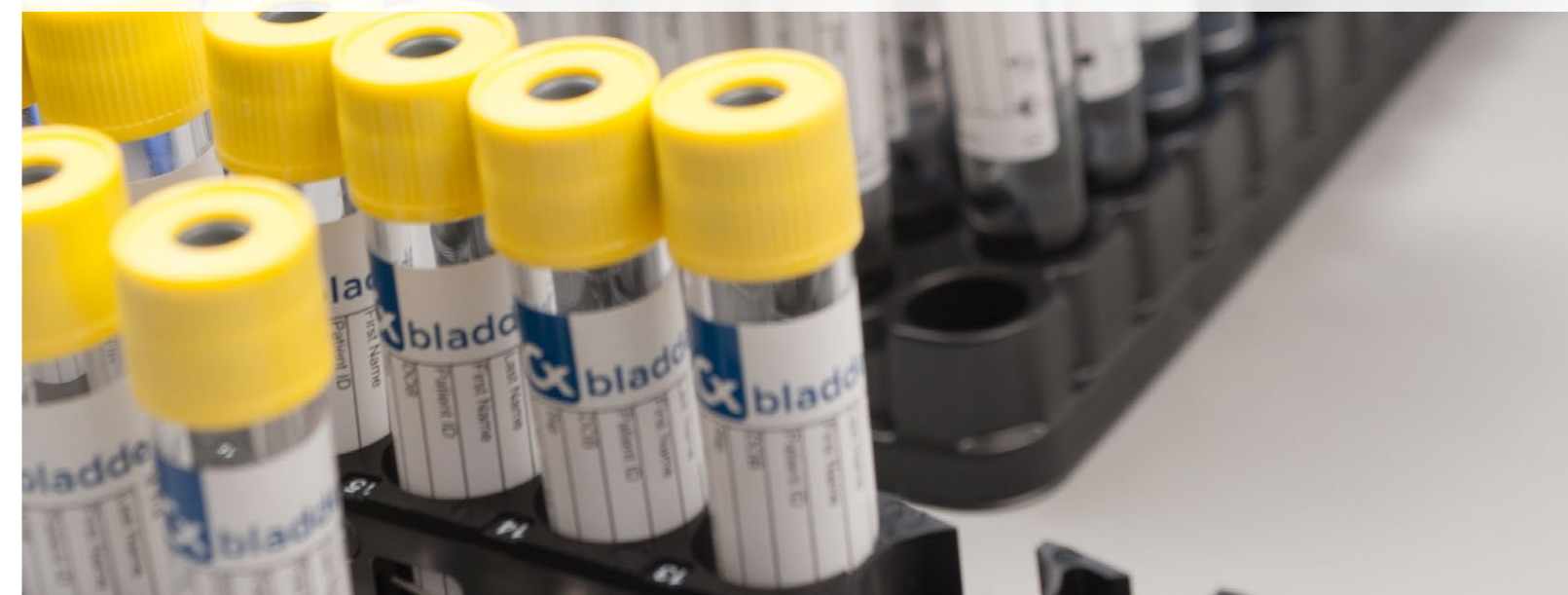
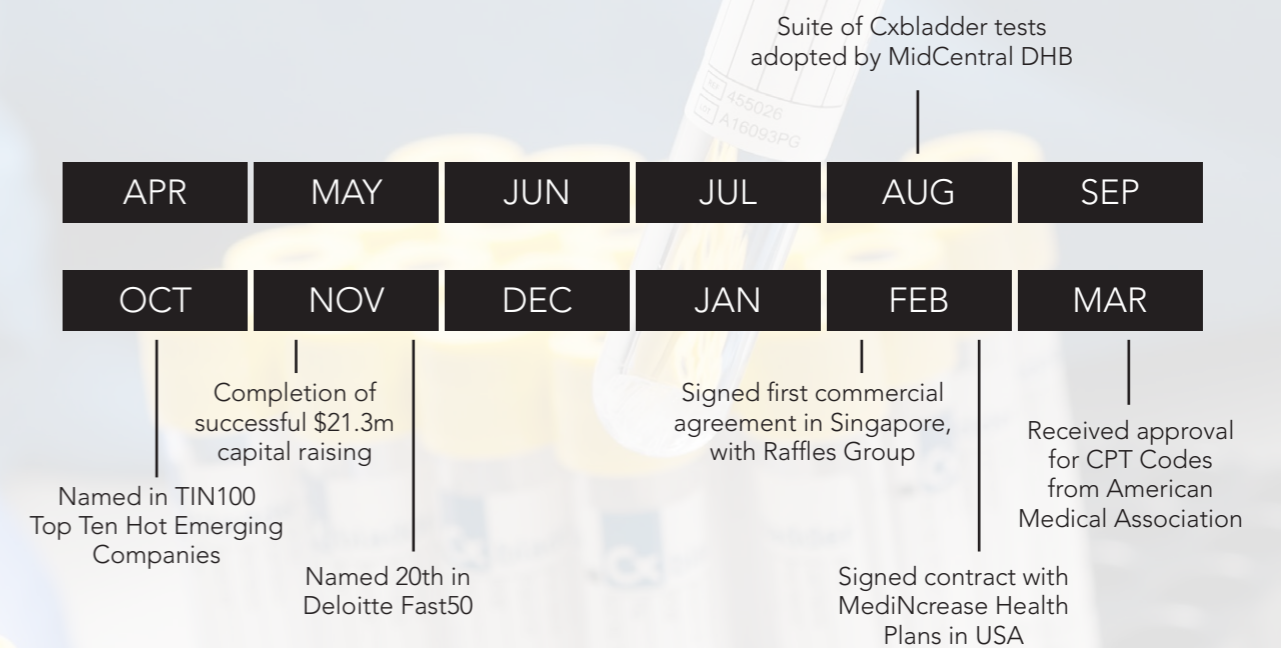
Completed \$21.3 million rights issue in November 2017.

#### Strong growth in commercial sales in New Zealand

Majority of District Health Boards (DHBs) now using Cxbladder, with New Zealand representing 14% of Pacific Edge's total laboratory throughput.



### MILESTONES ACHIEVED IN FY18



## FINANCIAL SNAPSHOT

Adoption of new revenue reporting model for the FY18 financial year onwards, with revenue now recognised for US customers only when the cash payment is received.

Total revenue \$5.0M including test sales of \$3.4M, up 6%

Operating expenses reduced by 10% to \$24.6M

Revenue outgrowing expenses by a net 13% (FY18 on FY17)

Operating cashflow of \$(18.1)M, in line with expectations and the previous year

Net Loss of \$(19.7)M for the year, in line with management expectations and a 13% improvement on FY17

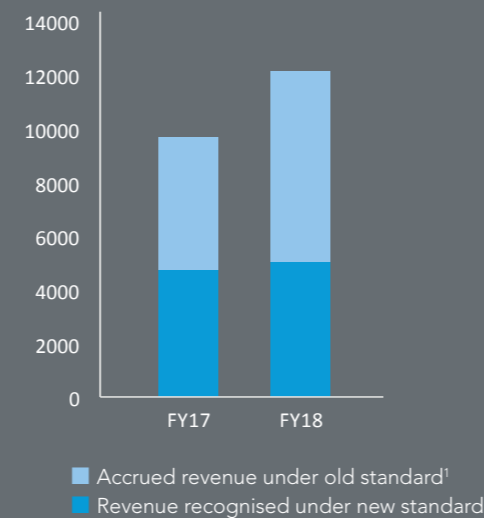
Cash and cash equivalents \$16.2M as at 31 March 2018

Results in line with October 2017 forecasts

NZ IFRS 15 revenue accounting standard adopted for FY18, with US revenue now recognised only on a cash basis. Prior year results have been restated in line with the new standard.

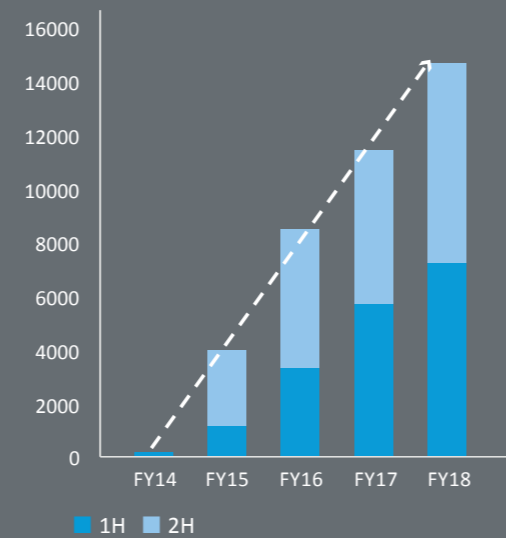
<sup>1</sup> 'Like-for-like' basis assumes the same accounting standards, calculations and assumptions as was used to define the October 2017 forecast

FY17 : FY18 REVENUE INCREASE



LABORATORY THROUGHPUT

Includes User Programmes and commercial tests



28% increase (FY17: FY18)

Total Lab Throughput: 14,448 tests

Approx. 82% of tests were billable in FY18 (74% in FY17)

## CHAIR'S REPORT

The year under review has been one of achievement and challenge.

The Company has maintained its consistency of purpose and we have not deviated from our strategy and goals which are now well established.

The journey of establishing Cxbladder in the USA market, the world's largest healthcare market, continues to be the primary focus of the Company.

We had hoped and planned to be able to bring the last two of the four transformational USA

opportunities that we have been working on to finality this year, being Kaiser Permanente and the Centers for Medicare & Medicaid Services (CMS). While we are disappointed that progress is not as fast as we would have liked, we continue to make progress and our team is doing all within its control to conclude these opportunities.

During the year we commissioned EY Parthenon, a leading international consulting firm, to review our USA 'go to market' strategy. Pleasingly, this review endorsed our strategy and confirmed the addressable market for Cxbladder in the USA to be more than US\$1.2 billion.



While the pace of our progress has been challenging for all stakeholders and may well be less than some expectations, in the context of bringing a new medical device to the international market – a device that seeks to disrupt decades of established medical practice – what a small company founded and headquartered in Dunedin has been able to achieve so far does give cause for quiet celebration.

When you distil everything down to its fundamentals, the Company owns world-leading molecular diagnostic tests for the detection and management of bladder cancer. The effectiveness and utility of our suite of products continues to be validated in user studies and peer reviewed publications and the tests continue to be adopted by physicians at an increasing rate globally.

#### TO REFLECT ON WHAT HAS BEEN ACHIEVED OVER THE LAST YEAR:

- Adoption of Cxbladder has continued to grow and billable tests were 82% of total laboratory throughput.
- Another milestone was achieved to enable reimbursement in the USA, with the granting of CPT codes by the American Medical Association.
- Awareness of our products continues to build, our customer base is growing and we signed a number of significant commercial agreements with large institutional customers during the year.
- While not distracting from our focus on the USA market, our first commercial agreement has been signed in Asia with the Raffles Group in Singapore.
- We were encouraged by the support of shareholders for our capital raising in November.

We made the decision to early adopt the new accounting standard for revenue recognition, NZ IFRIS 15 for the 2018 financial year. This cash basis of recognition provides more relevant information on Pacific Edge's revenues, particularly from the USA, where the reimbursement system is complex and time to recovery of cash can be slow.

#### TO THE YEAR AHEAD:

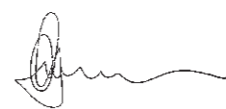
- In the USA market, we remain very focussed on concluding a commercial agreement with Kaiser Permanente, achieving our CMS Local Coverage Determination, and building volumes of tests with the Veterans Administration (VA) and TriCare.
- We will continue to complete our New Zealand roll out, and build on our market start in Singapore.
- We have identified our key performance measurement metrics as billable tests and cash generation, and will report on these on a regular basis.
- The Board and management have cash and cashflow management very front-of-mind and we remain focussed on our goal of achieving a cash flow break-even position in the 2019 financial year.

Our Company is uniquely positioned to capitalise on the demand for better, more accurate, less invasive and more cost-effective diagnostics.

The Board believes that we have the right strategy, the right people to execute that strategy and we are years ahead of the competition.

I would like to thank my fellow Directors for their efforts and wise counsel over the year, our shareholders for your patience and support, our customers for their support and willingness to try something new and, last but not least, our management and staff who remain resilient and focussed on delivering on the potential of our technology for the benefit of all of our stakeholders.

I look forward to providing a further update to you at our annual meeting, which will be held in Dunedin on 16 August 2018.



Chris Gallaher  
Chairman  
Pacific Edge

## CEO'S REVIEW

Our goal remains to be the global provider of a one stop shop of diagnostic tests for the detection and better management of haematuria and bladder cancer, and the preferred choice for physicians. This is a big goal, it has been with us from the start and we are well on the way to its delivery.

Creating and launching a new commercial diagnostic is no easy task and is usually undertaken by multinational companies with deep pockets, looking to take advantage of large commercial opportunities. It often involves years of research and development, clinical validation through multiple studies, extensive processes and compliance for reimbursement, establishing commercial operations and then marketing to physicians and patients and encouraging adoption.

Pacific Edge remains the only company in the world to have commercially launched a new diagnostic test for urothelial and bladder cancer in the last 16 years, and to have a suite of four tests across the clinical pathway is a real achievement.

To gain adoption of our tests, we need to change long standing clinical practices, and the burden of proof is extensive. Proof of clinical validity and clinical utility helps us grow adoption and it has been pleasing to see a number of published papers, some based on recent third party performance analysis of Cxbladder in use on the front-line, and all publications confirming that our tests perform in line with or above expectations.

In FY18, our focus was on growing our customer base and increasing sales to existing customers. To achieve that, we have continued to put in place all of the necessary building blocks including clinical science, validation, clinical utility and reimbursement agreements and relationships. The peer reviewed papers which have been published in the past year, represent the audited currency of the medical decision making world, particularly in the US which remains our primary opportunity.

While we were pleased to achieve many of our commercial goals during the year, all of which are helping to grow our sales and improve reimbursement, we had also hoped to finalise commercial agreements with Kaiser Permanente and attain inclusion in the Local Coverage Determination (which will allow for reimbursement of CMS patients). However, these are both taking longer than we all anticipated. While we are achieving all we can in the areas that we can control, we are in the hands of very large bureaucracies to bring these two target customer opportunities to a conclusion.

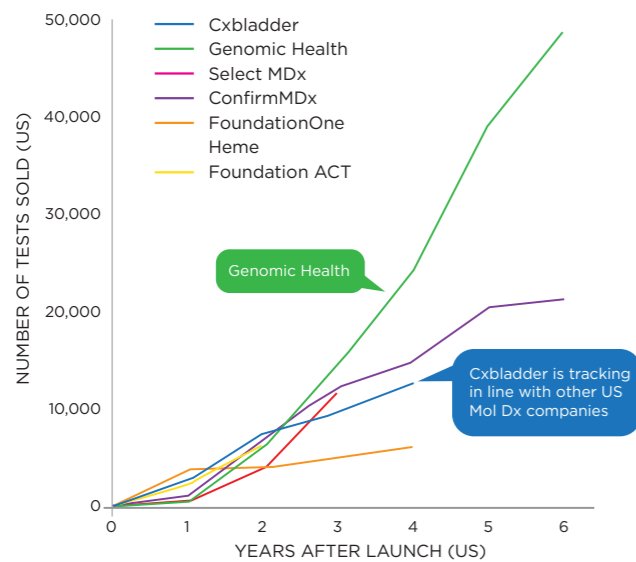
Despite this, the Company continues to grow, with an increase in both the number of commercial tests through our laboratories and in revenue in FY18, and a reduction in our expenditure, year-on-year.

Essential to us achieving our goals, are our highly capable and expert people, who are passionate about our vision, and I would like to thank them for their continued support and contributions to our Company.

#### OUR COMMERCIAL PROGRESS IS IN LINE WITH OTHER SIMILAR DIAGNOSTICS

We are often asked about our expectations for our sales progress and how we compare to that of other molecular diagnostic companies in the US market. In the formative years there were not many to compare ourselves to, however a recent evaluation shows that we have a very similar sales trajectory to that of the other molecular diagnostic companies from their time of launch.

Coverage and reimbursement decisions are key to driving volume. We expect to see an increase in the uptake of Cxbladder as we continue to sign commercial contracts and if and when we are included in the Local Coverage Determination for the CMS.



\*Cxbladder Pacific Edge Year 3 estimate from October 2017 Forecast

Figure 1.0<sup>1</sup>

**INCREASING UPTAKE BY UROLOGISTS**

We have been marketing our tests to urologists for the past three years and we are now seeing more urologists in both private and public healthcare organisations adopting our tests and transitioning from User Programmes to commercial customers.

This was reflected in the 28% increase in laboratory throughput in FY18, a key measure of the adoption of our tests and the growth of our business. Of the total tests carried out in FY18, 82% were billable, up on the previous year, although, due to the complex reimbursement system in the US, payment for these may not be received until some months after the test was provided.

User Programmes continue to remain an essential part of our adoption strategy and a growing number of clinicians across the USA, New Zealand, Australia and Singapore are engaged in User Programmes as part of their adoption cycle for Cxbladder. These enable the physicians to gain a first-hand experience of Cxbladder in their specific clinical settings and select the tests most suitable to their needs, to complete their transition to a commercial customer.

**SALES FOCUS MOVING TO LARGE INSTITUTIONAL HEALTHCARE ORGANISATIONS**

Across all our markets, we are increasing our sales focus on large institutional healthcare organisations. We have seen the impact that our technology makes on these large healthcare providers who have burgeoning patient needs, limited resources and need to demonstrate value for their clinical services.

An example are the New Zealand DHBs. These large public healthcare providers are looking for more timely, high performing and cost effective detection and management options for their growing number of patients and our tests fit these criteria perfectly. We have seen strong uptake by a number of DHBs, particularly in the last 18 months, as they realise the clinical and economic benefits of our tests.

While it may take longer to gain commercial agreements with these large institutions, once in place, they provide us with access to a large population of patients with guaranteed payment terms and little ongoing input needed from our sales team.

In line with this, we have refocussed our US sales team and added more resource for such institutions, while continuing to maintain relationships with existing large practice urologists.

<sup>1</sup>EY-Parthenon US business strategy review PEB document 2018

**PROGRESS WITH TRANSFORMATIONAL CUSTOMERS**

In the USA, we are targeting a number of large scale organisations, which have the potential to be transformational for our Company:

**Centers for Medicare and Medicaid Services (CMS):**

Sales to the USA are the lion’s share of our revenue and, of these, approximately 50% are currently sales directly to patients covered by the CMS. Whilst we are obligated to carry out these tests and invoice the CMS, until we gain inclusion in the Local Coverage Determination (LCD) we are not able to be reimbursed. Good progress is being made to gain LCD inclusion, which will also allow us to seek payment for many CMS patients done to date. This is an iterative, unstructured and lengthy process that can take companies three to five years to complete and which everyone must follow.

**Veterans Administration (VA) and TriCare:**

We are now in contract with the VA and TriCare, which gives us access to a combined 20 million plus military personnel in the US and their families. We have a Federal Supply Schedule agreement in place which means we can sell our tests to VA physicians, at an agreed ceiling price; however, each individual VA centre can still negotiate their own pricing.

While gaining adoption in each centre is taking longer than we anticipated, we are now starting to see early sales from the initial centres we targeted. We are putting in place User Programmes for several of the larger sites and their success is expected to carry adoption across a large number of the VA sites.

**Kaiser Permanente (Kaiser):**

Kaiser is one of the largest integrated healthcare organisations in the USA, with its own network of clinics, hospitals and patient centres. It serves more than 11.8 million members and offers a significant opportunity for our Company.

To have a new healthcare product or service adopted into Kaiser requires a huge amount of clinical validation and sign off from a large team of clinical, budgeting and management personnel. We have little control over the internal decision making process and, while this is taking longer than we anticipated, we could reasonably expect commercial negotiations with Kaiser to conclude shortly.

**OTHER COMMERCIAL MILESTONES IN THE USA**

Earlier this year, we were granted CPT Codes by the American Medical Association. This is a big milestone as CPT codes are only issued for tests that have entered the mainstream and where the volume of tests used by physicians has been shown to be indicative of a significant adoption. Their panel of experts looked at the clinical evidence, the volume of tests used annually and on the basis of their review, CPT Codes were issued for two of our Cxbladder products (Cxbladder Detect and Cxbladder Monitor).

The associated pricing for these codes is expected to have negotiations finalised and published in July 2018. The CPT code prices will carry across to the test sales for patients that are covered by the CMS and if and when Pacific Edge gains LCD inclusion, all the necessary product codes and pricing to enable timely reimbursement in the USA will be in place.

We also signed an agreement with MediNcrease, a National Provider Network (NPN), adding to the large cornerstone NPNs previously announced. These NPNs are a bit like insurance companies and having an agreement in place secures a contract price and smooths the path for reimbursement from all providers and payers in the network and facilitates timely payment terms.

**OTHER MARKETS**

New Zealand is a great example of what our tests can achieve in terms of better patient care, better outcomes and better use of limited healthcare resources. New Zealand’s public healthcare providers set world first benchmarks with the inclusion of Cxbladder into guidelines.

In FY18, Canterbury DHB, a large public healthcare provider, added Cxbladder to their guidelines, replacing the previous gold standard in the initial work-up of patients with haematuria.

Waitemata DHB has also added Cxbladder to their standard of care for all patients being managed for the recurrence of the disease.

In another global first, all four of our products have been signed up by MidCentral DHB during FY18. Cxbladder is now in widespread use by the majority of these large DHBs, test sales are growing and in FY18, New Zealand accounted for 14% of the group's total laboratory throughput.

The uptake in Australia has been disappointing to date and we are working with our distributor to drive trial and adoption and to increase the focus on large healthcare institutions to replicate the success we are having in New Zealand.

Meanwhile, Singapore is turning into another early success story. We are only in the very early stages of entry into this market, but already have multiple User Programmes underway with the large hospitals and have signed a commercial agreement with Raffles Medical Group, which is represented in four countries and 13 cities across South East Asia.

While this is a relatively small commercial proposition for Pacific Edge right now, it provides us with a significant stepping stone into the Raffles Medical Group across South East Asia. The region remains an exciting proposition with approximately 9,500 urologists and an estimated 1.8 million potential Cxbladder tests per year.

**OUTLOOK**

The commercial opportunity for our Company is steadily becoming a reality and the market opportunity remains significant. There is growing awareness, support and adoption of our tests and this is being reflected in increasing sales, and in the adoption of Cxbladder into standards of care and inclusion in local guidelines.

We expect to see this translate into continuing sales growth over the next year from new and existing customers.

To drive our performance, we have identified a number of catalysts for FY19 which we believe will accelerate the uptake and adoption of our product and our commercial success.

- The USA remains our primary focus for growth and will be our main area of investment again in FY19 as we position Cxbladder as the preferred tests of choice for physicians and grow the number of customers and total sales.
- We are moving our focus to large institutional healthcare organisations, which may take longer to bring on board but provide us with access to a large population of patients with guaranteed payment terms and little ongoing input needed from our sales team.
- We are continuing to seek the regulatory and commercial agreements required to operate effectively in the USA and ensure timely reimbursement, particularly from the Centers for Medicare & Medicaid Services and other large insurance providers such as Kaiser Permanente.
- We will continue to build on and leverage the clinical utility and validation of our products, which demonstrate their outperformance compared to other commonly used diagnostic alternatives.

We remain focussed on achieving our goals and delivering value to our stakeholders.



David Darling  
Chief Executive Officer

<sup>1</sup>EY-Parthenon business review of the US market opportunity cites Pacific Edge's total addressable market in the US to be annually US\$1.2 billion

**PATIENTS SEEKING BETTER OPTIONS**

The use of Cxbladder Monitor can reduce or remove the need for cystoscopy, a painful, invasive and expensive procedure that requires a tube with a scope to be inserted into the urethra.

In the USA alone, up to 1.5 million cystoscopies are performed each year on bladder cancer patients.

In a recent survey<sup>1</sup> of over 1,000 bladder cancer patients and caregivers in the USA, 71% of patients who felt discomfort, pain, embarrassment or anxiety when having a cystoscopy would choose Cxbladder as part of their bladder cancer management plan. Sixty-eight percent would use Cxbladder to reduce the frequency of cystoscopies as part of their ongoing surveillance.

<sup>1</sup>Pacific Edge/Bladder Cancer Advocacy Network (BCAN) Patient Survey 2018 (unpublished)

"Cystoscopy was very painful. I hope to never go through that again."

"I wish there was a better, less invasive way to determine if tumours and cancers have returned."

"Cystoscopy is an experience I would love to discontinue. I hope that some form of technology soon takes its place. There is nothing pleasant about the procedure."





## NEW REVENUE REPORTING MODEL

### US reimbursement process and accounting for B2C customers

The US reimbursement system is complex, and commercial agreements with US insurance payers are required to enable reimbursement on a timely basis.

At this stage of Pacific Edge's commercial journey, the majority of revenue is being generated from sales to individual patients in the US (B2C customers).

Under this Business to Consumer relationship, the patients retain the liability of paying for the tests, however their insurer may pay some or all of the cost of the test, depending on their level of cover. The patient is then responsible for paying any outstanding amount. As a result, receipt of cash can take anywhere from 1 to 24 months, with the bulk of cash receipts coming over 7 to 12 months from the time of sale.

While it is not necessary to be in-contract to be paid, agreements with private insurers, large healthcare institutions and inclusion in the CMS' Local Coverage Determination (LCD) will improve payment timing and terms.

The CMS is seen by private insurers as a leader in the market and, tactically, negotiations with private insurers are nearly always done following inclusion under the CMS coverage.

Finalising a price under the CPT codes also concludes one of the two big steps in the US reimbursement process and will enable Pacific Edge to begin negotiating contracts with private insurers.

### NZ IFRS 15: New revenue reporting model

Pacific Edge has adopted NZ IFRS 15 for the FY18 financial year onwards. This standard is mandatory for all companies from FY19.

Under the Company's new reporting model, revenue is now recognised for US customers only when the cash payment is received. Given the variability in the payment terms for B2C customers in the US, this is seen as providing a more transparent view of Pacific Edge's cash revenues, particularly from the US.

Previously, revenue included accrued revenue for tests that had been completed but not yet paid for. These will now be recognised as revenue only when payment is received.

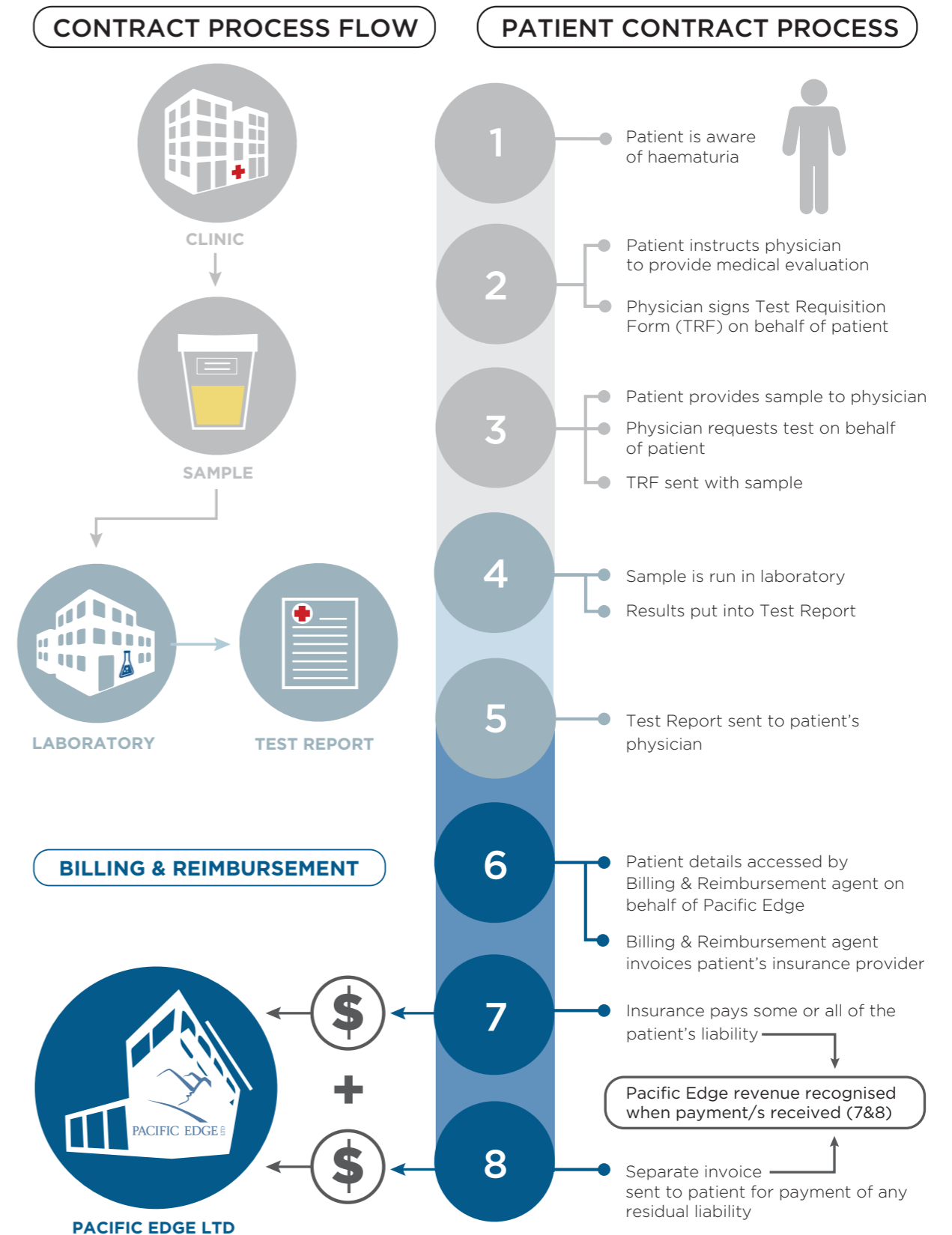
This accounting treatment is likely to continue until such time as Pacific Edge is included in the LCD and coverage contracts are established with commercial insurers. Both of these will provide significant positive impacts on the timing and collectability of revenue from the individual patient contracts.

Accrual revenue is still in place for the sales in New Zealand, Australia and Singapore, where we have more certainty over payment terms.

### Key Performance Indicators

With the change to the new accounting standards, the performance metrics for the Company will now be centred around cash revenue, total laboratory throughput and the percentage of billable tests.

## USA: B2C CONTRACTED RELATIONSHIP



## FINANCIAL REVIEW

### PERFORMANCE AGAINST FORECAST (ON A 'LIKE-FOR-LIKE' ACCOUNTING BASIS<sup>1</sup>)

	FY18 Forecast	FY18 (on 'like-for-like' basis)	Forecast Achieved (%)	FY17 (Previously Reported)
Total Revenue (NZ\$M)	12.6	12.0	95%	9.5
Net Operating Cashflow (NZ\$M)	(18.0)	(18.1)	101%	(17.8)
Total Laboratory Throughput ('000)	15.8	14.4	91%	11.2
Billable Tests ('000)	12.4	11.9	96%	8.4

On a like-for-like accounting basis, laboratory throughput was 91%, billable tests were 96% and revenue was 95% of forecast. This is despite commercial arrangements with Kaiser Permanente not yet being finalised and sales to the Veterans Administration only now starting to flow from the initial centres targeted. Both of these were anticipated in the forecast to make contributions to the FY18 results.

### REPORTED FY18 RESULTS (UNDER THE NEW ACCOUNTING BASIS)

(NZ\$M)	FY18	FY17 (Restated)	FY17: FY18 (% change)	FY17 (Previously Reported)
Operating Revenue	3.4	3.2	6%	8.1
Other Revenue	1.6	1.5	7%	1.4
Total Revenue	5.0	4.7	6%	9.5
Total Operating Expenses	(24.6)	(27.3)	(10%)	(30.5)
Total Comprehensive Loss	(19.7)	(22.6)	(13%)	(21.0)
Net Cash Outflow to Operating Activities	(18.1)	(17.8)	2%	(17.8)
Cash On Hand as at 31 March	16.2	14.6	11%	14.6

### OPERATING REVENUE – \$3.4 MILLION

Under the new accounting basis, revenue from test sales increased 6% to \$3.4 million with total revenue for the year of \$5.0 million.

This excludes US tests where cash payment has yet to be received, along with tests completed for patients covered by the CMS, which account for up to 50% of US laboratory throughput and for which Pacific Edge will seek reimbursement when it is included in the LCD. These tests remain in the billing and reimbursement process and revenue will be accounted for when the cash is received.

Reported revenue lags behind tests sold, due to the longer time for cash collectables under the US reimbursement process.

As usual, a stronger second half of the year was reported. This is usually when patients' medical costs have exceeded their fixed deductible level, triggering the spend on medically recommended actions that are reimbursed by their insurance company. In FY18, the second half result also reflected the increasing sales in the USA from the recently released Cxbladder Monitor.

<sup>1</sup> 'Like-for-like' basis assumes the same accounting standards, calculations and assumptions as was used to define the October 2017 forecast

### LABORATORY THROUGHPUT – 14,448 TESTS

Laboratory throughput is a cornerstone measure of the growth of the business and includes both commercial sales and tests from User Programmes.

Throughput increased by 28% to 14,448 tests in FY18, of which 82% were billable tests (FY17: 74%).

### TOTAL OPERATING EXPENSES – \$24.6 MILLION

(NZ\$M)	FY18	FY17 (Restated)	FY17: FY18 (% change)	FY17 (Previously Reported)
Laboratory Operations	4.6	3.9	18%	1.0
Research	4.4	6.1	(28%)	4.9
Sales and Marketing	9.4	9.0	4%	1.9
General & Administration	6.2	8.3	(25%)	22.7
Total Operating Expenses	24.6	27.3	(10%)	30.5

Total operating expenses reflect the increasing laboratory throughput and investment into sales and marketing, particularly in the US. Overall, costs were 10% lower than the prior year, and revenue continues to outgrow expenses, by a net 13% FY17 to FY18.

The employee equity incentive scheme was wound up in FY17 and ordinary shares issued to the staff. This was a one-off non-cash element and there are no costs associated with this in FY18. FY17 has been restated to remove Bad and Doubtful Debts related to US accrued revenue which is no longer recognised under NZ IFRS 15.

### NET OPERATING CASHFLOW – \$(18.1) MILLION

Cash receipts from customers of \$3.4 million reflect the long reimbursement processes, particularly in the US, with a large portion of cash received in FY18 for tests sold in prior years. The time taken to collect cash receipts will improve as commercial agreements with insurers, large institutions and the CMS are achieved. Net operating cashflows were at a similar level to last year and in line with expectations.

### FINANCIAL POSITION

At 31 March 2018, cash in hand was \$16.2 million and the Company remains debt free. A successful \$21.3 million capital raising was completed in November 2017 and the Company is working hard to build sales and achieve a cashflow breakeven position.

### NET LOSS AFTER TAX – \$19.7 MILLION

Overall, the Company reported a net loss of \$19.7 million for the year, an improvement of 13% on the prior year loss of \$22.6 million.

<sup>1</sup> FY17 Operating Expenses included bad debts and doubtful debts expenditure of \$3.2m and one-off non-cash cost of winding up the Employee Incentive Scheme of \$2.9m

## BOARD OF DIRECTORS

Pacific Edge is led by an experienced and knowledgeable Board of Directors who offer a range of complementary skills and expertise.



### 1. Chris Gallaher, Chairman and Independent Director (Appointed 2016)

Chris joined the Board in 2016 and was appointed as Chairman in August 2016. A New Zealander based in Melbourne, before his retirement from full time corporate life last year, Chris held senior executive positions in both general and financial management with a number of large international companies; his last role being Group Chief Financial Officer of Fulton Hogan, a large New Zealand, resources based civil contractor. He also serves on the Boards of The Good Shepherd New Zealand and Australia, Good Shepherd Microfinance, Mariposa Ltd and the investment committee of property development company, Substancia Pty Ltd. Chris is a Chartered Accountant and holds a BCom from Otago University and is a member of the Australian Institute of Company Directors.

### 2. David Band, Independent Director (Appointed 2007)

David is an experienced international businessman and joined the Board in 2007 upon returning to New Zealand from Europe. David's career encompasses significant experience in corporate consulting and management. This included extensive periods with Korn/Ferry International, PA Consulting Group and Sibson Consulting. At PA Consulting Group he was Head of the Management Development Practice. He is Chairman of AbacusBio Ltd and Director of Kauri Australia Pty Ltd.

### 3. David Darling, Executive Director and CEO (Appointed 2014)

Dave has over 30 years' business experience in life sciences and biotechnology and was appointed to the Board as Executive Director in 2014. In his capacity as Chief Executive Officer he has led Pacific Edge from its early inception, and has significant executive and leadership experience in the development and international commercialisation of biomedical and biotechnology businesses and products. During his career, Dave has held a number of positions in governance, executive and senior management, joining Pacific Edge from Fletcher Challenge.

### 4. David Levison, Independent Director (Appointed 2016)

David has spent 25 years in the healthcare industry, from pharmaceuticals to services to diagnostics. David is the founder and Director of CardioDx, a leading firm in delivering genomic diagnostics to cardiology and primary care physicians. Prior to launching CardioDx, David was a Venture Partner at TPG Ventures and was the CEO of CareDx (formerly XDx). Previously, he was the founder, President and CEO of iScribe (which was sold to AdvancePCS-now Caremark in December, 2001). Prior to iScribe, David was President of Oncology Therapeutics Network (sold to Bristol-Myers Squibb in 1996). David also served as CFO of OTN's parent company, Axion, from 1990 to 1993. Prior to Axion, he was with Cole Gilburne Fund, an early stage, technology focussed venture capital firm. David received his MBA from Stanford University and BS from Williams College.

### 5. Anatole Masfen, Non-Independent Director (Appointed 2008)

Anatole is the co-founder of Artemis Capital, a private equity investment firm based in Auckland. Anatole brings to the Board significant experience as an investment manager. Anatole graduated from Auckland University with a MCom (Hons) in Finance and Economics. He then spent seven years at Air New Zealand and Ansett Australia in various roles in Pricing and Revenue Management where he was responsible for systems and process implementation, which continue to drive profitability of the airline.

### 6. Bryan Williams, Independent Director (Appointed 2013)

Bryan Williams is an internationally recognised cancer researcher and research administrator, with significant business experience. He was Chair of the Board of Directors of MEI Pharma, a US-based NASDAQ-listed company, for seven years and was a Director of Cancer Trials Australia. He is presently Chair of the Board of BioGrid Australia Ltd, and serves on the Boards of XYnapse Therapeutics Pty Ltd and Cartherics Pty Ltd. He has served as a Director of Pacific Edge Ltd for the past five years. Bryan was Director of the Monash Institute of Medical Research from 2006 until 2013, and Director and CEO of the Hudson Institute of Medical Research from 2013 to 2017. He is currently Emeritus Director and Distinguished Scientist at the Hudson Institute in Melbourne. He previously held leadership positions in Cleveland and Toronto.

## EXECUTIVE TEAM

### **Jack Atchason, Senior Vice President of Sales & Customer Service, Pacific Edge Diagnostics USA Limited**

Jack brings over 25 years of successful experience in sales, sales leadership, and commercial operations, with large and small pharmaceutical organisations in the US. A proven leader in start-up organizations and product launches, Jack held roles of increasing responsibility for Abbott Laboratories Amgen, Cytogen, Idenix, Millenium, and Targanta. Jack has led the growth of US Sales and customer acquisition since 2013.

### **Parry Guilford, Chief Scientific Officer, Pacific Edge Limited**

Parry has led the science, research and development at Pacific Edge from its early days. As one of the founding scientists and a member of the Scientific Advisory Board of the Company, Parry is the architect of many of the Company's product prototypes. Parry's focus today and going forward is to bring his world class skills and experience on the step change in biotechnology for the Company's next generation of products.

### **Tony Lough, Vice President Clinical Science & Product Performance, Pacific Edge Pty Limited**

Tony joined Pacific Edge in October 2016 and brings research management experience to the senior management team. His most recent role was Chief Executive of a government - University funded project to provide a national genomics infrastructure to the research sector. Prior to that he was a team leader at the Auckland-based biotechnology company Genesis Research and Development Corporation, leading projects in the commercialisation of macromolecular signaling.

### **Brent Pownall, Vice President Commercial & Franchise, Pacific Edge Limited**

Brent brings significant strategic marketing, business development and commercialisation experience, including sales and marketing of biologics and biomedical products in New Zealand, Australia, Asia and the United States. Brent joined Pacific Edge in February 2013 to lead the commercial and business development activities of the Pacific Edge franchise, and its commercial arm Pacific Edge Diagnostics New Zealand serving the New Zealand, Singapore and Australian markets.

### **Kate Rankin, Chief Financial Officer, Pacific Edge Limited**

Kate joined Pacific Edge in November 2014 and brings international business experience, finance and leadership skills to the senior management team. Her most recent role was at Spark New Zealand as Senior Finance Performance Manager and a member of the Telecom New Zealand International Leadership Team. Prior to that she was Team Leader and Legal Entity Controller at Deutsche Bank in London.

### **Jimmy Suttie, Senior Vice President Global Operations, Pacific Edge Limited**

Jimmy has vast experience, as an executive, with the management of science and technology in New Zealand's primary industry sector, particularly the development and application of science and technology for commercialisation. Jimmy joined Pacific Edge to head up operations for the franchise, product improvement and support and new product development.

### **Jackie Walker, Chief Executive Officer, Pacific Edge Diagnostics USA Limited**

Jackie brings to the company over 25 years of extensive leadership experience in commercialising medical technologies in the US and a strong general management background. Prior to joining Pacific Edge Diagnostics USA, Jackie held senior executive positions at OSspray Ltd, Ondine Biomedical, Dentsply Sirona, a NASDAQ-100 company, and Ohmeda Medical.

### **Dora Yip, Director Customer Experience & Digital Marketing, Pacific Edge Limited**

Dora has over 15 years of marketing communications experience, gained in Singapore and New Zealand. She's worked and consulted in industries ranging from healthcare and education, to FMCG and retail, science, infrastructure, NGO and government. A writer and columnist with science communication credentials, Dora heads up Pacific Edge's brand engagement and customer experience portfolio.

## SCIENTIFIC ADVISORY BOARD

Pacific Edge has a world class Scientific Advisory Board (see table below). The skills, experience and capability cover a range of disciplines from clinical medicine and pathology through to commercial biotechnology research and development.

Members of the Scientific Advisory Board advise on science, scientific progress and clinical opportunities. Visits to New Zealand by the international members also provide a strong linkage to international issues and opportunities while enabling us to keep abreast of the rapidly changing technology.

Name	Position	Organisation	Country
P. Guilford	Chief Scientific Officer	Pacific Edge Limited	New Zealand
	Professor	University of Otago	New Zealand
N. Kasabov	Director	Knowledge Engineering & Discovery Research Institute (KEDRI)	New Zealand
	Professor Computer Science	Auckland University of Technology	New Zealand
M. Sullivan	Professor Consultant	The University of Melbourne Royal Children's Hospital	Australia
	Paediatric Oncologist		
M. Brennan	Oncologic Surgeon Scientist Vice President for International Programs Professor	Memorial Sloan Kettering Cancer Center	USA
B. Williams	Emeritus Director and Distinguished Scientist	Hudson Institute of Medical Research	Australia
	Director	Pacific Edge Limited	New Zealand
O. Ogawa	Professor and Chairman	Department of Urology, Kyoto School of Medicine	Japan
P. Spence	Managing Director	Paul Spence Consultants	United Kingdom

## CLINICAL ADVISORY BOARD

Pacific Edge has a Clinical Advisory Board to provide expert advice on global clinical needs and applications for the Cxbladder technology.

Name	Position	Organisation	Country
R. Getzenberg	Chief Scientific Officer	Veru Inc.	USA
S. Shariat	Professor and Chairman	Medical University of Vienna, Vienna General Hospital	Austria
	Adjunct Professor	Weill Cornell Medical Center, New York	USA
	Adjunct Professor	University of Texas Southwestern Medical Center	USA
J. Raman	Professor and Chief of Urology	Penn State Hershey Surgical Specialties, Milton S. Hershey Medical Center, Hershey, Pennsylvania	USA
P. Cozzi	Associate Professor	University of Notre Dame	Australia
	Urologist	VMO at St George Public and Private, Mater Private, Sutherland, Kareena, Prince of Wales and Hurstville Private Hospitals	Australia
P. Gilling	Consultant Urologist	Tauranga Hospital	New Zealand
	Head of Urology Department	Urology BOP Ltd	New Zealand
	Professor of Surgery	University of Auckland School of Medicine	New Zealand
M. Fraundorfer	Consultant Urologist	Tauranga Hospital Urology BOP Ltd	New Zealand
J. Masters	Urologist	Auckland City Hospital Manukau Superclinic	New Zealand

# 18 FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 MARCH 2018

## Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	2018 (\$'000)	2017 (\$'000) RESTATED
<b>REVENUE</b>			
Operating Revenue	5	3,400	3,208
<b>Total Operating Revenue</b>	5	<b>3,400</b>	<b>3,208</b>
Other Income	5	1,242	1,105
Interest Income	6	231	249
Foreign Exchange Gain		129	119
<b>Total Revenue and Other Income</b>	5	<b>5,002</b>	<b>4,681</b>
<b>OPERATING EXPENSES</b>			
Laboratory Operations		4,619	3,927
Research	7	4,384	6,088
Sales and Marketing		9,436	8,970
General & Administration	9	6,207	8,282
<b>Total Operating Expenses</b>		<b>24,646</b>	<b>27,267</b>
<b>NET (LOSS) BEFORE TAX</b>		<b>(19,644)</b>	<b>(22,586)</b>
Income Tax Expense	18	-	-
<b>(LOSS) FOR THE YEAR AFTER TAX</b>		<b>(19,644)</b>	<b>(22,586)</b>
Items that may be reclassified to profit or loss:			
Translation Foreign Operations		(83)	(43)
<b>TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company</b>		<b>(19,727)</b>	<b>(22,629)</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>			
Basic and Diluted Earnings Per Share	3	(0.045)	(0.057)

These Financial Statements are to be read in conjunction with the Notes to the Financial Statements

## Statement of Changes in Equity

For the year ended 31 March 2018

		Share Capital	Retained Earnings	Share Based Payments Reserve	Foreign Currency Translation Reserve	Total Equity
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
	Notes	RESTATED	RESTATED	RESTATED	RESTATED	RESTATED
Balance as at 31 March 2016		100,012	(73,527)	2,404	918	29,807
Adjustment on Adoption of NZ IFRS 15 (net of tax)	2	-	(4,362)	-	88	(4,274)
<b>Restated Balance as at 31 March 2016</b>		<b>100,012</b>	<b>(77,889)</b>	<b>2,404</b>	<b>1,006</b>	<b>25,533</b>
Loss After Tax (as restated)		-	(22,586)	-	-	(22,586)
Other Comprehensive Income (as restated)		-	-	-	(43)	(43)
<b>TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company</b>		<b>-</b>	<b>(22,586)</b>	<b>-</b>	<b>(43)</b>	<b>(22,629)</b>
<i>Transactions with owners in their capacity as owners:</i>						
Issue of Share Capital (net of expenses)	20	8,659	-	-	-	8,659
Issue of Ordinary Shares - Equity Share Scheme	8/20	2,925	-	-	-	2,925
Share Based Payment - Employee Share Options	10	-	-	485	-	485
<b>Balance as at 31 March 2017</b>		<b>111,596</b>	<b>(100,475)</b>	<b>2,889</b>	<b>963</b>	<b>14,973</b>
Balance as at 31 March 2017		111,596	(100,475)	2,889	963	14,973
Loss After Tax		-	(19,644)	-	-	(19,644)
Other Comprehensive Income		-	-	-	(83)	(83)
<b>TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company</b>		<b>-</b>	<b>(19,644)</b>	<b>-</b>	<b>(83)</b>	<b>(19,727)</b>
<i>Transactions with owners in their capacity as owners:</i>						
Issue of Share Capital (net of expenses)	20	20,020	-	-	-	20,020
Exercising of Employee Share Options	10/20	112	-	(18)	-	94
Share Based Payments - Employee Remuneration	10/20	96	-	-	-	96
Share Based Payment - Employee Share Options	10	-	-	1,184	-	1,184
<b>Balance as at 31 March 2018</b>		<b>131,824</b>	<b>(120,119)</b>	<b>4,055</b>	<b>880</b>	<b>16,640</b>

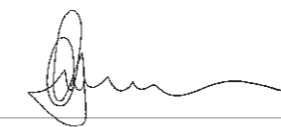
These Financial Statements are to be read in conjunction with the Notes to the Financial Statements

## Balance Sheet

As at 31 March 2018

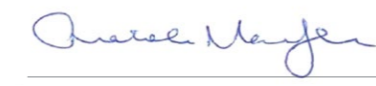
	Notes	2018 (\$000)	2017 (\$000) RESTATED	2016 (\$000) RESTATED
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	11	5,242	6,564	4,160
Short Term Deposits	11	11,000	8,000	20,000
Receivables	12	1,064	663	1,456
Inventory	13	752	824	707
Other Assets	14	472	490	496
<b>Total Current Assets</b>		<b>18,530</b>	<b>16,541</b>	<b>26,819</b>
<b>NON-CURRENT ASSETS</b>				
Property, Plant and Equipment	15	854	837	990
Intangible Assets	16	281	329	247
<b>Total Non-Current Assets</b>		<b>1,135</b>	<b>1,166</b>	<b>1,237</b>
<b>TOTAL ASSETS</b>		<b>19,665</b>	<b>17,707</b>	<b>28,056</b>
<b>CURRENT LIABILITIES</b>				
Payables and Accruals	19	2,926	2,734	2,523
Finance Leases	25	73	-	-
<b>Total Current Liabilities</b>		<b>2,999</b>	<b>2,734</b>	<b>2,523</b>
<b>NON-CURRENT LIABILITIES</b>				
Finance Leases	25	26	-	-
<b>Total Non-Current Liabilities</b>		<b>26</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>3,025</b>	<b>2,734</b>	<b>2,523</b>
<b>NET ASSETS</b>		<b>16,640</b>	<b>14,973</b>	<b>25,533</b>
Represented by:				
<b>EQUITY</b>				
Share Capital	20	131,824	111,596	100,012
Accumulated Losses		(120,119)	(100,475)	(77,889)
Share Based Payments Reserve		4,055	2,889	2,404
Foreign Currency Translation Reserve		880	963	1,006
<b>TOTAL EQUITY</b>		<b>16,640</b>	<b>14,973</b>	<b>25,533</b>
Net Tangible Assets Per Share		0.035	0.037	0.063

For and on behalf of the Board of Directors



Chris Gallaher, Chairman

Dated the 29th day of June 2018



Anatole Masfen, Director

These Financial Statements are to be read in conjunction with the Notes to the Financial Statements

## Statement of Cash Flows

For the year ended 31 March 2018

	Notes	2018 (\$000)	2017 (\$000) RESTATED
<b>CASH FLOWS TO OPERATING ACTIVITIES</b>			
Cash was provided from:			
Receipts from Customers		3,420	3,198
Receipts from Grant Providers		944	1,418
Interest Received		115	732
		4,479	5,348
Cash was disbursed to:			
Payments to Suppliers and Employees		22,575	23,210
Net GST Cashflow		4	(25)
		22,579	23,185
<b>Net Cash Flows to Operating Activities</b>	22	<b>(18,100)</b>	<b>(17,837)</b>
<b>CASH FLOWS TO INVESTING ACTIVITIES:</b>			
Cash was provided from:			
Proceeds from Short Term Deposits		8,000	20,000
		8,000	20,000
Cash was disbursed to:			
Purchase of Short Term Deposits		11,000	8,000
Capital Expenditure on Plant and Equipment		195	209
Capital Expenditure on Intangible Assets		140	270
		11,335	8,479
<b>Net Cash Flows to Investing Activities</b>		<b>(3,335)</b>	<b>11,521</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash was received from:			
Ordinary Shares Issued	20	21,318	8,750
Exercising of Share Options		96	-
		21,414	8,750
Cash was disbursed to:			
Repayment of Capital Element of Finance Leases		59	-
Issue Expenses	20	1,298	91
		1,357	91
<b>Net Cash Flows From Financing Activities</b>		<b>20,057</b>	<b>8,659</b>
<b>Net increase (decrease) in Cash Held</b>		<b>(1,378)</b>	<b>2,343</b>
Add Opening Cash Brought Forward		6,564	4,160
Effect of exchange rate changes on net cash		56	61
<b>Ending Cash Carried Forward</b>	11	<b>5,242</b>	<b>6,564</b>

These Financial Statements are to be read in conjunction with the Notes to the Financial Statements

## Notes to the Financial Statements

For the year ended 31 March 2018

### 1. SUMMARY OF ACCOUNTING POLICIES

#### Reporting Entity

The consolidated financial statements presented for the year ended 31 March 2018 are for Pacific Edge Limited (the 'Company') and its subsidiaries (collectively referred to as the 'Group'). The Group's purpose is to research, develop and commercialise new diagnostic and prognostic tools for the early detection and management of cancers.

Pacific Edge Limited is registered in New Zealand under the Companies Act 1993 and is a Financial Markets Conduct (FMC) reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules. The financial statements presented are those of the Group, consisting of the Parent entity, Pacific Edge Limited ("the Company") and its subsidiaries. The reporting entity is listed on the New Zealand Stock Exchange (NZX).

These consolidated financial statements have been approved for issue by the Board of Directors on 29 June 2018.

#### Basis of Preparation

These consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards.

The consolidated financial statements are presented in New Zealand Dollars, which is the Parent's functional currency and Group's presentation currency and all values are rounded to the nearest thousand dollars (\$000). The accounting principles recognised as appropriate for the measurement and reporting of earnings, cash flows and financial position on an historical cost basis have been used.

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables.

#### Management of Capital

The capital structure of the Group consists of equity raised by the issue of ordinary shares in the Company. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to support the development of its business. The Company meets these objectives through managing its liquidity position with available funds by reducing expenditure or issuing new shares. As part of meeting these objectives, the Company completed a Rights Issue in November 2017 and a further 66,617,400 shares were issued at \$0.32 per share. Refer to Note 20 for further details on the Rights Issue.

#### Going Concern

While the Company continues to incur operating losses, the Company remains solvent and continues to meet its debts as they fall due. The cash flows are a critical part of ensuring the business continues to operate in line with the business strategy adopted by the Directors.

In preparing the financial statements, the Directors have applied the principles of going concern on the basis that current cash reserves and the Company's ability to generate cash will be sufficient to meet its debts as they fall due for a minimum of 12 months from signing the financial statements.



## Notes to the Financial Statements

For the year ended 31 March 2018

The Company is progressing commercial negotiations with targeted large scale health organisations, including Kaiser Permanente and the Centers for Medicare and Medicaid Services (CMS). These contracts are taking longer than expected to complete, but good progress is being made. These new contracts will have a significant positive impact on the Company's financial position when concluded.

In the event that one or both of these contract negotiations are not successful, a decrease in forecast cash flows may occur, in which case, a material uncertainty may exist which may cast significant doubt on the Company's ability to continue as a going concern with the current capital and cost structures.

In this event, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

If a decrease in forecast cash flows was to occur, there are a number of operational options available to the Directors to manage the cash flow requirements of the Company and ensure the Company continues as a going concern. The two most likely options are either to reduce the cash outflows or increase the cash position of the Company.

- Reduce cash outflows to prolong the availability of the Company's cash balances. This could be achieved by either eliminating or reducing key areas of expenditure, or deferring certain expenditure. The Company does not have significant amounts of committed fixed expenditure.
- Seeking additional funding to add further capital into the Company and allow the Company to continue as a going concern.

### Reclassification of Expenditure

Expenses within the Statement of Comprehensive Income have been reclassified from the presentation in the financial statements for the year ended 31 March 2017. The expenses from both the 2017 and 2018 years in these financial statements have been prepared on this new basis.

The reclassification has been made to better represent the nature of the costs as the business evolves to allow for improved comparability.

The following reclassifications have been made for the 2017 year:

- Employee Benefits (which are made up largely of salary and wages, superannuation contributions and health and disability plans) previously included in Other Expenditure which totalled \$7,376,000 have been re-allocated to the functional areas as follows:
  - Laboratory Operations: \$1,334,000
  - Research: \$432,000
  - Sales and Marketing: \$5,610,000
- Overhead expenditure, previously included in Other Expenses, which totalled \$3,782,000 has been re-allocated to the functional areas as follows:
  - Laboratory Operations: \$1,597,000
  - Research: \$748,000
  - Sales and Marketing: \$1,437,000
- The non-cash expenditure relating to the Employee Equity Equivalent Incentive Scheme of \$2,925,000 is now included in General and Administration Expenditure.

These reclassifications do not change the total expenses recognised for the 2017 year. Total expenses from 2017 have however changed as a result of the implementation of NZ IFRS 15, which is further explained in Note 2.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Statement of Cash Flows Restatement

As the Company reported in September 2017, an error was found in the 31 March 2017 Statement of Cash Flows. Bad Debts and Doubtful Debts expenses were incorrectly included in the 31 March 2017 Statement of Cash Flows as Operating Cash Expenditure items, rather than being applied against Operating Cash Receipts. The net effect of this error on 31 March 2017 Net Operating Cash Flows was nil, but both Receipts from Customers & Grant Providers and Payments to Suppliers & Employees were overstated in the 31 March 2017 Statement of Cash Flows by approximately \$3.2m. The corrected 31 March 2017 Statement of Cash Flows was released to NZX on the 27th of September 2017 and the corrected 31 March 2017 amounts are shown in the Statement of Cash Flows reported in these Financial Statements.

This error had no impact on the 31 March 2017 Statement of Comprehensive Income, Statement of Changes in Equity, Earnings per Share or the Balance Sheet.

### Basis of Consolidation

The following entities and the basis of their inclusion for consolidation in these financial statements are as follows:

Name of Subsidiary	Place of Incorporation (or registration) & Operation	Principal Activity	Ownership Interests & Voting Rights	
			2018 %	2017 %
Pacific Edge Diagnostics New Zealand Limited	New Zealand	Commercial Laboratory Operation	100	100
Pacific Edge Pty Ltd	Australia	Biotechnology Research & Development	100	100
Pacific Edge Diagnostics USA Ltd	USA	Commercial Laboratory Operation	100	100
Pacific Edge Diagnostics Singapore Pte Ltd	Singapore	Biotechnology Research & Development	100	100
Pacific Edge Analytical Services Limited	New Zealand	Diagnostic Biocomputational Services	100	100

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Edge Limited as at 31 March 2018 and the results of all subsidiaries for the year then ended. All subsidiaries have the same balance date as the Company of 31 March.

Pacific Edge Limited consolidates all entities, where Pacific Edge Limited has the capacity to control, as subsidiaries in the Group financial statements. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from involvement with the investee; and
- has the ability to use its power to affect its returns.

Subsidiaries which form part of the Group are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group.

## Notes to the Financial Statements

For the year ended 31 March 2018

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Critical Accounting Estimates and Assumptions

In preparing these financial statements, the Group made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations or future events that are believed to be reasonable under the circumstances.

The main estimates and assumptions used are in relation to revenue from Cxbladder tests in the US and the going concern assumption which is further assessed in Note 1 above.

## 2. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

### *NZ IFRS 15: Revenue from contracts with customers (NZ IFRS 15)*

The Group has early adopted NZ IFRS 15 Revenue from Contracts with Customers from 1 April 2017 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in NZ IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. None of the available practical expedients have been applied.

Following its initial assessment of NZ IFRS 15 in 2017, the Group previously indicated that there would not be a significant impact on the financial statements from the adoption of this standard. This assessment was based on the expected completion of large customer agreements during FY18, in particular inclusion in the Local Coverage Determination (LCD) with the Centers for Medicare and Medicaid (CMS) and signing a commercial contract with Kaiser Permanente. As these agreements have not been concluded during FY18, the Group has reassessed the impact of NZ IFRS 15 and decided that the adoption of this standard will have a significant impact on the recognition of revenue relating to Cxbladder tests undertaken for US customers. There is no material impact for contracts with customers not based in the US.

Due to this significant impact on the Group's reported financial results, the Group has decided it is appropriate to early adopt NZ IFRS 15. An explanation of the change in revenue recognition and the amount of adjustment for each financial statement line item affected by the application of NZ IFRS 15 is provided below.

### Background information on US customers

A physician will order a Cxbladder test if a patient presents to them with symptoms that may indicate the possibility of bladder cancer. One of the main symptoms is haematuria or blood in their urine. A urine sample is taken from the patient and sent to the Group's laboratory in the United States in the Cxbladder Urine Sampling System. The Group receives and processes the urine sample and returns the results of the test back to the physician who originally ordered the test. The individual patient is the Group's customer, however typically in the US market, the patient's insurer would pay the Group for the cost of the test.

## Notes to the Financial Statements

For the year ended 31 March 2018

When a physician orders a Cxbladder test, the Group has an obligation to perform the test and report the results to the physician irrespective of the patient's insurance circumstances. A patient may have private insurance cover, be covered by the US government's medical program (CMS) or have no insurance cover.

Once the Cxbladder test has been completed, all information required for insurance purposes is sent to the Group's billing and reimbursement company to begin the process to collect reimbursement from the applicable insurance company/ies for the Cxbladder test performed.

For patients with private insurance cover, the relevant test information will be sent to their insurance provider. When the Group does not have an individual agreement with that insurance provider to pay for Cxbladder tests ("out of network"), the insurance provider will assess that individual patient's test for medical necessity and the level of insurance cover (if any) available to cover the cost of the test. This process of assessment can take many months to work through before the Group receives payments from the insurance company. The Group does have agreements with some insurance providers but these currently cover a small population of the Group's customers.

For patients covered by CMS, invoices are sent to CMS to demonstrate the validity of the Cxbladder test and support the process for obtaining inclusion in the Local Coverage Determination (LCD). However, CMS will not normally pay any amounts to the Group, nor permit the patient to be invoiced, until LCD inclusion has been obtained.

For uninsured patients, the Group has no certainty when or if the patient will pay.

### Revenue recognition - patients covered by CMS

#### *Previous accounting under NZ IAS 18*

The accounting for tests performed for patients with CMS cover has been closely linked to the process to obtain inclusion in the CMS LCD. The likelihood of obtaining inclusion in the LCD in the immediate future has formed the basis of the key judgements made at each reporting period. If inclusion in the LCD was considered probable, then management also considered: the likelihood that back-payments would be received from CMS for tests performed to date; and whether a reliable estimate of this payment could be determined.

This CMS decision making process to provide coverage under the LCD is delegated to the Medical Director of the relevant CMS administrator, which, in the Group's case, is the Medical Director at Novitas. The inclusion under the LCD is therefore at the discretion of the Novitas Medical Director so the disclosure of the relevant process is the key element in the decision making with regard to the timing of the payment of invoices for both current and retrospective services to CMS patients.

## Notes to the Financial Statements

For the year ended 31 March 2018

The following table reflects the key judgements in respect of revenue recognition relevant to each reporting period since the 2014 financial reporting year:

Reporting date	Key judgements and estimates
31 March 2014	Cxbladder testing commenced in the US market late in the financial year. At year end, the likelihood of obtaining LCD Inclusion in the next few months was considered remote. No revenue was recognised for Cxbladder tests performed for patients with CMS cover.
31 March 2015	<p>The Group was seeking LCD inclusion to enable the recovery of revenue for historic and on-going services provided to CMS patients, and was notified by the Medical Director for CMS's administrator (Novitas) that LCD was dependent on the submission of substantial equivalence to a benchmark covered test. This requirement had been achieved by the Group in FY15 and the Group determined that the LCD was probable as a result.</p> <p>Following this disclosure, the process for LCD changed on the resignation of the incumbent Medical Director in early FY16. The expectation by advisors to the Group was that the process would remain similar.</p> <p>The change in LCD process led to a change in the timing and the Group's expectation and understanding with regard to payment for retrospective services. Prior precedent with other molecular diagnostic companies who had traversed this LCD process provided the benchmark for the expectation. This information was deemed to be sufficiently reliable for the Group to accrue revenue for the tests completed for CMS patients.</p> <p>As part of the transition to NZ IFRS 15, the Group has reassessed the information that was received in FY15 and this is discussed further below.</p>
31 March 2016	During FY16, the Medical Director at Novitas changed and consequently the LCD process migrated to the specific expectations of the new Medical Director. Over the following 18 months, greater clarity was received on the changes to the LCD process and confirmed to the Group that LCD coverage could therefore be expected to take longer than initially anticipated. On that basis, no revenue was recognised for Cxbladder tests performed for patients with CMS cover in FY16.
31 March 2017	The process for obtaining LCD inclusion continued to morph and changes to our expectation were subsequently also modified. However, there was no prescribed process or defined timetable for coverage under the LCD and as such, no revenue was recognised for Cxbladder tests performed for patients with CMS cover in FY17.

### Re-assessment of FY15 revenue accruals

During the NZ IFRS 15 implementation process, the Group has re-assessed the information used and judgements and assumptions made at each reporting period. It has been identified that the information the Group relied upon in FY15 to accrue revenue for CMS tests totalling \$645,000 was not deemed to be reliable and did not provide the Group with the virtual certainty of the CMS LCD being obtained in the immediately foreseeable future. The Group has also identified that the rate applied to the private payer tests in the same year was less than what the third party data was showing at the time and a further \$402,000 should have been accrued for these tests as a result. The net impact of these two items is that revenue was overstated in FY15 by \$243,000. In re-assessing this as part of the transition to NZ IFRS 15, the Group has assessed that this was an immaterial error in applying the accounting policy in FY15. For transparency, this has been shown separately in the transition tables on pages 40 and 41.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Impact of adoption of NZ IFRS 15

NZ IFRS 15 provides five criteria which must be met before an entity accounts for a contract with a customer under the revenue standard:

- the contract has been approved
- the rights of each party are identified
- payment terms are identified
- the contract has commercial substance, and
- it is probable that consideration will be collected for the goods or services transferred.

Until LCD inclusion is obtained, the Group cannot seek reimbursement from CMS or the patient for any tests performed for patients with government insurance. For these tests, the Group has determined that payment is not probable and that no revenue will be recognised under NZ IFRS 15. This judgement has resulted in no change to the revenue recognition policy for these tests.

### Revenue recognition – patients with private insurance

#### Previous accounting under NZ IAS 18

Under NZ IAS 18, revenue was recognised once the Cxbladder test results were returned to the patient's physician to the extent that the Group determined it was probable that consideration would be received and an estimate of the amount to be received could be reliably estimated. In the time since Cxbladder tests first started to be sold commercially in the US market, only a small number of agreements have been entered into with private insurers, which represent a small percentage of tests performed. While the Group is out of network with private insurers, payments can take over a year to be received and the quantum received for each test can vary. The Group has had to apply significant estimates and judgements in each reporting period to determine the amount that was probable for collection and appropriate to recognise as revenue in accordance with NZ IAS 18.

Critical to this process has been the reliability of data provided by the Group's billing and reimbursement agency, Quadax Inc. In each year of operation, the Group received from Quadax payment data for Cxbladder tests performed. Quadax is one of the leading billing and reimbursement agencies in the US in the molecular diagnostics field. Up until FY17, the Group was reliant on benchmarking data provided by the agency. Each financial year, Quadax provided payment data to the Group from other healthcare entities that were at a similar stage in the lifecycle to the Group to support the benchmarking rates applied. At each reporting period, the Group assessed the reliability and the relevance of this data, to determine if it was appropriate to use this data as the basis for some of their key inputs to the revenue recognition model. As the Group's own payment data has developed, the Group has also assessed how sufficient and reliable its own data is, and the extent to which this was used in conjunction with this market data.

The following data was used by management to estimate probable revenue:

- Estimated time to process and settle claims based on historical timeframes
- Historic collection rates
- Historic patient eligibility rates
- Historic collection probability
- Gross Recoverable Rate per test, being the average rate recovered for paid tests
- Patient profile – CMS and private insurers
- Historic write off rates

## Notes to the Financial Statements

For the year ended 31 March 2018

This information was used to determine:

- % of tests for which no payment was probable
- % of list price likely to be received from the insurer where some payment was probable
- Average time to receive payments from the insurer

The following table reflects the key judgements, in respect of the assumptions adopted in calculating the recognised revenues relevant to each reporting period since the 2014 financial reporting year:

Reporting Date	Key judgements and estimates
31 March 2014	<p>Cxbladder testing commenced in the US market late in the financial year. Due to the limited number of tests completed during this year, the information available to the company was industry specific rather than company specific. This was used to calculate revenue and receivables and was in line with industry guidance obtained.</p> <p>There were no matters arising requiring reassessment of the accounting policy applied or reported balances on transition to NZ IFRS 15.</p>
31 March 2015	<p>During the year to 31 March 2015 there were limited sales in the first 6 months, with most revenue generated in the second half of the financial year.</p> <p>Recovery rates for tests completed were in line with 2014 revenue accrual rate across all tests and in line with industry information obtained.</p> <p>The processing time was in line with expectations and industry guidance with no contradictory information or indication of issues in collection.</p> <p>It was determined that while Company specific data available was consistent with market data, it was not sufficient to use as the basis for setting revenue recognition assumptions. The Group continued to use industry specific information to calculate revenue and receivables.</p> <p>As noted on page 36, the rates of revenue accruals used in FY15 have been re-assessed as part of the transition to NZ IFRS 15. This re-assessment has resulted in additional revenue of \$402,000 being recognised as part of the re-assessment. For transparency, this re-assessment, net of the re-assessment to the CMS revenue in FY15, is shown in the transition tables on pages 40 and 41 as an adjustment to opening accumulated losses as at 1 April 2016.</p> <p>There were no further matters arising requiring reassessment of the accounting policy applied or reported balances on transition to NZ IFRS 15.</p>
31 March 2016	<p>At 31 March 2016, transaction data available to the Group extended over a period of 30 months with 18 months representing strong growth in test numbers.</p> <p>The cash receipts demonstrated an increase in Gross Recoverable Rate per test completed compared to the prior year accrued rate.</p> <p>The recovery rates per test completed were demonstrated to be in line with expectations and industry information obtained from Quadax for other companies at a similar stage in their lifecycle. This market data supported an increase in the recovery rate estimated for tests for which payment was probable. There were no indications of issues in recovery of monies to suggest a revision of the application of our impairment policy was required.</p> <p>There were no further matters arising requiring reassessment of the accounting policy applied or reported balances on transition to NZ IFRS 15.</p>

## Notes to the Financial Statements

For the year ended 31 March 2018

Reporting Date	Key judgements and estimates
31 March 2017	<p>As at 31 March 2017, there was 42 months of tests and Group specific payment data available with the majority of the tests occurring within the last 30 months. The actual data available was now considered sufficient to enable a reassessment of the time to process and settle claims and the recovery rates achieved. This data was available at a more disaggregated level, allowing analysis by private insurer.</p> <p>The time to process and settle claims was positively impacted by the length of time the product had now been available in the market. There was now more awareness, acceptance and familiarity by commercial insurers which resulted in an observable reduction in the amount of time to process and settle claims compared to earlier years of operation.</p> <p>Cash receipts demonstrated an increase in Gross Recoverable Rate per test completed compared to the prior year accrued rate.</p> <p>The Group determined that it was now appropriate to use its own historical payment data as the basis for its revenue estimates, but continued to benchmark this against Quadax market data.</p> <p>In considering the observed reduction in time to process and settle claims, the Group reassessed the recovery of the open claims. As a result, the Group wrote off \$2.4 million of trade receivables and also recognised a doubtful debt provision of \$0.6 million. There were no further matters arising requiring reassessment of the accounting policy applied or reported balances on transition to NZ IFRS 15.</p>

Our assessment following our transition to NZ IFRS 15 has not caused the Group to consider any further adjustments beyond the adjustments noted in FY15.

### Impact of adoption of NZ IFRS 15

The Group is out of network with almost all private insurers in the US market and so the Test Requisition Form signed by the patient is the key contract in this revenue stream. In assessing the information contained in this document, the Group has concluded that the payment terms are unclear. This means that Cxbladder sales in the US do not meet the required criteria under NZ IFRS 15 to enable revenue to be recognised when the test is undertaken and results are delivered to the ordering physician.

The Group has recognised Cxbladder sales in the US on a cash received basis on transition to NZ IFRS 15. As new agreements are entered into, the Group will revisit this judgement, to determine if the criteria to account for a contract are met as a result.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Impact of NZ IFRS 15 on Previously Reported Financial Results

The specific financial statement line items affected by the change to the accounting policy for revenue recognition are as follows:

Opening Balance Sheet 1 April 2016	2016 Previously Reported (\$000)	Adjustment (\$000) <sup>(i)</sup>	Transition Adjustment (\$000)	2016 (\$000) RESTATED	
Accounts Receivable	5,730	(243)	(4,031)	1,456	a
Total Current Assets	31,093	(243)	(4,031)	26,819	a
Total Assets	32,330	(243)	(4,031)	28,056	a
Net Assets	29,807	(243)	(4,031)	25,533	a
Accumulated Losses	(73,527)	(263)	(4,099)	(77,889)	c
Foreign Currency Translation Reserve	918	20	68	1,006	b
Total Equity	29,807	(243)	(4,031)	25,533	a

Opening Balance Sheet 31 March 2017	2017 Previously Reported (\$000)	Adjustment (\$000) <sup>(i)</sup>	Transition Adjustment (\$000)	2017 (\$000) RESTATED	
Accounts Receivable	6,519	(290)	(5,566)	663	a
Total Current Assets	22,397	(290)	(5,566)	16,541	a
Total Assets	23,563	(290)	(5,566)	17,707	a
Net Assets	20,829	(290)	(5,566)	14,973	a
Accumulated Losses	(94,507)	(284)	(5,684)	(100,475)	c
Foreign Currency Translation Reserve	851	6	106	963	b
Total Equity	20,829	(290)	(5,566)	14,973	a

(i) This adjustment represents the correction of the FY15 incorrect application of the accounting policy and the restated foreign currency impact.

- a) The transition adjustments reduce accounts receivable at 1 April 2016 and 31 March 2017 to remove all previously recognised Cxbladder tests trade receivables from the relevant period that cannot be recognised under NZ IFRS 15.
- b) Represents the foreign currency translation adjustment relating to adjustments a) above.
- c) Reflects the net of adjustments a) and b) above.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Statement of Comprehensive Income for the year ended 31 March 2017

The specific financial statement line items affected by the change to the accounting policy for revenue recognition are as follows:

For the year ended 31 March 2017	2017 Previously Reported (\$000)	Adjustment (\$000) <sup>(ii)</sup>	Transition Adjustment (\$000)	2017 (\$000) RESTATED	
Operating Revenue	8,062	-	(4,854)	3,208	a
Total Operating Revenue	8,062	-	(4,854)	3,208	a
Total Revenue	9,535	-	(4,854)	4,681	a
Other Expenses	22,685	(277)	(2,971)	19,437	b
- Bad Debts Expense	2,635	(277)	(2,358)	-	b
- Doubtful Debts Expense	613	-	(613)	-	b
Total Operating Expenses	30,515	(277)	(2,971)	27,267	b
Net Loss Before Tax	(20,980)	(277)	(1,329)	(22,586)	c
Loss for the Year After Tax	(20,980)	(277)	(1,329)	(22,586)	c
Translation Foreign Operations	(67)	4	20	(43)	d
Total Comprehensive Loss	(21,048)	(273)	(1,308)	(22,629)	e
Basic and Diluted Earnings per Share	(0.056)	(0.000)	(0.001)	(0.057)	e

(ii) This adjustment represents the correction of the previously recognised FY15 revenue that was written off in FY17 including the related foreign currency impact.

- a) US Cxbladder test revenue has reduced with the change in policy to a cash receipts basis.
- b) The bad and doubtful debts expense recognised for trade receivables relating to US Cxbladder tests has been reversed. A total of 1,020 CMS tests were written off and 1,134 private insurance tests written off. A further 1,064 tests with less probability of payment had some level of provision applied against them at the end of FY17.
- c) Reflects the net of adjustments a) and b) above.
- d) Represents the foreign currency translation adjustment relating to adjustments a) and b) above.
- e) The adjustment to total comprehensive loss and included in the calculation for basic and diluted earnings per share is the net of adjustments c) and d) above.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Standards and Interpretations issued but not yet effective and relevant to the Group

NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019):

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'.

NZ IFRS 16 is effective from 1 January 2019. This new accounting standard eliminates the distinction between operating and finance leases and will result in lessees bringing most leases on to their balance sheets. The expense previously recorded in relation to operating leases will move from being included in operating leases to within depreciation and finance expenses. Extensive disclosures are also required by NZ IFRS 16. The Company expects to adopt this standard on its effective date and apply this standard to the 2020 financial statements.

As at 31 March 2018, the Company has non-cancellable operating lease commitments of \$2,197,000.

The Company has performed an initial assessment of the financial impact on the Company of the new standard. Most of the Company's operating leases are property leases and the Company does not have a significant amount of other leased assets. The Company's initial assessment is that this standard could have a significant impact on the Company's financial statements. A detailed impact assessment of the new standard will be performed during the 2019 financial year and the results of this assessment will be reported in the 2019 financial statements. It is not practicable to provide a reasonable estimate of the financial effect of the new standard until the detailed impact assessment has been completed.

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2019):

NZ IFRS 9 establishes the principles for hedge accounting and impairment of financial assets. Under NZ IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. In relation to the impairment of financial assets NZ IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes. Until the Group has significant accounts receivable balances or significant customer contracts in place, Management does not expect a significant change to the way in which the Group measures its financial statements as a result of this new standard. The Group will continue to assess the impact of this standard and any significant contracts that the Group obtains, prior to the adoption of the new standard.

There are no other NZ IFRS or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. EARNINGS PER SHARE

#### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year excluding ordinary shares purchased by the Company (Note 20).

	GROUP	
	2018 (\$000)	2017 (\$000) RESTATED
Loss attributable to equity holders of the Company	(19,727)	(22,629)
Weighted average number of ordinary shares on issue	434,256	398,041
Earnings per share	(0.045)	(0.057)

#### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options. As the Group made a loss during the current year and losses cannot be diluted, basic and diluted earnings per share are the same.

### 4. LABORATORY THROUGHPUT AND BILLABLE TESTS

**Laboratory Throughput is a key metric for the Group:** Laboratory Throughput provides evidence of the increasing usage of Cxbladder products globally and the rates of adoption between different customer segments. Total laboratory throughput includes billable tests, which are invoiced to customers (including CMS tests), and tests which are not considered to be billable as these tests relate to user programs or other non-chargeable activities.

**Billable test numbers are also a key metric for the Group:** Billable tests are those tests for which the Company is actively seeking reimbursement and cash receipts. Given the time lag in the US between processing a Cxbladder test and receiving the associated cash receipts, reported revenue based on the application of our accounting policy and billable tests do not correlate in the same time period with one another. Billable test numbers also include tests for CMS patients, which are all invoiced to CMS but for which revenue is not being recognised. Further detail on the accounting policy for revenue recognition is included in Note 5.

Laboratory throughput and billable tests per financial year are shown below.

	FY15	FY16	FY17	FY18
Total Laboratory Throughput (tests)	3,910	8,348	11,246	14,448
Increase in Total Laboratory Throughput (%)	n/a	114%	35%	28%
Increase in Throughput from previous year (tests)	n/a	(+) 4,438	(+) 2,898	(+) 3,202
Total Billable Tests (tests)	2,803	5,578	8,297	11,866
Billable Tests as a percentage of Total Laboratory Throughput (%)	72%	67%	74%	82%
Increase in Billable Tests from previous year (%)	n/a	99%	49%	43%

## Notes to the Financial Statements

For the year ended 31 March 2018

### 5. OPERATING REVENUE AND OTHER INCOME

#### ACCOUNTING POLICIES

##### Revenue Recognition

##### Revenue from Cxbladder tests

##### *US customers – patients covered by CMS*

The Group performs Cxbladder tests when requested by a patient's physician. At the point the test results are returned to the physician, the Group has satisfied its performance obligation and has the right to issue an invoice. However the Group has judged it is not probable that any consideration will be received as inclusion in the Local Coverage Determination (LCD) with the Centers for Medicare and Medicaid (CMS) has not yet been obtained. No revenue is recognised for any patients covered by CMS.

##### *US customers – patients covered by private insurance/no insurance cover*

The Group performs Cxbladder tests when requested by a patient's physician. At the point the test results are returned to the physician, the Group has satisfied its performance obligation and has the right to issue an invoice. The Group currently has a number of agreements signed with private insurers, covering only a small percentage of the patient population which is currently deemed to be immaterial for accounting purposes. The signed Test Requisition Form (TRF) has been determined to be the contract with the patient as the customer. The Group has made a judgement that the payment terms contained in the TRF are unclear and that the criteria to be able to account for the contract under NZ IFRS 15 are not met. Revenue is recognised only when cash is received and it is non-refundable.

##### *Rest of World customers*

The Group performs Cxbladder tests when requested by a patient's physician in New Zealand, Australia and Singapore. At the point the test results are returned to the physician, the Group has satisfied its performance obligation and an invoice is issued to the customer. In all rest of world locations, there is a clearly defined contract with the customer meeting the requirements of NZ IFRS 15. Revenue is recognised when the invoice is issued.

##### **Rest of World Customers - Licence Fees**

Licence fees are recognised in Operating Revenue in the accounting period in which the licence is granted, after the contract has been signed. Licence terms meet the criteria to be a right of use licence.

#### OTHER INCOME

##### Grant Income

Government Grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Government grants are recognised in Other Income in the Statement of Comprehensive Income, on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

All financial conditions of the grants have been complied with.

##### **Cxbladder Research Rebate**

A Cxbladder research programme is administered by Pacific Edge Pty Ltd and tax rebates are received as a result of this programme.

Cxbladder research rebate is recognised at its fair value where there is a reasonable assurance that the rebate will be received and the Group will comply with all attached conditions.

All conditions of the research rebate have been complied with. Payment will be received after submission of each annual research and development tax claim.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Revenue and Other Income

	GROUP	
	2018 (\$000)	2017 (\$000) RESTATED
Cxbladder Sales		
- US	3,188	2,911
- Rest of World	212	190
Licence Fees	-	107
<b>Total Operating Revenue</b>	<b>3,400</b>	<b>3,208</b>
<b>Other Income</b>		
Grant Income	853	876
Research Rebate Received	389	229
<b>Total Other Income</b>	<b>1,242</b>	<b>1,105</b>

All US based Cxbladder tests have been recognised on a cash basis and the cash received relates to Cxbladder tests processed during FY18 and in previous financial years. For Cxbladder tests for customers not based in the US, revenue has been recognised on an accrual basis in the year it relates to.

Grants are for the reimbursement of research costs. The Company has been awarded grants from Callaghan Innovation and New Zealand Trade and Enterprise.

Callaghan Innovation has awarded the Company a Growth Grant, which commenced on 1 January 2014 and runs until 31 December 2018. Callaghan Innovation reimburses the Company for 20 percent of eligible expenditure on the Group's R&D programme. This eligible expenditure complies with NZ IAS 38: Intangible Assets and the Ministerial Direction / New Zealand Gazette, No 146.

For the year ended 31 March 2018, the total eligible expenditure under this Growth Grant was \$3,766,000 (2017: \$3,953,000). The Company also receives grants from Callaghan Innovation for postgraduate internships and summer students.

New Zealand Trade and Enterprise have awarded the Company an International Growth Fund grant, to support the startup of the Group's operations in Singapore. This grant commenced on 14 May 2015 and runs until 31 January 2019. New Zealand Trade and Enterprise reimburses the Company for 50 percent of eligible expenditure relating to the Singapore operations.

All conditions of the grants have been complied with.

##### **Unrecognised revenue**

Approximately 50% of all Cxbladder tests performed by the Group in the US relate to patients covered by CMS. The Group presently invoices CMS tests performed for all US Medicare patients with CMS coverage, however no revenue from these tests is recognised. Upon issuance of the LCD, the Group expects to be reimbursed at the agreed rate for all US Medicare patients for tests performed after that date. The Group may also be reimbursed for some tests completed prior to the issuance of the LCD. No contingent asset has been disclosed at 31 March 2018 as it is not certain when the LCD process will be completed, nor whether any backpayment will be received.

To date, a total of 12,288 tests have been performed that relate to patients covered by CMS, for which no payments have been received.

## Notes to the Financial Statements

For the year ended 31 March 2018

For patients with private insurance cover or no insurance cover, revenue has only been recognised when and to the extent payment has been received, leaving a significant portion of invoiced amounts unrecognised. The level of unrecognised revenue is expected to gradually decrease as the Group concludes firm agreements for reimbursement with individual payers, principally the insurance companies. A contingent asset of \$5,108,000 has been estimated at 31 March 2018 for private insurance receivables as an inflow of economic benefits is considered probable by the Group.

To date, a total of 4,122 tests have been performed that relate to patients covered by private insurance, for which no payments have been received. Therefore, no revenue has been recognised for any of these tests. These patients are actively being chased for payment.

### 6. INTEREST INCOME

#### ACCOUNTING POLICY

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 7. RESEARCH AND DEVELOPMENT COSTS

#### ACCOUNTING POLICY

Research is the original and planned investigation undertaken with the prospect of gaining new scientific knowledge and understanding. This includes: direct and overhead expenses for diagnostic and prognostic biomarker discovery and research; pre-clinical trials; and costs associated with clinical trial activities. All research costs are expensed when incurred.

Development is the application of research findings to a plan or design for the production of new or substantially improved processes or products prior to the commencement of commercial production.

When a project reaches the stage where it is probable that future expenditure can be recovered through the process or products produced, expenditure that is directly attributed or reasonably allocated to that project is recognised as a development asset within intangible assets. If the expenditure also benefits processes or products for which it cannot be recovered, it will be expensed. The asset will be amortised from the date of commencement of commercial production of the product to which it relates on a straight-line basis over the period of expected benefit. Development assets are reviewed annually for any impairment in their carrying value.

	GROUP	
	2018 (\$000)	2017 (\$000)
Research	4,384	6,088
Includes:		
Employee Benefits (refer Note 10)	1,831	1,977

## Notes to the Financial Statements

For the year ended 31 March 2018

### 8. EMPLOYEE EQUITY EQUIVALENT INCENTIVE SCHEME

In March 2011 the Company developed an "Incentive Plan" as a means of providing Key Persons with the opportunity to participate in the potential increasing profitability of the Group. The Plan was an Equity Equivalent (EE) Scheme that provided EE Units on the following terms:

- EE Units were vested to the Participant over a period of 4 years but not able to be redeemed during the first two years from the date of their issue.
- Each EE Unit has the equivalent value of an ordinary share in the Company.
- Redemption is in cash for the difference between the value of the EE Units at the time of allocation and their value at the time of redemption.
- The Company must be trading in a cash flow positive position and the Company's share price on the NZX must have reached \$1.00 per share.
- A maximum of 25% of a Participant's vested EE Units can be redeemed in any one year.

On 30 June 2016 the Board of Directors voted in favour of winding up this scheme. 6,253,000 EE units had been issued at this date of which 5,720,500 had vested. After obtaining an independent valuation and receiving approval from the EE unit holders to cancel the scheme, the scheme was cancelled and 5,194,583 shares were issued to employees as consideration at \$0.563 per share. This has been treated as a modification from a cash settled to equity settled share scheme. The shares were issued with no vesting conditions attached and as no liability had been recognised for these EE units in previous years, this has resulted in a non-cash equity share based payment expense for the 2017 period of \$2,925,000. This total included amounts relating to current and former employees, Directors and Consultants. \$2,391,000 of this balance was attributable to employees and is included in Note 10 as an employee benefit, and of the amount included in employee benefits, \$1,131,000 of this expense related to persons classified as Related Parties and has also been disclosed in Note 24.



## Notes to the Financial Statements

For the year ended 31 March 2018

### 9. GENERAL AND ADMINISTRATION EXPENSES

	Notes	GROUP	
		2018 (\$000)	2017 (\$000)
Amortisation	16	138	139
Auditors Remuneration – Audit Fees		89	67
– Other Assurance Services (refer below)		26	5
Depreciation	15	167	203
Directors Fees	24	275	287
Employee Benefits	10	2,434	2,065
Employee Equity Equivalent Incentive Scheme	8/10	-	2,925
Employee Share Scheme Expenses	10	96	-
Employee Share Options	10	956	485
Rental and Lease Expense		262	260
Other General and Administration Expenses		1,764	1,846
<b>Total General and Administration Expenses</b>		<b>6,207</b>	<b>8,282</b>

Note Amortisation, Depreciation and Employee Benefits are included in other functional analysis. Refer to relevant notes for full expense by nature.

#### Other Assurance Services

Other assurance services performed by the auditor includes; agreed upon procedures, review procedures and a review of the Callaghan Innovation Growth Grant claim.

#### Employee Share Options

Employee Share Options are a non-cash expense. Refer to Note 10 for details of the accounting policy for Employee Share Schemes.

#### Other General and Administration Expenses

The major categories of expenditure which make up Other General and Administration Expenses, but are not disclosed separately above, are NZX and Registry fees, Investor Relations costs, Consultants and Contractors.

## Notes to the Financial Statements

For the year ended 31 March 2018

### 10. EMPLOYEE BENEFITS

	Notes	GROUP	
		2018 (\$000)	2017 (\$000)
<b>Represented by:</b>			
Employee Benefits in Research	7	1,831	1,977
Employee Benefits in General & Administration	9	2,434	2,065
Short Term Salaries, Wages and Other Employee Benefits		6,720	6,353
		10,985	10,395
<b>Non-Cash Employee Benefits:</b>			
Employee Share Scheme Expenses		96	-
Share Option Expense		1,184	485
Share Issue Expense: Employee Equity Equivalent Incentive Scheme	8/9	-	2,925
		1,280	3,410
<b>Total Employee Benefits</b>		<b>12,265</b>	<b>13,805</b>

#### Employee Share Scheme

The Company has an Employee Share Scheme where ordinary shares in the Company may be issued to selected employees to recognise performance or a significant contribution to the Company. These shares may be issued in lieu of a cash bonus or in addition to the employee's remuneration. The ordinary shares are issued directly to the employee and the Company accounts for the cost of the shares. The shares are allocated to the employee on the date that the Board approves the issue of the share capital. All employees who hold ordinary shares in the Company must comply with the Company's Share Trading Policy.

The issuance of ordinary shares to employees is treated as equity settled share-based payments. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date based on the market price at the time of issuance. The fair value of shares granted is recognised as an employee expense in the Statement of Comprehensive Income when the shares are issued. During the 2018 financial year, 173,655 (2017: 33,100) ordinary shares were issued to employees as part of the Employee Share Scheme. The associated non-cash cost of these shares was \$96,000 (2017: Nil). Refer to Note 20 for further details on the shares issued during the financial year.

#### Employee Share Option Scheme

The Board believes that the issue of share options provides an appropriate incentive for participating employees to grow the total shareholder return of the Company. Share options are issued to selected employees to recognise performance or contribution to the Company or as a long-term component of remuneration in accordance with the Group's remuneration policy.

The Company has two categories of Share Options which are outlined below.

#### Performance Options

Performance Options are issued to selected employees to recognise performance or a significant contribution to the Company. Performance Options entitle the holder, on payment of the exercise price, to one ordinary share in the capital of the Company. The exercise price of the granted options is determined using the fair value of the Company's share price at the time of the options being granted. Performance Options vest immediately and there is no service requirement linked to the options or any other vesting conditions. The term in which options may be exercised, and ultimately lapse if not exercised, is 10 years.

## Notes to the Financial Statements

For the year ended 31 March 2018

### Incentive Options

Incentive Options are issued to selected employees as a long-term component of remuneration in accordance with the Group's remuneration policy. Incentive Options entitle the holder, on payment of the exercise price, to one ordinary share in the capital of the Company.

The exercise price of the granted options is determined using the fair value of the Company's share price at the time of the options being granted. Incentive Options vest over three years and there is a requirement to remain as an employee of the Company in order for the options to vest. Tranches of options are exercisable over four to ten years from the relevant vesting date. No options can be exercised later than the tenth anniversary of the final vesting date.

### ACCOUNTING POLICY

All options are accounted for as equity settled share based payments as the Group has no legal or constructive obligation to repurchase or settle either the Performance Options or the Incentive Options in cash.

The fair value of all options granted is recognised as an expense in the Statement of Comprehensive Income over their vesting period, with a corresponding increase in the employee share option reserve. The fair value is determined at the grant date of the options and expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revisits its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the Statement of Comprehensive Income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payments reserve.

During the year, 259,585 (2017: Nil) share options were exercised resulting in an increase in share capital. Refer to Note 20 for further details on the share options that were exercised.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	GROUP			
	2018		2017	
	Weighted average exercise price \$	Options #	Weighted average exercise price \$	Options #
Outstanding at 1 April	0.64	6,839,857	0.65	6,448,827
Granted	0.51	4,800,000	0.53	470,000
Forfeited	0.65	(158,328)	0.64	(78,970)
Exercised	0.36	(259,585)	-	-
Expired	-	-	-	-
<b>Outstanding at 31 March</b>	<b>0.59</b>	<b>11,221,944</b>	<b>0.64</b>	<b>6,839,857</b>
Exercisable at 31 March	0.62	9,041,267	0.66	6,373,252

The significant inputs into the Black-Scholes valuation model, were the weighted average market share price at grant date of the options, the exercise price shown below, the expected annualised volatility of 50%, a dividend yield of 0%, an expected option life of between one and ten years and an annual risk-free interest rate of between 2.25% and 4.71%.

The volatility measured is the standard deviation of continuously compounded share returns and is based on a statistical analysis of daily share prices in the past one to ten years.

## Notes to the Financial Statements

For the year ended 31 March 2018

Share options outstanding at the end of the reporting periods have the following expiry dates, vesting dates and exercise prices:

Vesting Date	Expiry Month	Exercise Price \$	31 March 18 Options #	31 March 17 Options #
April 2013	April 2017	0.36	-	259,585
April 2014	April 2018	0.36	259,585	259,585
August 2014	August 2018	0.54	83,333	83,333
September 2014	September 2018	0.80	73,000	73,000 *
November 2014	November 2018	0.54	200,000	200,000
April 2015	April 2019	0.36	259,585	259,585
June 2015	June 2019	0.69	13,333	13,333
July 2015	July 2019	0.69	6,666	6,666
August 2015	August 2019	0.54	83,333	83,333
September 2015	September 2019	0.80	750,000	750,000
November 2015	November 2019	0.54	200,000	200,000
June 2016	June 2020	0.69	13,077	13,077
July 2016	July 2020	0.69	2,740	2,740
August 2016	August 2020	0.54	83,334	83,334
September 2016	September 2020	0.80	750,000	750,000
November 2016	November 2020	0.54	200,000	200,000
September 2017	September 2021	0.80	750,000	750,000
September 2014	September 2024	0.69	310,000	310,000 *
April 2015	April 2025	0.69	6,666	6,666
July 2015	July 2025	0.69	345,831	345,831
August 2015	August 2025	0.72	4,166	4,166
September 2015	September 2025	0.50	270,000	270,000 *
September 2015	September 2025	0.69	15,000	15,000
September 2015	September 2025	0.72	14,998	14,998
November 2015	November 2025	0.72	83,333	83,333
January 2016	January 2026	0.72	17,498	17,498
April 2016	April 2026	0.69	6,667	6,667
July 2016	July 2026	0.50	8,332	8,332
July 2016	July 2026	0.69	345,834	345,834
August 2016	August 2026	0.50	8,332	8,332
August 2016	August 2026	0.72	2,866	2,866
September 2016	September 2026	0.50	85,333	85,333
September 2016	September 2026	0.69	15,000	15,000
September 2016	September 2026	0.72	15,001	15,001
November 2016	November 2026	0.50	50,000	50,000
November 2016	November 2026	0.60	14,998	14,998
November 2016	November 2026	0.72	83,333	83,333

## Notes to the Financial Statements

For the year ended 31 March 2018

Vesting Date	Expiry Month	Exercise Price \$	31 March 18 Options #	31 March 17 Options #
December 2016	December 2026	0.60	4,166	4,166
January 2017	January 2027	0.72	10,834	10,834
February 2017	February 2027	0.60	10,000	10,000
March 2017	March 2027	0.60	4,166	4,166
April 2017	April 2027	0.60	75,000	75,000
April 2017	April 2027	0.69	6,667	6,667
May 2017	May 2027	0.60	-	40,000
July 2017	July 2027	0.50	4,190	4,190
July 2017	July 2027	0.69	343,346	343,346
August 2017	August 2027	0.48	4,166	4,166
August 2017	August 2027	0.50	8,334	8,334
September 2017	September 2027	0.48	6,666	19,166
September 2017	September 2027	0.50	79,169	85,333
September 2017	September 2027	0.69	15,000	15,000
September 2017	September 2027	0.72	10,594	11,302
October 2017	October 2027	0.48	20,000	20,000
November 2017	November 2027	0.60	10,252	10,252
November 2017	November 2027	0.72	83,334	83,334
December 2017	December 2027	0.60	1,872	4,167
December 2017	December 2027	0.51	4,166	-
January 2018	January 2028	0.72	7,473	10,834
January 2018	January 2028	0.51	12,498	-
February 2018	February 2028	0.60	10,000	10,000
March 2018	March 2028	0.60	4,167	4,167
April 2018	April 2028	0.60	75,000	75,000
May 2018	May 2028	0.51	1,583,326	-
July 2018	July 2028	0.50	2,671	2,671
August 2018	August 2028	0.48	4,167	4,167
August 2018	August 2028	0.50	4,315	8,334
September 2018	September 2028	0.48	6,667	6,667
September 2018	September 2028	0.50	219	85,334
October 2018	October 2028	0.48	30,000	30,000
November 2018	November 2028	0.60	8,334	8,334
December 2018	December 2028	0.60	-	4,167
December 2018	December 2028	0.51	4,167	-
January 2019	January 2029	0.51	12,501	-
February 2019	February 2029	0.60	10,000	10,000
March 2019	March 2029	0.60	4,167	4,167
April 2019	April 2029	0.60	75,000	75,000

## Notes to the Financial Statements

For the year ended 31 March 2018

Vesting Date	Expiry Month	Exercise Price \$	31 March 18 Options #	31 March 17 Options #
May 2019	May 2029	0.51	1,583,335	-
August 2019	August 2029	0.48	4,167	4,167
September 2019	September 2029	0.48	6,667	6,667
October 2019	October 2029	0.48	40,000	40,000
December 2019	December 2029	0.51	4,167	-
January 2020	January 2030	0.51	12,501	-
May 2020	May 2030	0.51	1,583,339	-
			<b>11,221,944</b>	<b>6,839,857</b>

\* Included within these tranches are 703,000 options (2017: 703,000) that vested immediately.

### 11. CASH, CASH EQUIVALENTS AND SHORT TERM DEPOSITS

#### ACCOUNTING POLICY

Cash at Bank includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Short Term Deposits are with the Bank of New Zealand, with periods ranging from 120 to 180 days.

	GROUP	
	2018 (\$000)	2017 (\$000)
Cash at Bank	5,242	6,564
Short Term Deposits	11,000	8,000
Total Cash, Cash Equivalents and Short Term Deposits	<b>16,242</b>	<b>14,564</b>
NZD	14,251	13,857
AUD	12	59
USD	1,941	612
EUR	7	2
SGD	31	34
Total Cash, Cash Equivalents and Short Term Deposits	<b>16,242</b>	<b>14,564</b>

Interest on the bank balances ranges from 0% to 3.58% (2017: 0% to 3.45%) per annum. Funds held on term deposit with the Bank of New Zealand can be accessed with one month's notice at the request of the authorised bank signatories of Pacific Edge Ltd.

## Notes to the Financial Statements

For the year ended 31 March 2018

### 12. RECEIVABLES

#### ACCOUNTING POLICY

Receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

	GROUP	
	2018 (\$000)	2017 (\$000) RESTATED
Trade Receivables	39	145
Sundry Debtors	862	475
Accrued Interest	117	1
GST/BAS Refund Due	46	42
<b>Total Receivables</b>	<b>1,064</b>	<b>663</b>

There is no provision for impairment relating to the revenue from Cxbladder sales. All outstanding sales are current and there are no indications that these amounts will not be paid.

Sundry debtors include accruals for grants and rebates that have not yet been paid. These are expected to be paid once the relevant claims have been submitted. The Company has met all conditions of the claims and there is no indication that there is impairment of these balances.

Amounts overdue but not impaired are as follows:

- \$39,000 is within 0 - 180 days old (2017: \$145,000)
- No amounts within Trade Receivables are over 180 days old (2017: Nil)

The foreign currency split of the amounts above is:

	2018 (\$000)	2017 (\$000)
NZD	479	454
AUD	585	209
<b>Total Receivables</b>	<b>1,064</b>	<b>663</b>

## Notes to the Financial Statements

For the year ended 31 March 2018

### 13. INVENTORY

#### ACCOUNTING POLICY

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average formula.

	GROUP	
	2018 (\$000)	2017 (\$000)
Laboratory Supplies	752	824
<b>Total Inventory</b>	<b>752</b>	<b>824</b>

The major items of Inventory are laboratory reagents, chemicals and Cxbladder urine sampling systems.

Laboratory supplies used during the year of \$3,115,000 (2017: \$2,078,000) are included within the Statement of Comprehensive Income in Laboratory Operations and Research.

### 14. OTHER ASSETS

	GROUP	
	2018 (\$000)	2017 (\$000)
Prepayments	315	330
Security Deposits	157	160
<b>Total Other Assets</b>	<b>472</b>	<b>490</b>

Prepayments are largely made up of insurance, subscriptions and travel not yet expired. Security deposits are paid to secure properties for lease in United States and Singapore and to secure credit cards in the United States.

## Notes to the Financial Statements

For the year ended 31 March 2018

### 15. PROPERTY, PLANT & EQUIPMENT

#### ACCOUNTING POLICY

Property, Plant and Equipment are those assets held by the Group for the purpose of carrying on its business activities on an ongoing basis. All Property, Plant and Equipment is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. The cost of purchased assets includes the original purchase consideration given to acquire the assets, and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service. This includes the laboratory equipment for the establishment of the laboratories.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income when they occur.

#### Depreciation

Depreciation of plant and equipment is based on writing off the assets over their useful lives, using the straight line (SL) and diminishing value (DV) basis.

Main rates used are:

Plant and Laboratory Equipment	5% to 40%	DV
Computer Equipment	5% to 60%	DV
Leasehold Improvements	10%	SL
Furniture and Fittings	5% to 25%	DV

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

#### Reclassification

Property, Plant and Equipment has been reclassified so that categories better reflect the nature of the assets. Laboratory Equipment and Plant & Equipment have been combined in the new category Plant and Laboratory Equipment. Office Equipment that was not Computer Equipment has been transferred to Furniture and Fittings.

## Notes to the Financial Statements

For the year ended 31 March 2018

	Plant & Laboratory Equipment (\$000)	Computer Equipment (\$000)	Leasehold Improvements (\$000)	Furniture & Fittings (\$000)	Total (\$000)
<b>Cost</b>					
Balance at 1 April 2016	2,373	763	210	358	3,704
Additions	41	93	65	9	208
Disposals	(7)	(3)	(1)	(2)	(13)
Foreign Translation Difference	-	-	-	-	-
<b>Balance at 31 March 2017</b>	<b>2,407</b>	<b>853</b>	<b>274</b>	<b>365</b>	<b>3,899</b>
Balance at 1 April 2017	2,407	853	274	365	3,899
Additions	312	40	-	1	353
Disposals	(534)	(254)	-	(45)	(833)
Foreign Translation Difference	(20)	(8)	(4)	(5)	(37)
<b>Balance at 31 March 2018</b>	<b>2,165</b>	<b>631</b>	<b>270</b>	<b>316</b>	<b>3,382</b>
<b>Accumulated Depreciation</b>					
Balance at 1 April 2016	1,896	584	51	183	2,714
Depreciation Expense	196	94	24	38	352
Disposals	-	-	-	-	-
Foreign Translation Difference	(3)	(1)	-	-	(4)
<b>Balance at 31 March 2017</b>	<b>2,089</b>	<b>677</b>	<b>75</b>	<b>221</b>	<b>3,062</b>
Balance at 1 April 2017	2,089	677	75	221	3,062
Depreciation Expense	175	82	23	36	316
Disposals	(529)	(250)	-	(44)	(823)
Foreign Translation Difference	(18)	(5)	(1)	(3)	(27)
<b>Balance at 31 March 2018</b>	<b>1,717</b>	<b>504</b>	<b>97</b>	<b>210</b>	<b>2,528</b>
<b>Carrying Amounts</b>					
At 1 April 2016	477	179	159	175	990
At 31 March 2017	318	176	199	144	837
At 31 March 2018	448	127	173	106	854

During the year a review of the fixed asset registers for the Group was undertaken. A number of assets of no book value or very low book value were written off explaining the number of disposals for the year ended 31 March 2018.

#### Leased Fixed Assets

Plant and Laboratory Equipment includes the following amounts where the Group is a lessee under a finance lease (refer to Note 25 for further details):

	GROUP	
	2018 (\$000)	2017 (\$000)
Cost	229	-
Accumulated Depreciation	(35)	-
Minimum Lease Payments	<b>194</b>	-

## Notes to the Financial Statements

For the year ended 31 March 2018

### 16. INTANGIBLE ASSETS

#### ACCOUNTING POLICY

##### Intellectual Property

The costs of acquired Intellectual Property are recognised at cost and amortised over its anticipated useful life, which is currently assessed at 1 to 20 years. All Intellectual Property has a finite life. The carrying value of Intellectual Property is reviewed for impairment, where indicators of impairment exist.

The following costs associated with Intellectual Property are expensed as incurred during the research phases of a project and are only capitalised when incurred as part of the development phase of a process or product within development assets: Internal Intellectual Property costs including the costs of patents and patent application.

##### Software Development Costs

Costs associated with the development of software are held at cost and amortised over their useful lives of between 2-10 years.

##### Cxbladder Development Costs

Costs associated with the development of Cxbladder products are held at cost and amortised over their useful lives of 20 years.

##### Amortisation of Intangible Assets

- Patents - Amortisation is charged on a diminishing value basis over the estimated useful life of the intangible assets (1-20 years). The estimated useful life and amortisation method is reviewed at the end of each reporting period.
- Software development costs - Amortisation is charged on a diminishing value basis over the estimated useful life of the intangible assets (2-10 years). The estimated useful life and amortisation method is reviewed at the end of each reporting period.
- Cxbladder development costs - Amortisation is charged on a diminishing value basis over the estimated useful life of the intangible assets (20 years). The estimated useful life and amortisation method is reviewed at the end of each reporting period.

## Notes to the Financial Statements

For the year ended 31 March 2018

	Software Development Costs (\$000)	Patents (\$000)	Cxbladder Development Costs (\$000)	Total (\$000)
<b>Cost</b>				
Balance at 1 April 2016	493	149	33	675
Additions	207	64	-	271
Foreign Translation Difference	-	-	-	-
<b>Balance at 31 March 2017</b>	<b>700</b>	<b>213</b>	<b>33</b>	<b>946</b>
Balance at 1 April 2017	700	213	33	946
Additions	99	40	-	139
Disposals	-	-	-	-
Foreign Translation Difference	(1)	-	-	(1)
<b>Balance at 31 March 2018</b>	<b>798</b>	<b>253</b>	<b>33</b>	<b>1,084</b>
<b>Accumulated Amortisation</b>				
Balance at 1 April 2016	317	100	11	428
Amortisation Expense	146	42	-	188
Foreign Translation Difference	2	-	(1)	1
<b>Balance at 31 March 2017</b>	<b>465</b>	<b>142</b>	<b>10</b>	<b>617</b>
Balance at 1 April 2017	465	142	10	617
Amortisation Expense	144	42	2	188
Foreign Translation Difference	(2)	-	-	(2)
<b>Balance at 31 March 2018</b>	<b>607</b>	<b>184</b>	<b>12</b>	<b>803</b>
<b>Carrying Amounts</b>				
At 1 April 2016	176	49	22	247
At 31 March 2017	235	71	23	329
At 31 March 2018	191	69	21	281

## Notes to the Financial Statements

For the year ended 31 March 2018

### 17. SEGMENT INFORMATION

#### ACCOUNTING POLICY

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

There are two operating segments at balance date:

1. Commercial: The sales, marketing, laboratory and support operations to run the commercial businesses worldwide
2. Research: The research and development of diagnostic and prognostic products for human cancer.

The reportable operating segment Research derives its revenue primarily from grant income and the reportable operating segment Commercial derives its revenue primarily from sales of Cxbladder detection tests. The Chief Executive Officer assesses the performance of the operating segments based on net (loss) for the period.

These segments differ from those reported at 31 March 2017, as the previously reported segments of US Laboratory and NZ Laboratory have been consolidated into Commercial, to align with changes made to internal reporting.

The results shown below differ from those reported to the Chief Executive Officer during the 2017 and 2018 financial years, due to the adoption of NZ IFRS 15 at the end of the 2018 financial year. The segment information has been updated to reflect the new reporting standard and to agree to the reported financial statements under NZ IFRS 15.

Segment income, expenses and profitability are presented on a gross basis excluding inter-segment eliminations to best represent the performance of each segment operating as independent business units. The segment information provided to the Chief Executive Officer for the reportable segment described above, for the year ended 31 March 2018, is shown below.

2018	Commercial (\$000)	Research (\$000)	Less: Eliminations (\$000)	Total (\$000)
<b>Income</b>				
Operating Revenue - External	3,400	-	-	3,400
- Internal	154	-	(154)	-
Other Income	127	2,137	(1,022)	1,242
Interest income	2	3,158	(2,929)	231
Foreign Exchange Gain	-	129	-	129
<b>Total Income</b>	<b>3,683</b>	<b>5,424</b>	<b>(4,105)</b>	<b>5,002</b>
<b>Expenses</b>				
Expenses	18,834	9,413	(4,105)	24,142
Depreciation and Amortisation	191	313	-	504
<b>Total Operating Expenses</b>	<b>19,025</b>	<b>9,726</b>	<b>(4,105)</b>	<b>24,646</b>
<b>Loss Before Tax</b>	<b>(15,342)</b>	<b>(4,302)</b>	-	<b>(19,644)</b>
<b>Net Cash Flows to Operating Activities</b>	<b>(14,072)</b>	<b>(4,028)</b>	-	<b>(18,100)</b>

## Notes to the Financial Statements

For the year ended 31 March 2018

2017	Commercial (\$000) RESTATED	Research (\$000) RESTATED	Less: Eliminations (\$000) RESTATED	Total (\$000) RESTATED
<b>Income</b>				
Operating Revenue - External	3,208	-	-	3,208
- Internal	165	-	(165)	-
Other Income	70	1,983	(948)	1,105
Interest Income	-	2,230	(1,981)	249
Foreign Exchange Gain	3	116	-	119
<b>Total Income</b>	<b>3,446</b>	<b>4,329</b>	<b>(3,094)</b>	<b>4,681</b>
<b>Expenses</b>				
Expenses	16,088	13,733	(3,094)	26,727
Depreciation and Amortisation	227	313	-	540
<b>Total Operating Expenses</b>	<b>16,315</b>	<b>14,046</b>	<b>(3,094)</b>	<b>27,267</b>
<b>Loss Before Tax</b>	<b>(12,869)</b>	<b>(9,717)</b>	-	<b>(22,586)</b>
<b>Net Cash Flows to Operating Activities</b>	<b>(12,176)</b>	<b>(5,661)</b>	-	<b>(17,837)</b>

#### Eliminations

These are the intercompany transactions between the subsidiaries and the Parent. These are eliminated on consolidation of Group results.

#### Total Laboratory Throughput

	Commercial (#tests)	Research (#tests)	Total (#tests)
2018	11,866	2,582	14,448
2017	8,297	2,949	11,246

#### Segment Assets and Liabilities Information

2018	Commercial (\$000)	Research (\$000)	Total (\$000)
Total Assets	1,977	17,688	19,665
Total Liabilities	1,917	1,108	3,025

2017	Commercial (\$000) RESTATED	Research (\$000) RESTATED	Total (\$000) RESTATED
Total Assets	2,110	15,597	17,707
Total Liabilities	1,419	1,315	2,734

## Notes to the Financial Statements

For the year ended 31 March 2018

Additions to non current assets include:

	Commercial (\$000)	Research (\$000)	Total (\$000)
Property, Plant & Equipment	236	117	353
Intangible Assets	-	139	139
Total Additions to Non Current Assets	236	256	492

There are three external revenue customers who individually represent greater than 10% of the total trade receivables balance. As trade receivables totals \$39,000 in 2018, this is not deemed to be a material balance in the financial statements and therefore the Group has determined that there is not a significant concentration risk in relation to the receivables balance.

Sales between segments are carried out at arm's length. Post adoption of NZ IFRS 15, the revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the statement of comprehensive income.

The amounts provided to the Chief Executive Officer with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operation of the segment and the physical location of the asset.

There are no unallocated assets or liabilities.

### 18. INCOME TAX

#### ACCOUNTING POLICY

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements in accordance with NZ IAS 12. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Company and Group has incurred an operating loss for the 2018 financial year and no income tax is payable.

## Notes to the Financial Statements

For the year ended 31 March 2018

	GROUP	
	2018 (\$000)	2017 (\$000)
<b>Income tax recognised in the profit or loss:</b>		
Current tax expense	-	-
Adjustments to current tax in respect to prior years	-	225
Benefit from previously unrecognised tax losses	-	(225)
Deferred tax in respect of the current year	(2,918)	(6,607)
Adjustments to deferred tax in respect to prior years	(441)	92
Deferred tax assets not recognised	3,359	6,515
<b>Income tax expense</b>	-	-
<b>The prima facie income tax on pre-tax accounting profit from operations reconciles to:</b>		
Accounting loss before income tax	(19,645)	(22,586)
At the statutory income tax rate of 28%	(5,501)	(6,324)
Permanent differences - Non-deductible expenditure	1,730	570
Difference in US and Australian income tax rates	853	(628)
Prior period adjustment	(441)	92
Tax losses utilised	-	(225)
Deferred tax assets not recognised	3,359	6,515
<b>Income tax expense reported in Income Statement</b>	-	-

#### Tax Losses

The group has losses to carry forward of approximately \$54,700,000 (2017: \$42,800,000) with a potential tax benefit of \$12,600,000 (2017: \$14,000,000). The tax losses are split between the following jurisdictions (shown in NZD): New Zealand \$9,000,000 (tax effect of \$3,000,000 (at 28%)), Australia \$200,000 (tax effect of \$100,000 (at 30%)), Singapore \$500,000 (tax effect of \$100,000 (at 17%)) and the United States \$44,600,000 (tax effect of \$9,400,000 (at 21%)). The United States corporate tax rate reduced to 21% effective 1 January 2018 which results in a reduction of \$4,300,000 in potential future tax benefits from the previous corporate tax rate of 34%. Tax losses are available to be carried forward and offset against future taxable income subject to the various conditions required by income tax legislation being complied with.

#### Deferred Research and Development Tax Expenditure

The Group also has deferred research and development tax expenditure of \$35,600,000 (2017: \$34,300,000) to carry forward and claim for income tax purposes in New Zealand in the future. This has a tax effect of \$10,000,000 (2017: \$9,600,000). The deferred research and development tax expenditure can either be carried forward and offset against future income arising from the research and development, or subject to meeting the shareholder continuity requirements can be offset against future taxable income.

#### Deferred Tax Assets

The Group does not recognise a deferred tax asset in the Statement of Financial Position.

#### Imputation Credit Account

The Group has imputation credits of Nil (2017: Nil).



## Notes to the Financial Statements

For the year ended 31 March 2018

### Tax Reform

#### United States

During the year there were a number of changes made in relation to corporate tax in the United States. Pacific Edge Diagnostics USA Ltd has significant losses to utilise, therefore management does not expect a significant change as a result, but has not yet performed a full assessment. The federal corporate tax rate has reduced to 21% from 1 January 2018. This has been reflected in the calculations above.

#### New Zealand

There have been changes made to the way employee share schemes are taxed. This is not expected to have a significant impact on the Group however the Group has not yet performed a full assessment.

In addition to the above, there are proposed changes to the way Callaghan Growth Grants and Research and Development tax credits are allocated from 2019. Once there is certainty around the proposed changes, the Group will perform a full assessment on the impact of them.

## Notes to the Financial Statements

For the year ended 31 March 2018

### 19. PAYABLES AND ACCRUALS

#### ACCOUNTING POLICY

##### Trade and Other Payables Due Within One Year

Trade payables are recognised at the value of the invoice received from a supplier. The carrying value of trade payables is considered to be approximate fair value as amounts are unsecured and are usually paid by the 30th of the month following recognition.

	GROUP	
	2018 (\$000)	2017 (\$000)
Trade Creditors	665	838
Accrued Expenses	610	532
Employee Entitlements (refer below)	1,651	1,364
<b>Total Payables and Accruals</b>	<b>2,926</b>	<b>2,734</b>

Payables and accruals are non-interest bearing and are normally settled on 30 day terms. Therefore their carrying value approximates their fair value.

The foreign currency split for Payables and Accruals is:

	GROUP	
	2018 (\$000)	2017 (\$000)
NZD	1,167	1,367
AUD	17	41
USD	1,695	1,314
SGD	47	12
	<b>2,926</b>	<b>2,734</b>

##### Employee Entitlements

Employee entitlements are measured at values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date and annual leave earned to, but not yet taken at balance date.

	GROUP	
	2018 (\$000)	2017 (\$000)
Income Tax	50	51
Holiday Pay	440	290
Accrued Wages	1,161	1,023
<b>Total Employee Entitlements</b>	<b>1,651</b>	<b>1,364</b>

## Notes to the Financial Statements

For the year ended 31 March 2018

### 20. SHARE CAPITAL

#### ACCOUNTING POLICY

Ordinary shares are described as equity.

Issue expenses, including commission paid, relating to the issue of ordinary share capital, have been written off against the issued share price received and recorded in the Statement of Changes in Equity.

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share based transactions are set out in Note 10.

	GROUP	
	2018 (\$000)	2017 (\$000)
Ordinary Shares	131,824	111,596
Total Share Capital	<b>131,824</b>	<b>111,596</b>

All fully paid shares in the Company have equal voting rights and equal rights to dividends. All Ordinary Shares are fully paid and have no par value.

#### Share Capital Group

	Notes	2018 Shares (000)	2018 (\$000)	2017 Shares (000)	2017 (\$000)
Opening Balance		399,271	111,596	376,543	100,012
Issue of Ordinary Shares - Rights Issue and Direct Offers <sup>1</sup>		66,617	21,318	17,500	8,750
Issue of Ordinary Shares - Exercise of share options <sup>2</sup>		260	112	-	-
Issue of Ordinary Shares - Employee Remuneration <sup>3</sup>		174	96	33	-
Issue of Ordinary Shares - Equity Equivalent Scheme Redemption <sup>4</sup>	8	-	-	5,195	2,925
Less: Issue Expenses		-	(1,298)	-	(91)
Movement		67,051	20,228	22,728	11,584
Closing Balance		<b>466,322</b>	<b>131,824</b>	<b>399,271</b>	<b>111,596</b>

- 1) During the period 66,617,400 shares were issued under a 1 for 6 shareholder rights issue at a price of \$0.32 per share. (2017: 17,500,000 shares were issued at an average price of \$0.50 per share)
- 2) During the period 259,585 share options were exercised at a price of \$0.36 per share
- 3) During the period 173,655 shares were issued as part of employees remuneration in lieu of cash payments at a price of \$0.46 per share. (2017: 33,100 shares were issued at an average price of \$0.48 per share. The associated cost has been accounted for in the 2018 year)
- 4) During the prior period 5,194,583 shares were issued under an Employee Equivalent Equity Scheme at an average price of \$0.56 per share

## Notes to the Financial Statements

For the year ended 31 March 2018

### 21. FOREIGN CURRENCY

#### ACCOUNTING POLICIES

##### Foreign Currency Transactions

The individual financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of the Group entity are expressed in New Zealand dollars ('NZ\$'), which is the functional currency of the Parent and the presentation currency for the Group financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non monetary items denominated in foreign currencies are translated at the rates prevailing on the date the transaction occurs.

Exchange differences are recognised in the Statement of Comprehensive Income in the period in which they arise.

##### Foreign Operations

For the purpose of presenting the Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated as a separate component of equity in the Group's foreign currency translation reserve. Such exchange differences are reclassified from equity to profit or loss (as a reclassification adjustment) in the period in which the foreign operation is disposed of.

##### Foreign Currency Translation Reserve

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into New Zealand dollars are brought to account by entries made directly to the Foreign Currency Translation Reserve.

## Notes to the Financial Statements

For the year ended 31 March 2018

### 22. RECONCILIATION OF CASH USED FROM OPERATING ACTIVITIES WITH OPERATING NET LOSS

	GROUP	
	2018 (\$000)	2017 \$000 RESTATED
Net Loss for the Period	(19,644)	(22,586)
<b>Add Non Cash Items:</b>		
Depreciation	316	352
Loss on Disposal of Property, Plant and Equipment	10	-
Amortisation	188	188
Employee Share Options	1,184	485
Issue of Employee Incentive Scheme Shares	-	2,925
Employee Bonuses Paid in Shares in Lieu of Cash	96	-
Effect of Exchange Rates	(131)	(93)
<b>Total Non Cash Items</b>	<b>1,663</b>	<b>3,857</b>
<b>Add Movements in Other Working Capital items:</b>		
Decrease (Increase) in Receivables and Other Assets	(383)	798
(Increase) in Inventory	72	(116)
Increase (Decrease) in Payables and Accruals	192	210
<b>Total Movement in Other Working Capital</b>	<b>(119)</b>	<b>892</b>
<b>Net Cash Flows to Operating Activities</b>	<b>(18,100)</b>	<b>(17,837)</b>

### 23. FINANCIAL INSTRUMENTS

#### ACCOUNTING POLICIES

Financial instruments include cash and cash equivalents, short term deposits, receivables, security deposits, finance lease liabilities and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### Managing Financial Risk

The Group's activities expose it to the financial risks of changes in interest rate risk, credit risk, liquidity risk and foreign currency risk.

Management is of the opinion that the Company and Group's exposure to market risk during the period and at balance date is defined as:

Risk Factor	Description
(i) Currency risk	Financial assets and financial liabilities are denominated in NZD, USD, AUD, and EUR currencies.
(ii) Interest rate risk	Exposure to changes in Bank interest rates resulting in cashflow interest rate risk
(iii) Other price risk	Not applicable as no securities are bought, sold or traded

## Notes to the Financial Statements

For the year ended 31 March 2018

### (i) Foreign Currency Risk

The Group faces the risk of movements in foreign currency exchange rates in relation to the New Zealand dollar. The Group has significant operations in United States Dollars and less significant operations in Australian dollars and Singapore dollars. As a result of this, the financial performance and financial position are impacted by movements in exchange rates.

The Group manages foreign currency risk by purchasing overseas goods only when necessary and when foreign exchanges are favourable. It will also purchase foreign currency to fund overseas operations based on cash flow forecasts where it can maximise value. There are no formal foreign currency hedges entered into.

Balances in AUD and EUR currencies are not significant. A 10% increase or decrease in USD against the NZD will reduce/increase the loss reported by approximately \$37,000 (2017: (\$16,000)) respectively and increase/reduce equity by the same amount.

### (ii) Interest Rate Risk

The Group's interest rate risk arises from its cash and equivalents, and short term deposits. Cash and equivalents comprise cash on hand and deposits at call with banks. Short term deposits comprise of term deposits placed with New Zealand banks on fixed rates for different periods of time.

Management regularly review its banking arrangements to ensure it achieves the best returns on its funds while maintaining access to necessary liquidity levels to service the Group's day-to-day activities. The mixture of bank deposits at floating interest rates and short term deposits at different rates over various periods of time mitigate the risk of interest rates being received at less than market rates. The Group does not enter into interest rate hedges.

A 1% increase or decrease in Bank deposit interest rates will reduce/increase the loss reported by approximately \$138,000 and increase/reduce equity by the same amount (2017: \$183,000).

### Credit Risk

The Group incurs credit risk from

- Cash and short term deposits;
- Receivables in the normal course of its business;
- Other assets.

The Group has no significant concentration of credit risk other than bank deposits with 63.96% of total assets at the Bank of New Zealand, 3.61% at ANZ Bank and 12.72% at Heartland Bank. The Group's cash and short term deposits are placed with high credit quality financial institutions including major banks who have at least a BBB credit rating.

Regular monitoring of receivables is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade. These receivables balances mainly relate to New Zealand customers, Callaghan Innovation and the Australian Government.

While there are no trade receivables recognised for US customers, the Group continues to invoice for every billable test completed in the US, and the billing and reimbursement process continues to maximise the cash that is received by the Group.

Regular monitoring of other assets is undertaken to ensure that the credit exposure is limited. This is firstly done by determining the credit risk before making security deposits on leased properties and ensuring we do not pay suppliers in advance where there is uncertainty in relation to their credit worthiness.

## Notes to the Financial Statements

For the year ended 31 March 2018

The carrying values of financial assets represent the maximum exposure to credit risk as represented below:

	Notes	2018 (\$000)	2017 (\$000)
Cash and cash equivalents	11	5,242	6,564
Short term deposits	11	11,000	8,000
Trade and other receivables (excludes GST/BAS)	12	1,018	621
Other assets (excludes prepayments)	14	157	161
		<b>17,417</b>	<b>15,346</b>

### Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments as they fall due. Management maintains sufficient cash balances and uses cash flow forecasts to determine future cash flow requirements. The Group does not have any external loans, but does have three finance leases.

Payables and Accruals totalling \$2,292,000 are due within 3 months of balance date (2017: \$2,734,000).

### Fair Values

In the opinion of the directors, the carrying amount of financial assets and financial liabilities approximate their fair values at balance date.

## 24. RELATED PARTIES

The Group paid consultancy fees for accounting services to CJS Business Advisors Limited in the prior period. CJ Swann was a director until 25 August 2016, and is a shareholder of the Company. The fees charged were on normal terms and conditions and totalled \$NIL (2017: \$6,000). At balance date nothing was outstanding relative to these transactions (2017: Nil).

A shareholder, the University of Otago, provided services, including rental space and car parking, to the Group to the value of \$264,000 (2017: \$297,000). As at 31 March 2018 the Group commitment for the next financial year is \$194,000 (2017: \$194,000).

Refer to Notes 8 and 10 for details of the Incentive Plan that includes key management remuneration.

Key management personnel comprise of Directors and the Chief Executive Officers of Pacific Edge Limited and Pacific Edge Diagnostics USA Limited. A close personal relation of a member of key management personnel is employed by the Company on the same terms as other comparable employees.

## Notes to the Financial Statements

For the year ended 31 March 2018

Key management compensation was as follows:

	Notes	GROUP	
		2018 (\$000)	2017 (\$000)
Salaries and Other Short Term Employee Benefits		1,315	1,302
Share Options Benefits		635	240
Share Issue Expense: Employee Equity Equivalent Incentive Scheme	8	-	1,131
<b>Total Benefits</b>		<b>1,950</b>	<b>2,673</b>

### Directors Fees

The current total Directors' fee pool for the non-executive Directors of Pacific Edge Limited, approved by the shareholders at the Special Shareholders' Meeting on the 26th of February 2016 is \$275,000 per annum, which is the total amount of fees paid to Directors for the year ended 31 March 2018.

The table below sets out the fees payable to the non-executive Directors of Pacific Edge Limited for the year ended 31 March 2018 based on the positions held:

Position	Fees Payable
Chair	\$75,000
Deputy Chair	\$43,000
US Based Director	\$77,000
Board Member	\$40,000

## 25. FINANCE AND OPERATING LEASE COMMITMENTS

### ACCOUNTING POLICY

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## Notes to the Financial Statements

For the year ended 31 March 2018

### a) Finance Lease Obligations

	GROUP	
	2018 (\$000)	2017 (\$000)
Commitments in relation to finance leases are payable as follows:		
Within one year	78	-
Later than one year but not later than five years	26	-
Later than five years	-	-
Minimum Lease Payments	104	-
Future finance charges	(5)	-
<b>Recognised as a liability</b>	<b>99</b>	<b>-</b>
The present value of finance lease liabilities is as follows:		
Within one year	73	-
Later than one year but not later than five years	26	-
Later than five years	-	-
<b>Minimum Lease Payments</b>	<b>99</b>	<b>-</b>
Included in the financial statements as:		
Current borrowings	73	-
Non-current borrowings	26	-
<b>Minimum Lease Payments</b>	<b>99</b>	<b>-</b>

### b) Leasing Arrangements

The Group leases various plant and laboratory equipment with a carrying amount of \$194,000 (2017: not applicable) under finance leases expiring within one to two years. Under the terms of the leases, the group has the option to acquire the leased assets for low or no cost on expiry of the leases.

The Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.2% to 9.4% (2017: not applicable) per annum.

## Notes to the Financial Statements

For the year ended 31 March 2018

### c) Operating Lease Obligations

The Group has the following lease commitment for buildings and equipment:

	GROUP	
	2018 (\$000)	2017 (\$000)
Non cancellable operating lease commitments within one year	957	1,161
Later than one year, not later than five years	1,240	2,259
Over five years	-	-
<b>Total Lease Commitments</b>	<b>2,197</b>	<b>3,420</b>

The major commitments included in the total lease commitments above are:

	GROUP	
	2018 (\$000)	2017 (\$000)
Lease of premises from the University of Otago	194	194
Pacific Edge Diagnostics USA lease	1,904	2,732
Pacific Edge Diagnostics Singapore Pte. Ltd lease	48	50
Other	51	444
	<b>2,197</b>	<b>3,420</b>

The lease of premises (in the Centre for Innovation) with the University of Otago includes rights of renewal to lease the premises to May 2023.

Pacific Edge Diagnostics USA Limited has extended its lease by 3 years to 30 November 2020. The total financial commitment shown above includes an Allowance Reimbursement which is payable to the landlord on a monthly basis.

Pacific Edge Diagnostics Singapore Pte. Ltd has negotiated a new lease for office space which commences in June 2018.

## 26. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### a) Capital Commitments

There are no capital commitments for the Group at 31 March 2018 (2017: Nil).

### b) Contingent Liabilities

There were no known contingent liabilities at 31 March 2018 (2017: Nil). The Group has not granted any securities in respect of liabilities payable by any other party whatsoever.

## 27. SUBSEQUENT EVENTS

There are no subsequent events.



## Independent auditor's report

To the shareholders of Pacific Edge Limited

The financial statements comprise:

- the balance sheet as at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of accounting policies.

### Our opinion

In our opinion, the financial statements of Pacific Edge Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of review of the Callaghan Innovation Growth Grant claim, half year review procedures and agreed upon procedures over testing spreadsheet formulas. The provision of these other services has not impaired our independence as auditor of the Group.

### Material Uncertainty Related to Going Concern

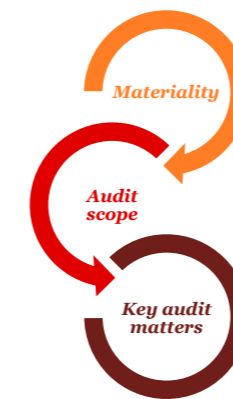
We draw attention to the disclosures in Note 1 to the financial statements, which indicates that the ability of the Group to continue in operation is dependent on its ability to generate sufficient positive cash flows from operations, manage costs, or obtain additional funding. As also discussed in Note 1, achieving the forecast revenues that support the cash flow forecasts is reliant on the success of the commercial negotiations with targeted large scale health organisations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## Our audit approach

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$246,500 which represents 1% of total operating expenses.

We chose total expenses as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most appropriately measured by users.

We have determined that there is one key audit matter:

- Adoption of NZ IFRS 15 Revenue from Contracts with Customers

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Key audit matters

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



Key audit matter	How our audit addressed the key audit matter
<p><b>Adoption of NZ IFRS 15 Revenue from Contracts with Customers</b></p> <p>As disclosed in note 2, the Group has adopted NZ IFRS 15 Revenue from contracts with customers for the year ended 31 March 2018 with full retrospective application for the prior year.</p> <p>The adoption of NZ IFRS 15 required the Directors to apply significant judgement in determining whether revenue could be recognised in advance of the receipt of cash. The outcome of this judgement has resulted in a material change in the recognition of revenues in the financial statements for the current year.</p> <p>In assessing the impact of NZ IFRS 15, management prepared an analysis of all revenue transactions and identified two material revenue streams: Coverage via Centers for Medicare and Medicaid Services (CMS); and Private Insurance.</p> <p>The key judgements adopted by the Directors in applying NZ IFRS 15 criteria included:</p> <ul style="list-style-type: none"> <li>Determining if a contract with the customer exists;</li> <li>Determining if the entity can identify the payment terms for the services;</li> <li>Determining whether it is probable that the entity will collect the consideration to which it is entitled.</li> </ul> <p>Management engaged a third party accounting firm to assist them in the application of NZ IFRS 15 to its US based revenue.</p> <p>Management's assessment resulted in the restatement of the 2016 and 2017 balance sheets and the 2017 statement of comprehensive income. The impact and restatements have been disclosed in the impact tables in note 2.</p>	<p>Our audit procedures included the following:</p> <p>We obtained management's analysis of the revenue streams and understood the identification process and categorisation.</p> <p>We assessed the third party accounting opinion obtained by management, including an assessment of the skills and competence of the expert engaged.</p> <p>We evaluated management's determination of whether a contract with customers existed by:</p> <ul style="list-style-type: none"> <li>We inspected documentation supporting the contractual process and basis for engagement of patients (customers) in the US.</li> <li>Discussing the process of engaging patients with NZ and USA based management to confirm the facts as presented in the accounting opinion.</li> <li>Considering the information obtained with reference to NZ IFRS 15 to challenge management's judgements on whether sufficient evidence existed to meet the criteria to support a contractual relationship for recognition of the revenues.</li> <li>Reviewing the payment terms and the probability of recovery based on the history of collections. This included assessing management's conclusions on whether it is probable that the entity will collect the consideration. Further we visited the Group's external billing reimbursement agent, Quadax to confirm our understanding of the process.</li> </ul> <p>We recalculated the adjustments arising from the adoption of NZ IFRS 15, as disclosed in the impact tables in note 2.</p> <p>We have no matters to report from the procedures performed above.</p>

**Information other than the financial statements and auditor's report**

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors for the consolidated financial statements**

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs 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 these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

**Who we report to**

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

Chartered Accountants  
29 June 2018

Dunedin

## CORPORATE GOVERNANCE

### OVERVIEW

Strong corporate governance is fundamental to the performance of Pacific Edge Limited and the Board is ultimately responsible for ensuring that the Group maintains high ethical standards and corporate governance practices. Pacific Edge is committed to ensuring that its corporate governance practices are in line with best practice and the NZX Corporate Governance Code 2017 ("NZX Code"). It has mostly complied with the recommendations in the NZX Code as outlined in Principles 1 through to 8 below. It intends to work towards full compliance of the code over the coming financial year.

The key corporate governance documents referred to in this report are available on Pacific Edge's website <https://www.pacificedgedx.com/investors/governance/>

Pacific Edge's compliance during FY18 with each of the principles contained with the NZX Code is outlined below.

### PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

*"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."*

The Company maintains high standards of ethical behaviour and has both a Directors' Code of Ethics and an Ethical Behaviour Policy for employees of the Company, setting out the standards that each Director or employee must adhere to whilst conducting their duties. General principles within both policies are that all Directors and employees must:

- Act honestly, in good faith and in the best interests of the Company as a whole;
- Exercise their powers and duties with a due degree of care and diligence;
- Not make improper use of information acquired as a Director or employee, or of assets or resources of the Company;
- Comply with the Company's Conflicts of Interest policy at all times; and
- Comply with the Company's Share Trading policy.

The Directors' Code of Ethics and recently updated Ethical Behaviour Policy can be found on the Company's website, as set out above.

Pacific Edge will be formalising a training programme for new and existing employees in FY19, to ensure awareness of all key policies.

Pacific Edge also has a Share Trading Policy. Additional trading restrictions apply to Directors and senior managers. Details of Directors' share dealings are on page 91 of the 2018 Annual Report.

## CORPORATE GOVERNANCE

### PRINCIPLE 2: BOARD COMPOSITION & PERFORMANCE

*"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."*

The Board operates under a formal written Charter which sets out the roles and responsibilities of the Board.

The primary responsibilities of the Board include:

- Ensuring compliance with the Company's constitution;
- Setting clear goals for the Company, ensuring that there are appropriate strategies in place for achieving those goals;
- Monitoring the performance of management;
- Managing the Company's financial position and financial statements;
- Ensuring that the Company follows high standards of ethical and corporate behaviour; and
- Ensuring that the Company has appropriate risk management policies in place.

Newly elected Directors are expected to familiarise themselves with their obligations under the constitution, Board Charter and Listing Rules. Training is also provided to new and existing Directors where required to enable Directors to understand their obligations.

#### Board Membership

The Board has been selected on their individual skills and contribution to the Company. The Board is comprised of five non-executive independent Directors and one executive director, who is also the Chief Executive Officer.

The Chairman is a non-executive Director who is elected by the Directors.

While the nomination process for new Director appointments is the responsibility of the Board as a whole, the Nomination Committee is responsible for identifying, reviewing and recommending candidates to the full Board. The Nomination Committee operates under a written charter which is available on the Company's website.

In accordance with the Company's constitution, one third, or the number nearest to one third, of the Board retire by rotation at each annual meeting. The Directors to retire are those who have been longest in office since the last election. Directors retiring by rotation may, if eligible, stand for re-election. A Director appointed since the previous annual meeting holds office only until the next annual meeting but is eligible for re-election at that meeting.

The Board asks for Director nominations each year, prior to the Annual Shareholders Meeting, in accordance with the constitution of the Company and the Listing Rules.

All Directors have clear written agreements with the Company, setting out the terms of their appointment.

The Company encourages all Directors to undertake appropriate training and education so that they may best perform their duties. This includes attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses; and attending presentations from industry experts and key advisers.

Details of each Director, along with their experience, independence and ownership interests is included in the Annual Report.



## CORPORATE GOVERNANCE

### Board Performance

The performance of the Board is reviewed periodically to assess the performance of each Director, each Committee and the Board as a whole. The next evaluation of Board performance will be undertaken during the FY19 year.

### Diversity

Pacific Edge is committed to bringing diversity to life in our employment practices and across all aspects of our business. The Board and Company believe in providing equality of opportunity in employment, irrespective of age, ethnic or national origin, gender, sexual orientation, family circumstances, disability, religious or ethical belief, or economic background.

The Company's Diversity Policy has recently been updated and is available on the Company's website. The Remuneration Committee is responsible for setting measurable objectives and targets to assist the Company in achieving its goals in line with the Diversity Policy.

The Officers of the Company (as defined by the NZX Main Board Listing Rules) are the Chief Executive Officer (CEO) and specific direct reports of the CEO having key functional responsibility, and as at 31 March 2018, females represented 31% of Directors and Officers of the Company (FY17: 25%).

	FY18 Male	FY18 Female	FY17 Male	FY17 Female
Directors of Pacific Edge	6	0	6	0
Officers of Pacific Edge	3	4	3	3

### Board Meetings and Attendance

The Board meets as often as it deems appropriate including sessions to consider the strategic direction of Pacific Edge and forward-looking business plans. Video and/or phone conferences are also used as required.

The table below sets out Director attendance at Board and Committee meetings during FY18. In total, there were 8 Board meetings, 3 Audit and Risk Committee meetings, 2 Nomination Committee meetings, and 2 Capital Strategy Committee meetings. The section following the table summarises the composition of each Committee.

	Board	Audit & Risk Committee	Remuneration Committee	Nomination Committee	Capital Strategy Committee
Total number of meetings held	8	3	1	2	2
C. Gallaher	8	3	1	2	2
D. Band	8	3	1	0	0
D. Darling	8	2	1	0	2
D. Levison	8	0	0	2	0
A. Masfen	8	3	0	2	2
B. Williams	6	0	1	2	0

## CORPORATE GOVERNANCE

### PRINCIPLE 3: BOARD COMMITTEES

*"The Board should use Committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility."*

The Board has delegated a number of its responsibilities to Committees to assist in the execution of the Board's responsibilities. These Committees review and analyse policies and strategies which are within their terms of reference. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The current Committees of the Board are the Audit & Risk Committee, the Nomination Committee, the Remuneration Committee and the Capital Strategy Committee.

#### Audit & Risk Committee

The Company's constitution requires it to have an Audit & Risk Committee comprised solely of Directors of the Company, with the majority of members being independent Directors. There must be at least three members in the Audit & Risk Committee and at least one member must have an accounting or financial background. The Audit & Risk Committee operates under a written Charter which is available on the Company's website.

Under the constitution, the responsibilities of the Audit & Risk Committee include as a minimum:

- Ensuring that the processes are in place and monitoring of those processes so that the Board is properly and regularly informed and updated on corporate financial matters;
- Recommending the appointment and removal of the independent auditor;
- Monitoring and reviewing the independent and internal auditing practices;
- Having direct communication with and unrestricted access to the independent auditors and any internal auditors or accountants;
- Reviewing the financial reports and advising all Directors whether they comply with the appropriate laws and regulations; and
- Ensuring that the external auditor or lead audit partner is changed at least every five years.

Members of the Audit & Risk Committee as at 31 March 2018 were Anatole Masfen (Chair), David Band and Chris Gallaher, all of whom are independent. The Audit & Risk Committee Chair is not the Chair of the Board.

Management may only attend meetings at the invitation of the Committee and the Committee routinely has Committee-only time with the external auditors without management present.

#### Nomination Committee

The Board has established a Nomination Committee to recommend Director appointments to the Board. The Nomination committee operates under a written Charter which is available on the Company's website.

Members of the Nomination Committee as at 31 March 2018 were Anatole Masfen (Chair), Bryan Williams and David Levison.

Management may only attend meetings at the invitation of the Committee.

#### Remuneration Committee

The Board has a Remuneration Committee to recommend the remuneration for Directors to the shareholders and to oversee the remuneration of the Officers/senior managers of the Company. The Remuneration Committee operates under a written Charter which is available on the Company's website.

Members of the Remuneration Committee as at 31 March 2018 were David Band (Chair), Bryan Williams, Chris Gallaher and David Darling. The CEO does not participate in any discussions concerning the CEO's remuneration.

## CORPORATE GOVERNANCE

### Other Committees

The Board establishes other Committees as required. In the case of a takeover offer, Pacific Edge would form an Independent Takeover Committee to oversee disclosure and response, and engage expert legal and financial advisors to provide advice on procedure. The Board has established appropriate protocols that set out the procedures to be followed if there was to be a takeover of the Company.

The Board has a Capital Strategy Committee to provide strategic direction and oversight, make recommendations to the Board and act on matters pertaining to the Company's capital position. The members of this Committee are Chris Gallaher, Anatole Masfen and David Darling.

### PRINCIPLE 4: REPORTING & DISCLOSURE

*"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."*

The Board focuses on providing accurate, adequate and timely information both to existing shareholders and to the market generally. This enables all investors to make informed decisions about the Company. All significant announcements made to NZX, and reports issued, are posted on the Company's website.

The Company has procedures in place to ensure that it complies with its continuous disclosure requirements under the NZX Listing Rules. The Continuous Disclosure Policy sets out the responsibilities of the Board and management for managing their obligations and is available on the Company's website.

Copies of the key governance documents, including the Ethical Behaviour Policy, Share Trading Policy, Board and Committee Charters and Diversity Policy have recently been updated and uploaded to the Company's website.

### Financial Reporting

Pacific Edge's management team is responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies, and internal controls. These are designed to ensure compliance with accounting standards and applicable laws and regulations.

The Board's Audit & Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, balance and timeliness of financial statements. It reviews Pacific Edge's full and half year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit.

All matters required to be addressed, and for which the Committee has responsibility, were addressed during the reporting period.

For the financial year ended 31 March 2018, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Chief Executive Officer and Chief Financial Officer have confirmed in writing to the Board that Pacific Edge's external financial reports present a true and fair view in all material aspects. Pacific Edge's full and half year financial statements are available on the Company's website.

### Non-financial Reporting

Pacific Edge discusses its strategic objectives and its progress against these in the Chair and CEO's commentary in shareholder reports.

The Company is working to increase its disclosure of non-financial information. Laboratory throughput figures are a key non-financial measure for the Company and are included in the Annual Report, along with billable laboratory throughput figures.

Health and safety information is now included in the Annual Report and the Company is working towards including further non-financial information in future reporting.

## CORPORATE GOVERNANCE

### PRINCIPLE 5: REMUNERATION

*"The remuneration of Directors and Executives should be transparent, fair and reasonable."*

The Remuneration Committee is responsible for ensuring that the Company has a sound Remuneration Policy to attract and retain high performing individuals. The Remuneration Policy is available on the Company's website.

The Committee makes recommendations to the Board on remuneration packages for the Executives of the Company. Directors' remuneration is also considered by the Remuneration Committee, within the limits that have been approved by the shareholders of the Company.

External advice is sought on a regular basis to ensure remuneration is benchmarked to the market for senior management positions, Directors and Board positions.

Further details on remuneration are included in the Remuneration Section of this Annual Report.

### PRINCIPLE 6: RISK MANAGEMENT

*"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."*

The Board is responsible for ensuring that appropriate policies and procedures are in place to identify and manage the key risks of the Company, which is managed through the Audit & Risk Committee. The Audit & Risk Committee operates in line with its Charter, which sets out its responsibilities for identifying, monitoring, treating and reporting on key business risks. The Company's management team maintain a detailed risk register which is updated regularly and individual risks are discussed with the Board in detail as required.

Further details on risks are set out in the Risk Analysis on page 89 of the 2018 Annual Report.

### Health and Safety

The Company takes responsibility, so far as is reasonably practicable, at all its sites to protect the health, safety and welfare of staff and people on site, including contractors; and to act in compliance with all of its legal obligations. Pacific Edge aims to effectively manage hazards arising from its facilities and activities. The Company's health and safety performance is monitored and reviewed regularly by management. The Company maintains a fundamentally safe environment and takes its duty of care to staff, contractors and visitors very seriously.

There were no serious harm incidents reported during FY18 and no days lost to work place incidents at any Company site. In addition, there were no serious hazards identified across the Group.

## CORPORATE GOVERNANCE

### PRINCIPLE 7: AUDITORS

*"The Board should ensure the quality and independence of the external audit process."*

#### External Auditors

The Board's relationship with its external auditors is governed by the Audit & Risk Committee Charter. The Charter sets out the Audit & Risk Committee's responsibilities in relation to corporate accounting and reporting practices of the Company, along with the quality and integrity of financial reports. It is the responsibility of the Audit & Risk Committee to maintain free and open communication between the Directors and external auditors and to approve any non-audit engagements performed by the audit firm.

For the financial year ended 31 March 2018, PricewaterhouseCoopers (PwC) was the external auditor for Pacific Edge Limited. PwC was automatically re-appointed under Section 207T of the Companies Act 1993. The last audit partner rotation was in 2016.

All audit work at Pacific Edge is separated from non-audit services, to ensure that appropriate independence is maintained. Other services provided by PwC in FY18 were non-audit related and involved the provision of advice rather than recommendations. These were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work. The amount of fees paid to PwC for audit and non-audit work are identified on page 48 of the 2018 Annual Report.

PwC has provided the Audit & Risk Committee with written confirmation that, in their view, they were able to operate independently during the year.

PwC attends each annual meeting of the Company, and the lead audit partner is available to answer questions from shareholders at that meeting. PwC attended the 2017 annual meeting.

#### Internal Audits

Internal audits are used as a tool for the systematic and independent examination of Pacific Edge operational processes as they relate to product and service provision.

Pacific Edge conducts internal audits at planned intervals to verify that its Quality Management System is effectively implemented and maintained. This ensures compliance with the requirements of its International Standard, ISO9001:2015 certification, which was awarded in November 2017.

### PRINCIPLE 8: SHAREHOLDER RIGHTS & RELATIONS

*"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."*

The Company is committed to ensuring that its shareholders are kept up to date with key activities and are provided with relevant information about the Company and its performance.

The Company communicates with shareholders during the financial year through shareholder newsletters, annual and half year reports and at the Annual Shareholders Meeting. The Annual Shareholders Meeting is streamed live and is accessible worldwide. All written communications and reports are available on the Company's website, as well as emailed to shareholders who elect to be emailed.

In accordance with the Listing Rules, shareholders have the right to vote on major decisions which may change the nature of the Company. Each shareholder has one vote per share and voting is conducted by polls.

The notice of the Annual Shareholders Meeting is announced on the NZX, sent to shareholders and posted on to the Company's website at least 28 days prior to the meeting each year as required under the Company's constitution.

All shareholders are given the option to elect to receive electronic communications from the Company.

In addition to shareholders, Pacific Edge has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association, as well as its staff, suppliers and customers.

## REMUNERATION

### Remuneration

The Pacific Edge Remuneration Committee operates as a sub-committee under the guidance of the Board to ensure the remuneration framework that is in place is appropriate to attract, retain and reward current and future employees of the Group. The Remuneration Committee ensures that individual employee performance is aligned to the strategy and performance of the Company along with the interests of the shareholders.

### Directors' Remuneration

Remuneration of Directors and senior executives is the key responsibility of the Remuneration Committee.

The maximum total monetary sum payable by the Company by way of non-executive Directors' fees is \$275,000 per annum, as approved by shareholders at the 2015 special shareholders' meeting. Executive Directors do not receive Directors' fees.

Any proposed increases in non-executive Director fees and remuneration will be put to shareholders for approval at the Annual Shareholders Meeting by way of ordinary resolution. If independent advice is sought by the Board, it will be disclosed to shareholders as part of the approval process.

The standard Directors' fees per annum are as follows:

Board of Directors Position	FY18 Fees per annum (NZ\$000)
Chair	75
Deputy Chair	43
US Based Director	77
Other Directors	40

The Board recognises that there is a disparity between the market rates paid in the US and New Zealand for suitably qualified Directors. Accordingly, in order to attract a suitably qualified US person, the Company needs to pay US market rates. The Board has taken advice and determined that the appropriate fee for a US based Director is NZ\$77,000 per annum. Pacific Edge has one US based Director, David Levison.

Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties. Directors do not receive any additional fees for positions on Committees of the Board or subsidiary companies. Directors fees exclude GST, where applicable.

Non-executive Directors received the following Directors' fees from the Company in the year ended 31 March 2018:

Directors' Fees	Directors' Fees FY18 Per annum (NZ\$000)	Directors' Fees FY17 Per annum (NZ\$000)
<b>Pacific Edge Limited Board</b>		
C. Gallaher (Chairman)	75	50
D. Band	43	45
D. Levison (USA)	77	77
A. Masfen	40	37
B. Williams	40	37
C. Swann	-	26
C. Sitch (Independent)	-	8
<b>Subsidiary Directors (USA)</b>		
B. Nogales	-	7
<b>Total</b>	<b>275</b>	<b>287</b>

## REMUNERATION

- C. Gallaher: Chris Gallaher joined the Board in July 2016 and was appointed Chair in August 2016. FY17 fees reflect part payment of fees as a Director and as Chair during FY17.
- D. Band: Fees paid to David Band in the 2017 financial year include an additional payment relating to the 2016 financial year.
- D. Levison: Upon joining the Board in 2016, David Levison was granted 225,000 share options at an exercise price of \$0.60 per option. The non-cash expense of these share options included within the 2018 financial statements was \$29,000 (2017: \$62,000).
- C. Swann: Chris Swann received ordinary shares as part of the wind up of the Equity Equivalent Scheme in 2017. The non-cash expense of these shares was \$211,00. There were no further costs relating to these shares in 2018. Chris Swann retired from the Board in August 2016.
- C. Sitch: Charles Sitch retired from the Board on 2 June 2016.
- B. Nogales: Bruce Nogales' Directors fees were paid by the subsidiary Pacific Edge Diagnostics USA Limited, of which he was a Director until 30 June 2017. As Bruce was not a Director of Pacific Edge Limited, he was paid fees that are over and above the \$275,000 available for the Company Directors.

### Chief Executive Officer Remuneration

The review and approval of the CEO's remuneration is the responsibility of the Board.

The CEO's remuneration comprises:

- A fixed base salary, including Kiwisaver contributions by the Group;
- An at risk short term incentive (STI) payable annually of up to 40% of the base salary subject to agreed upon criteria in the areas of health and safety, staff engagement, profitability and cashflow; and
- A long term incentive (LTI) which includes non-cash share options granted by the Company that will vest, based on vesting criteria, over four years after the grant date.

The remuneration of the Chief Executive Officer (CEO) for the period ended 31 March 2018 has been broken down between cash remuneration and non-cash remuneration, as follows:

	Fixed remuneration (salary and Kiwisaver) (NZ\$000)	STI (NZ\$000)	STI % achieved	Total cash remuneration (NZ\$000)	Non-cash remuneration (NZ\$000)*	Total remuneration (NZ\$000)
FY18	383	50	33%	<b>433</b>	-	<b>433</b>
FY17	365	109	74%	<b>474</b>	920	<b>1,394</b>

\* This includes the benefits of the Employee Equity Equivalent Incentive Scheme (see Note 8) but excludes share options not exercised as detailed further below.

### Non-Cash Remuneration

In addition, the CEO was granted 2,000,000 share options at \$0.51 per share during FY18 (FY17: 0), which will vest based on vesting criteria between 2018 and 2020. The non-cash expenditure related to these share options, along with options issued prior to FY17 which are continuing to vest, included in the FY18 financial statements is \$506,000 (2017: \$231,000). On conversion of these options to ordinary shares, the CEO will be required to pay to Pacific Edge the price of \$0.51 per share or NZ\$1,020,000 in total if all options are exercised. There is no direct benefit attributed to these options in FY18. The future benefit is defined by what may become a cash value on conversion less the conversion price paid to the Company at some future point in time.

## REMUNERATION

### Employee Remuneration

Employee Remuneration consists of a fixed salary and, on an employee by employee basis, may also include variable or "at-risk" remuneration.

Fixed remuneration includes: an individual's base salary, for core responsibilities, capability and performance, along with any superannuation scheme contributions by the Group and any other health or disability benefits provided by the Group. The base salary is benchmarked to the market.

Variable remuneration includes:

- Short term incentives that are linked directly to the Company's performance and designed to reward permanent employees for Company successes and high performance across any given year. Short term incentives may be paid out in either cash, share options and/or ordinary shares in the Company at the discretion of the Company.
- Long term incentives for selected employees consist of share options, allowing the employee to obtain ordinary shares in the Company. Options vest over four years and the employee has the right to convert to ordinary shares on payment of the applicable exercise price. Share options either vest immediately (see short term incentives above) or over three years. Each tranche of options has a conversion life of between 4 and 10 years. Share options are deemed non-cash remuneration and are accounted for accordingly.

Refer to page 49 of the 2018 financial statements for further details on the variable remuneration schemes.

The table overleaf shows the number of employees and former employees of the Group, not being Directors of the Company or Group, who, in their capacity as employees, received remuneration and other benefits during the period ended 31 March 2018 totalling at least NZ\$100,000.

This includes cash remuneration and shares issued to employees, and excludes the value of share options that have vested but have not yet been exercised as no benefit accrues to the employee until the options are exercised.

The Group operates in New Zealand, Australia, Singapore and the United States where market remuneration levels differ. Of the employees noted in the table below, 76% are employed by the Group outside New Zealand. The offshore remuneration amounts are converted into New Zealand dollars.

## REMUNERATION

During the year, 30 employees or former employees of the Group, not being Directors of the Company, received remuneration and other benefits that exceeded NZ\$100,000 in value as follows:

Employee Remuneration* (NZ\$000)	2018
600,000 - 610,000	1
440,000 - 450,000	1
400,000 - 410,000	1
320,000 - 330,000	1
310,000 - 320,000	2
300,000 - 310,000	1
280,000 - 290,000	2
270,000 - 280,000	1
260,000 - 270,000	1
250,000 - 260,000	2
240,000 - 250,000	1
230,000 - 240,000	4
220,000 - 230,000	2
210,000 - 220,000	1
200,000 - 210,000	2
160,000 - 170,000	1
150,000 - 160,000	1
130,000 - 140,000	2
110,000 - 120,000	2
100,000 - 110,000	1
	<b>30</b>

\*Refer to Note 10 (page 49) of the Financial Statements

The table above includes both fixed and variable cash remuneration as described above, including base salaries, superannuation contributions, contributions to health and disability plans and cash-based short-term incentives. The table above excludes any non-cash long-term incentives that have vested, but have not been exercised.

### Directors and Officers Insurance

In accordance with the Companies Act 1993 and the constitution of the Company, Pacific Edge indemnifies and insures its Directors and Officers, including Directors and Officers of subsidiary companies within the Group, in respect of liability incurred for any act or omission in their capacity as a Director or Officer of the Company. This insurance includes defence costs. If an act or omission was to occur that was covered by this insurance, the Company would pay the liability of the act or omission and be reimbursed by the insurer.

## RISK ANALYSIS

As a high growth company, there are a number of risks associated with our business. We believe it is important for our shareholders to have an understanding of these risks and the processes the Board and management have put in place to mitigate these risks.

Risk	Mitigation
Market disruption	We operate in a number of different international markets and as we introduce additional products in new areas, we will limit our exposure to any potential market disruption.
Continuation of acceptance of our products by the medical community and funders/third party payers	Clinical studies have validated our test results. Our User Programmes are a key ingredient in driving adoption by clinicians. We have CLIA certified laboratories in USA and New Zealand.
Acceptance of our products by funders and third party payers	We are building strong relationships and have negotiated a number of agreements with third party payers and funders.
Dependence on franchise partners to market and sell our products	Greater control in the key US market through our wholly owned subsidiary, Pacific Edge Diagnostics USA Limited. Close working relationships with franchise partners.
Competitor activity	We have yet to see any competition in the bladder cancer diagnostic field from new molecular diagnostics. We hold the lead in clinical validation which has long lead times. We are focused on building a strong and loyal customer base around a portfolio of interdependent products.
Intellectual property related opportunities and risks	We have made great progress in expanding our intellectual property portfolio and having several key patents granted. In some cases, we have taken forward looking licenses to hedge the event of other's intellectual property impacting on us.
Regulatory risks	We have sought advice from experts in the regulatory landscape. We are aware of the risks and continuously monitor the regulatory environment for changes that may affect our business. We have a successful history of regulatory review in both operating laboratories in New Zealand and the USA.
Reimbursement risks	We have dedicated specialists working in the area of Accounts and Payer Relationships. We have negotiated agreements in place with major payment facilitators. We have negotiated agreements in place with Federal customers.
Financial risks	\$21.3m of capital was raised from New Zealand based investors in November 2017. The Company had \$16.2m of cash and cash equivalents as at 31 March 2018. The Board believes we have sufficient funding in place to continue with our strategic plan for the next year and that that trading revenue will be a major contributor to future growth funding.
Revenue generation	We would reasonably expect revenue to grow as we expand our commercial presence in the USA and gain momentum in New Zealand, Australia and Singapore.
Foreign exchange risks on expected royalties	The Board and management monitor these risks regularly and evaluate whether exposure can be reduced by hedging transactions. A natural hedge exists with the USA generated revenue.
Other environmental, health and safety, operational and statutory risks	These are monitored continuously. Functions and processes have been implemented at each facility to reduce risks. We consult with external experts in our decision making, policies and processes.
Share registry risks	We are aware of the risks associated with our shares, such as low levels of liquidity, a number of large investors, high volatility in share price and external influences from investor confidence.

**STATUTORY INFORMATION**

For the year ended 31 March 2018

**Directors' Interests**

The Company maintains an Interests Register in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

Directors disclosed interests, or cessation of interest, in the following entities pursuant to section 140 of the Companies Act 1993 during the year ended 31 March 2018.

Director/Entity	Relationship
<b>C. Gallaher</b>	
Ashdown Group Pty Ltd	Director
The Good Shepherd New Zealand Limited	Director
The Good Shepherd Australia and New Zealand Limited	Director
The Good Shepherd Microfinance Pty Ltd	Director
Mariposa Ltd	Director
<b>D. Band</b>	
Abacus Bio Ltd	Chairman
Kauri Ltd (Australia)	Director
GoSkills Limited	Chairman
SIGNAL ICT Graduate School	Chairman
<b>D. Levison</b>	
CardioDx	Director & Shareholder
CareDx	Shareholder
<b>B. Williams</b>	
BioGrid Australia	Director
Cartherics Pty Ltd	Director

**Director Appointment Dates**

The dates below are the first appointment dates for all current Directors. Directors have been re-appointed at Annual Shareholder Meetings, when retiring by rotation.

C. Gallaher	1 July 2016
D. Band	12 January 2007
D. Darling	21 August 2014
D. Levison	2 April 2016
A. Masfen	1 April 2008
B. Williams	1 June 2013

**STATUTORY INFORMATION**

For the year ended 31 March 2018

**Directors' Security Holdings**

Securities in the Company in which each Director and associated person of each Director, has a relevant interest, are specified in the table below as at 31 March 2018.

Number of Equity Securities	2018	2017
D. Darling*	8,954,413	6,954,413
C. Swann**	1,171,641	1,171,641
B. Williams	8,160	4,316
D. Levison***	225,000	225,000

\*D Darling has a current interest in a total of 8,954,413 equity securities, made up of 4,704,413 ordinary shares in the Company and 4,250,000 options to acquire ordinary shares in the Company.

\*\* C. Swann resigned from the Board on 25 August 2016.

\*\*\* D. Levison's interest is share options only.

**Security Dealings of Directors**

B. Williams took up his rights during the 2017 capital raise and increased his shareholding by 3,844 shares to a total of 8,160 shares. There were no other security dealings by Directors during the 12 months to 31 March 2018.

**Information Used by Directors**

The Board of Directors received no notices from Directors wishing to use Company information received in their capacity as Directors, which would not have ordinarily been available.

**Independence**

The following Directors are considered by the Board to be independent, as defined under the NZX Main Board Listing Rules, as at 31 March 2018:

- C. Gallaher, B. Williams, D. Band, A. Masfen and D. Levison.

The following Director is considered by the Board not to be independent:

- D. Darling

**Subsidiary Company Directors**

Section 211(2) of the Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the Interests Registers made during the year ended 31 March 2018.

No subsidiary has Directors who are not Directors of Pacific Edge Limited or employees of the Group. The remuneration and other benefits of such Directors are included in the Directors Remuneration section of this Annual Report and the remuneration and other benefits of employees totalling NZ\$100,000 or more during the year ended 31 March 2018 are included in the relevant bandings for remuneration on page 88 of this Annual Report.

Other than B. Nogales, who received remuneration for his position as Director of Pacific Edge Diagnostics USA Ltd in the 2017 financial year, no remuneration is paid to any other Director of subsidiary companies for their position as Director of the subsidiary company.

**STATUTORY INFORMATION**

For the year ended 31 March 2018

The persons who held office as Directors of subsidiary companies at 31 March 2018 are as follows:

Pacific Edge Diagnostics New Zealand Limited	D. Darling
Pacific Edge Analytical Services Limited	D. Darling
Pacific Edge Diagnostics USA Ltd	D. Darling, C. Gallaher, D. Levison
Pacific Edge Pty Ltd	D. Darling, C. Gallaher, B. Williams
Pacific Edge Diagnostics Singapore Pte. Ltd	D. Darling, B. Williams, K. Rankin

**Twenty Largest Equity Security Shareholders as at 30 April 2018**

Rank	Registered Shareholder	Number of Shares	% of Total Shares
1	New Zealand Central Securities Depository Limited (NZCSD)	195,531,398	41.93%
2	K One W One Limited	23,084,013	4.95%
3	Forsyth Barr Custodians Limited	17,335,219	3.72%
4	Masfen Securities Limited	10,982,494	2.36%
5	FNZ Custodians Limited	7,902,210	1.69%
6	Leveraged Equities Finance Limited	7,365,393	1.58%
7	Carol Anne Edwards & Graeme Brent Ramsey	4,995,585	1.07%
8	David Darling & Yvonne McCallum & Independent Trustees (Tauranga) Limited	4,696,141	1.01%
9	JBWERE (Nz) Nominees Limited	4,640,257	1.00%
10	Pt Booster Investments Nominees Limited	3,628,279	0.78%
11	Steven Cyril Hancock & Bronwyn Hilda Hancock	2,955,000	0.63%
12	Henry Berry Corporation Ltd	2,773,129	0.59%
13	Custodial Services Limited	2,542,806	0.55%
14	Farnworth Ventures Limited	2,216,666	0.48%
15	Custodial Services Limited	2,171,670	0.47%
16	Michael Walter Daniel & Nigel Geoffrey Burton & Michael Murray Benjamin	2,000,000	0.43%
17	Ballynagarrick Investments Limited	1,837,466	0.39%
18	Forsyth Barr Custodians Limited	1,633,036	0.35%
19	David John Mccauley & Sally Anne Mccauley	1,549,980	0.33%
20	Kerry Grant Mcintosh & Michael Owen Tinkler	1,353,656	0.29%

**STATUTORY INFORMATION**

For the year ended 31 March 2018

**Shareholders held through NZCSD as at 30 April 2018**

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 30 April 2018, the ten largest shareholdings in the Company held through NZCSD were:

Rank	Registered Shareholder	Number of Shares	% of Total Shares in the Company
1	HSBC Nominees (New Zealand) Limited	45,522,160	9.76%
2	BNP Paribas Nominees (NZ) Limited	42,790,038	9.18%
3	TEA Custodians Limited – Client Property Trust Account	27,472,490	5.89%
4	BNP Paribas Nominees (NZ) Limited	18,438,659	3.95%
5	Citibank Nominees (New Zealand) Limited	16,001,880	3.43%
6	Accident Compensation Corporation	14,844,658	3.18%
7	JPMorgan Chase Bank NA NZ Branch – Segregated Clients Acct	9,450,867	2.03%
8	BNP Paribas Nominees (NZ) Limited	8,331,764	1.79%
9	National Nominees Limited	5,251,038	1.13%
10	Public Trust RIF Nominees Limited	4,079,433	0.87%

**Spread of Security Holders as at 30 April 2018**

	No. of Ordinary Security Holders	% of Issued Capital
1 – 1,000	438	0.06%
1,001 – 5,000	1,608	0.99%
5,001 – 10,000	1,018	1.65%
10,001 – 100,000	2,028	13.03%
Greater than 100,001	345	84.27%
<b>Total Security Holders</b>	<b>5,437</b>	<b>100.00%</b>

## STATUTORY INFORMATION

For the year ended 31 March 2018

### Substantial Product Holders

The following substantial product holder information is given pursuant to section 293 of the Financial Markets Conduct Act 2013. These substantial product holders are shareholders who have a relevant interest of 5% or more of a class of quoted voting products of the Company.

As at 31 March 2018, details of the substantial product holders of the Company and their relevant interests in the Company's shares are as follows:

Name of Substantial Product Holder	Number of Ordinary Voting Securities	
	as at 31 March 2018	% of Issued Capital
Westpac Banking Corporation	34,547,725	7.41%
Salt Funds Management Ltd	55,758,404	11.96%
AMP Capital Investors (NZ) Ltd	25,644,970	5.50%
First NZ Capital Group Ltd	72,738,109	15.60%

### Donations

The Group made no donations during the year.

### Credit Rating

The Company currently does not have a credit rating.

### Waivers from NZX Listing Rules

No waivers were granted by NZX during the 12 month period ended 31 March 2018.

### Exercise of NZX Powers (Listing Rule 5.4.2)

NZX did not exercise its powers during the year under Listing Rule 5.4.2.

## GLOSSARY

**Biomarker:** A characteristic that is objectively measured and evaluated as an indicator of normal biologic or pathogenic processes or pharmacological responses to a therapeutic intervention.

**Clinical Laboratory Improvement Amendments (CLIA):** Regulate laboratory testing and require clinical laboratories to be certificated by their state as well as the Centers for Medicare and Medicaid Services (CMS) before they can accept human samples for diagnostic testing.

**Clinical Trial:** A single statistically significant trial for patients with disease. The results of the trial provide performance statistics for the test and are written up and published in a peer reviewed journal.

**CMS: Centers for Medicare and Medicaid:** The Federal program which helps pay health care costs for people 65 and older and for certain people under 65 with long-term disabilities.

**Company:** Pacific Edge Limited.

**Cystoscopy:** This is the use of a scope (cystoscope) which is inserted through the urethra to examine the bladder.

**FSS: Federal Supply Schedule – General Services Administration's (GSA) Federal Supply Schedules** are large contracts through which federal customers can acquire more than 4 million products and services directly from more than 8,000 commercial suppliers. They offer a vast array of brand name products from office supplies and copier paper to systems furniture, computers and laboratory and services ranging from accounting to graphic design to landscaping.

**Group:** The Company together with its subsidiaries.

**Haematuria:** The presence of red blood cells in the urine and a key indicator of bladder cancer.

**Health care provider:** An individual or an institution who is authorised by the State and performing within the scope of their practice as devined by state law that provides preventive, curative, promotional or rehabilitative health care services in a systematic way to individuals, families, or communities.

**Incidence:** Number of new cases per year in a specific disease indication.

**Indication:** A valid reason to use a certain test, medication, procedure or surgery.

**Listing Rules:** NZX Main Board Listing Rules.

**Local Coverage Determination (LCD):** A decision by a Medicare Administrative Contractor (MAC) whether to cover a particular service on a MAC-wide, basis.

**MACRA Act:** The US Medicare Access and CHIP Reauthorization Act (MACRA) introduces a new merit-based payment model that establishes new ways to pay physicians for caring for Medicare beneficiaries and importantly, moves away from fee-for-service payments to quality and value based outcomes.

**Medicaid:** A program administered at the state level, which provides medical assistance to the needy. Families with dependent children, the aged, blind, and disabled who are in financial need are eligible for Medicaid. It may be known by different names in different states.

**Molecular Diagnostics:** Diagnostics based on genetic and epigenetic information.

**Monitoring:** The tracing of potential recurrence or assessment of progression of a disease.

**Recurrence:** Disease return following medical intervention.

**Reimbursement:** To make repayment to for expense or loss incurred.

**TRICARE:** Healthcare program for the US Armed Forces military personnel, military retirees and their dependents.

**Tumour:** A mass of excess tissue that results from abnormal cell division.



## GLOSSARY

**Urologist:** Specialist clinicians for urological diseases and disorders.

**Urothelial Cancer:** Urothelial cancer includes bladder cancer and cancers of the upper urinary tract.

**User Program:** Formal evaluation program that allows a physician, group practice, institution, or healthcare system to evaluate the performance of a new product or technology.

**Veterans Administration (VA):** An agency of the federal government which provides a variety of services for United States veterans.

**Validation:** Establishing documented evidence that a process or system, when operated within established parameters, can perform effectively and reproducibly and meet its predetermined specifications and quality attributes.

## COMPANY DIRECTORY

As at 31 March 2018

**Issued Capital**  
466,321,801 Ordinary Shares

**Registered Office**  
Anderson Lloyd  
Level 10, Otago House  
Cnr Moray Place and Princes Street  
Dunedin

**Directors**  
C. Gallaher – Chairman  
D. Band  
D. Darling  
D. Levison  
A. Masfen  
B. Williams

**Chief Executive Officer**  
David Darling

**Nature of Business**  
Research, develop and commercialise new diagnostic and prognostic tools for the early detection and management of cancers.

**Auditors**  
PricewaterhouseCoopers  
Dunedin

**Bankers**  
Bank of New Zealand  
Dunedin  
ANZ  
Dunedin

**Solicitors**  
Anderson Lloyd  
Level 10, Otago House  
Cnr Moray Place and Princes Street  
Dunedin

**Securities Registrar**  
Link Market Services Limited  
138 Tancred St  
Ashburton

**Company Number**  
1119032

**Date of Incorporation**  
27th February 2001

## PACIFIC EDGE COMMUNICATIONS

**Websites**  
[www.pacificedgedx.com](http://www.pacificedgedx.com)  
[www.cxbladder.com](http://www.cxbladder.com)  
[www.bladdercancer.me](http://www.bladdercancer.me)

**Facebook**  
[www.facebook.com/PacificEdgeLtd](https://www.facebook.com/PacificEdgeLtd)  
[www.facebook.com/Cxbladder](https://www.facebook.com/Cxbladder)

**Twitter**  
[@PacificEdgeLtd](https://twitter.com/PacificEdgeLtd)  
[@Cxbladder](https://twitter.com/Cxbladder)

**LinkedIn**  
[www.linkedin.com/company/pacific-edge-ltd](https://www.linkedin.com/company/pacific-edge-ltd)



**PACIFIC EDGE**   
CANCER DIAGNOSTICS COMPANY

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