Australia

USA

UK

medlab ASX: MDC

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2020

MEDLAB CLINICAL LIMITED (ABN 51 169 149 071)

MO[01] RE[02] SCIENCE

Who we are

An Australian Biotechnology company *focusing on chronic illnesses*

3 CORE REVENUE STREAMS

1 Early market access for new drugs	2 Partnering	3 Nutraceutical Range

3 IN-MARKET SEGMENTS

DRUG DEVELOPMENT:
a non-opioid analgesic for CIBP (cancer induced bone pain)

PLATFORM DEVELOPMENT:
a unique submicron delivery platform for improving drug solubility

NUTRACEUTICALS (AU):
Via AU Pharmacies, with several under clinical investigation

PARTNERING (GLOBAL):
Partnering agreements for 3rd party use in international territories

medlab

POINT OF DIFFERENCE

RESEARCH | EVIDENCE | PATENTS | APPROVAL | GLOBAL

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CHAIRMAN'S LETTER

Dear Shareholders,

It is my pleasure to present Medlab Clinical's 2020 Annual Report.

This has been a pivotal year for Medlab Clinical. Our focus has shifted towards drug development – leading with our cannabinoid portfolio. We have successfully completed a Phase I/II clinical trial of our lead candidate NanaBis™ which is targeting the treatment of bone pain in breast and prostate cancer patients. This is an area of great unmet need and where there is currently a high reliance on opioids.

Our strategy is to expand our market opportunity by gaining US regulatory approval for our clinically validated, medical cannabis-based product (NanaBis™). Furthermore, the superior performance we can achieve via our drug delivery platform, NanoCelle® will be a key differentiator – and we are on the journey to build a body of clinical and real world evidence to support this.

The milestones achieved over the past 12 months – and the capital raised – puts us on track to commence the process of filing an investigational new drug application with the US Food and Drug Administration and commencing a multi-centre, international Phase III study.

During the year we completed the NanaBis™ Phase I/II study at Royal North Shore Hospital (RNSH) in Sydney. This study met its primary and secondary endpoints, demonstrating safety, efficacy and tolerability – and a 40% improvement in pain scores from the baseline.

Our 12 month observational study, which is enabling the collection of real world data from prescribing physicians and patients, is well underway and generating results consistent with the RNSH.

We are now preparing to commence an international Phase III study and file an Investigational New Drug Application with the US Food and Drug Administration (FDA). There will be several catalysts for value creation as we embark on this mission.

While achieving regulatory clearance is the ultimate goal, we are strongly encouraged by the increasing uptake of NanaBis™ under the special access scheme for patients in Australia. This is generating early revenue, but more importantly providing an indication of early market adoption, enabling us to engage with practitioners and ultimately help patients who are in need.

We now have four products in the cannabis portfolio, which are available to patients in the special access scheme and / or being sold into overseas markets including the UK and Hong Kong.

Nutraceuticals Portfolio

Our nutraceuticals portfolio has been going through a period of rationalisation since launching in banner pharmacy in the June quarter 2019. We have increased our presence in digital sales and marketing channels and this coincided with a softening of sales via traditional pharmacy retail channels, in line with the impact of COVID-19.

We recognise that building a business of scale to achieve the level of sales that would support positive earnings will take time, capital and resources. We are now assessing the right strategy to drive further growth of the nutraceuticals business and make most effective use of our cash resources. The options being considered are a trade sale, licencing or further commercial partnerships to realise sooner the value within the nutraceuticals portfolio, and ensure we are focusing our efforts on the activities that will drive greater shareholder returns.

Corporate Activity

Subsequent to the year-end, we were very pleased to announce the appointment of Laurence McAllister to the Board of Directors. This is our first new board appointment since our IPO. Laurence is currently the CEO of ASX listed company McPherson's (ASX.MCP), a global leader in health, wellness and beauty. He was also the General Manager of Sanofi's operations in Australia and New Zealand, during which time he served two years on the Board of Medicines Australia and he spent more than two decades at Coca-Cola. He is an excellent addition to our Board with experience across M&A and corporate strategy, consumer marketing and global pharmaceuticals that will benefit us immensely.

During the year, we raised $11.97M before costs via two placements and an SPP (completed July 2020). The funds raised provide us with capital to support us as we prepare to launch the Phase III study of NanaBis™. We thank new and existing investors for their support.

We have a clear strategy to create significant shareholder value over the longer term – with value inflection points along the way. There are many precedents of global companies successful in gaining regulatory approval to support this thesis. The data generated to date, the encouraging dialogue with the regulators, and the expert team we have supporting us gives us confidence that we are on the right pathway.

I would like to acknowledge and thank the work of our entire team at Medlab Clinical and thank you our shareholders for your ongoing support.

Yours sincerely,

Michael Hall

Michael Hall
Chairman

CEO REPORT

At Medlab we have a clear purpose: To provide better treatment options for people managing chronic disease – increasingly with a focus on oncology – backed by strong scientific rigour and clinical validation.

Our point of difference lies in the NanoCelle® drug delivery platform – which uses nanotechnology to enable faster absorption of known active ingredients, enabling us to enhance the quality, delivery and effectiveness of both over-the-counter and prescribed products. This platform has been applied to enhance our existing portfolio of novel drug candidates and over-the-counter nutraceutical products, but also provides us with the potential to create a pipeline of additional products.

Cannabinoid portfolio

We have made important strides forward with our cannabinoid portfolio over the past year building a compelling body of clinical and real-world evidence, as well as generating early revenues from sales under the special access scheme and exports.

We successfully delivered on several important clinical and operational milestones, for our lead program, **NanaBis™ a blend of THC/CBD, used as a non-opioid alternative for cancer-induced bone pain.**

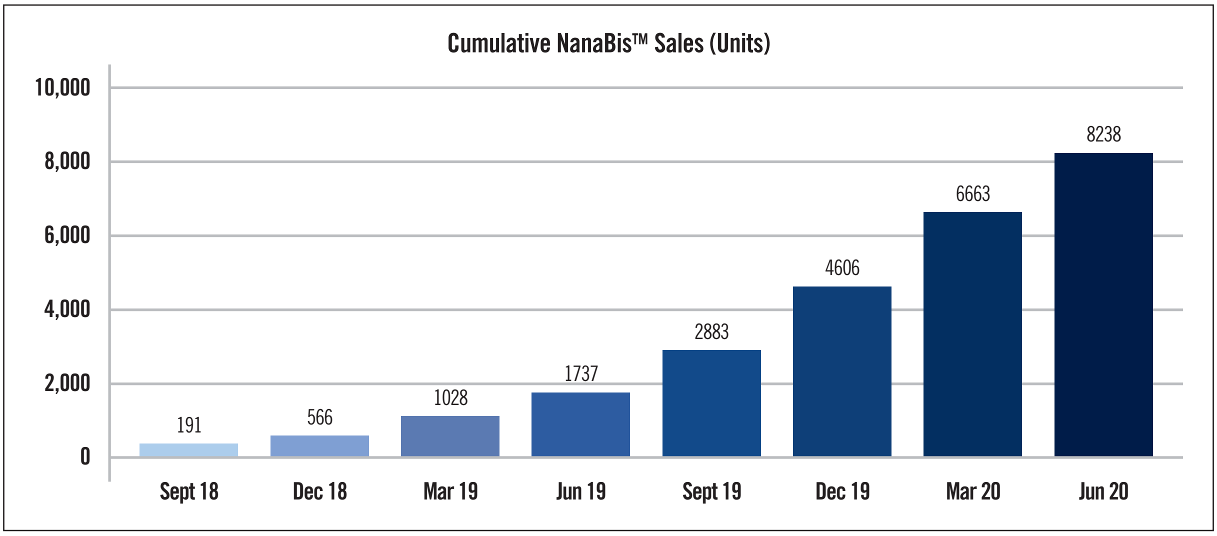
- **Successful completion of Phase I/II study:** The trial of 30 advanced cancer patients conducted at Royal North Shore Hospital met its primary and secondary endpoints, demonstrating safety, tolerability and efficacy. The study combined a single ascending dose (SAD) and multiple ascending dose (MAD) regimes. The result showed improvement in quality of life measures (insomnia and emotional functioning) and a 40% improvement in baseline pain scores, within a subset of patients with cancer and bone metastases.
- **NanaBis™ 12 month observation study:** Enrolment in this study, designed to gather real-world evidence, is tracking to plan. As of August 2020, 432 of 2000 patients had been enrolled in the trial. The third monitoring report has demonstrated positive data with a 59.5% reported reduction in pain (unadjusted), based on average dose of four sprays per day, consistent with the findings of the RNSH trial.
- **Demand for NanaBis™ under Special Access Scheme continues to grow:** Shipment of units under the Special Access Scheme have continued to steadily increase over the past year. Sales in June hit a record monthly high of 910 units.
- **Supply and manufacturing agreement with TASALK:** Manufacturing of NanaBis™ was transferred to Tasmanian Alkaloids (TASALK) ensuring sufficient supply of product to growing demand under the special access scheme and to support a Phase III clinical trial at quality standards required to meet regulatory requirements.

The body of evidence on the safety, tolerability and efficacy of NanaBis™ is growing, and that bodes well as we plan to formally submit our multi-centred Phase III trials protocol to the US, UK and Australian regulatory authorities later in 2020.

The confirmation of the performance of our product through these real world trials encourages us to continue to push ahead aggressively with our ultimate objective of a drug registration for NanaBis™.

We also launched two additional products, which are already generating sales under the Australian Special Access Scheme as well as export sales:

- **NanoCBD™** a CBD only formulation, intended for the treatment of chemotherapy induced nausea and vomiting (CINV) and subject to future investigation for drug approval. First sales have commenced under the special access scheme in Australia, with forty-five units shipped in the first month since launch. A further 1,500 units have been shipped to Hong Kong.
- **Mg Optima and CBD** a hybrid cannabinoid, which combines CBD with Medlab's existing nutraceutical formulation of magnesium (^{12}Mg Optima™ Relax). An initial order of 5,000 units has been shipped to Cultech Limited in the UK, Medlab's exclusive distribution partner for this product.



Despite supply chain limitations experienced as a result of COVID-19, Medlab recorded an increase of cannabis sales of 199% (approx. 176% for NanaBis™).

CEO REPORT (cont.)

Research and Development

Similar to our pharmaceutical products division, we believe it is important to differentiate and validate our nutraceuticals products with clinical data. In April, we completed a study of 120 patients for the use of NRGBiotic™ in combination with commonly prescribed treatments for depression, to investigate how these products used in combination could provide better outcomes. We were pleased to be able to finalise this trial in the midst of the COVID-19 pandemic, and look forward to the release of these trial results currently delayed due to COVID-19 limitations around social distancing and access to 3rd party labs.

We have an ongoing program of research and development, assessing known active ingredients and generic drugs on our NanoCelle® platform as potential product candidates and in support of our strategy to position NanoCelle® as a platform for partners.

Nutraceuticals Portfolio

During the year we increased our presence in digital sales channels, including establishing a telehealth service, to support direct to consumer sales alongside our distribution into pharmacies via Symbion, API and Sigma Australia-wide.

The domestic nutraceutical business has been going through a period of rationalisation since launching in banner pharmacy last FY. Up until the third quarter, we had experienced impressive sales growth in the nutraceuticals portfolio, rising 27% year on year in Q3 in invoiced sales. In the final quarter, we saw sales soften, a reflection of the challenges facing bricks and mortar retail due to COVID-19 restrictions. Our investment in digital marketing coincided with this, and has helped to mitigate some of the short-term challenges. This was in a stark contrast to the June quarter FY 19 when we launched into banner pharmacy and reported the pipe fill. Medlab continues to pursue export opportunities.

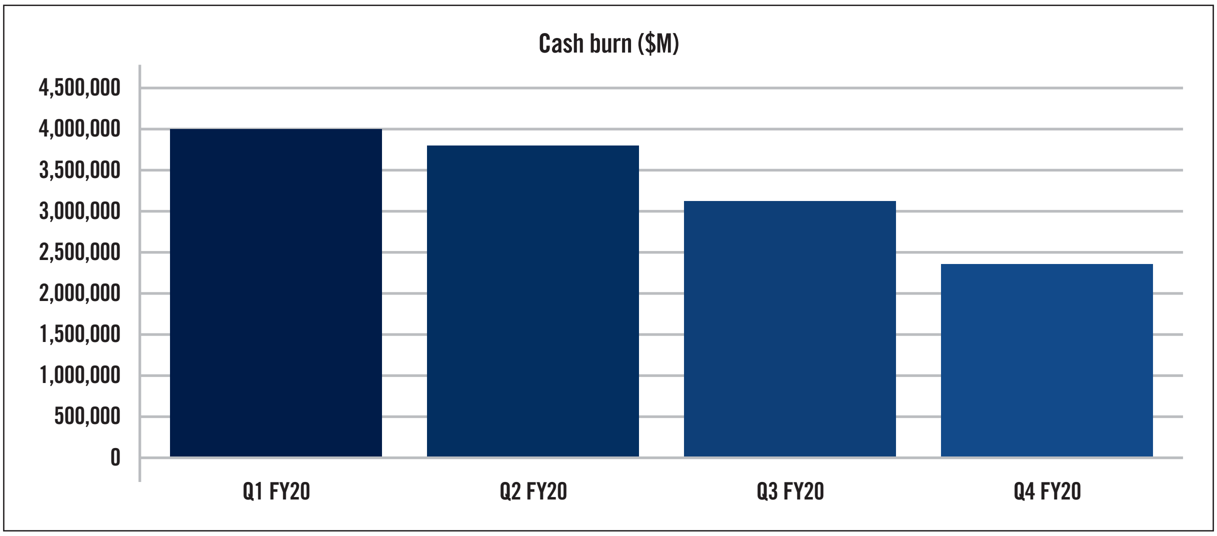
As mentioned in the Chairman's report we are assessing a number of options for the strategic direction of the nutraceuticals business.

Financial Performance

Total revenue was down 28% to $5.8m. This is predominantly due to an increase of promotional costs to $1.8m. We do expect to see sales of the cannabinoid products continue to increase, following the trend seen this year.

The company delivered a net loss after tax of $13.4M. This is largely attributed to the acceleration of research programmes, noting that the company writes these costs off to the P&L immediately and does not capitalise R&D as a balance sheet asset. The company received an R&D tax incentive payment of $2.1m.

Medlab has continued to manage cash and as a result, normalised cash burn (excluding government subsidies) has continued to improve over the past 12 months.



CEO REPORT (cont.)

As of June 30, our cash position was $9M.

In conclusion, Medlab Clinical has a portfolio of clinically advanced and commercial stage products, we are generating early revenue, promising data and seeing rising demand.

We believe the long-term value driver is in achieving regulatory approval and opening up larger global markets. For NanaBis™ alone we estimate the market opportunity could be in excess of $200M in the first year alone, and rising to over several billions dollars, five years thereafter; probably a good example of performance is Epidolex by GW Pharmaceuticals (NASDAQ: GWPH).

The progress made this year lays the foundation for value inflection in the coming 12 month as we move into clinical trials, file our IND and continue to build out a pipeline of future products.

We look forward to bringing better treatment options and improving quality of life for patients, and creating value for our shareholders along the way.

Thank you to our dedicated team, and thank you to our investors for your support.

Yours sincerely,

Dr Sean Hall
CEO

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Medlab Clinical Limited (Company) and its controlled entities (Group) at the end of, or during, the year ended 30 June 2020.

Directors

The following persons were directors of the company during the year and up to the date of this report, unless otherwise stated:

Sean Hall
Michael Hall
Drew Townsend
Laurence McAllister (appointed 5 August 2020)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the consolidated group are:
- The continued research and development of NanaBis™ via clinical trials for drug approval
- The continued use of the Australian Special Access Scheme NanaBis™ and other Cannabis related products
- The continued development of Medlab's proprietary delivery platform, NanoCelle®
- The commercialisation of nutraceuticals predominantly in Australian pharmacies
- The development and commercialisation of Export markets for various, "ready to sell" products

No significant changes in the nature of these activities occurred during the period.

Dividends

No dividends were paid or declared during the year and up to the date of signing this report.

Review of Operations

Medlab Clinical has two main areas of operational focus: Pharmaceutical research and commercialisation (Pharmaceutical portfolio) and Development and sales of nutraceuticals product (Nutraceutical portfolio).

Over the past 12 months the development of the pharmaceutical portfolio has taken on greater focus, leading with our cannabinoid portfolio.

We successfully delivered on several important clinical and operational milestones, for our lead program, **NanaBis™ a blend of THC/CBD, used as a non-opioid alternative for cancer-induced bone pain.**

- A Phase I/II study of NanaBis™ enrolling 30 Advanced Cancer patients conducted at Royal North Shore Hospital met its primary and secondary endpoints, demonstrating safety, tolerability and efficacy. The study combined a single ascending dose (SAD) and multiple ascending dose (MAD) regimes. The result showed improvement in quality of life measures (insomnia and emotional functioning) and a 40% improvement in baseline pain scores, within a subset of patients with breast or prostate cancer and bone metastases.
- A 12-month longevity observation study of NanaBis™ commenced in February 2020. As of August 2020, 432 of 2000 patients had been enrolled in the study. The third monitoring report has demonstrated positive data with a 59.5% reported reduction in pain (unadjusted), based on average dose of four sprays per day, consistent with the findings of the RNSH trial. The purpose of this trial is to gather real-world evidence that should ultimately reduce the number of patients required to participate in a Phase III study for regulatory approval.
- Manufacturing of NanaBis™ was transferred to Tasmanian Alkaloids (TASALK) ensuring sufficient supply of product to growing demand under the special access scheme and to support a Phase III clinical trial at quality standards required to meet regulatory requirements. The company was subject to supply issues in April and May. The transfer of supply and manufacturing to TASALK has enabled the company to overcome these supply issues, with all backorders now filled.

Shipment of units of NanaBis™ under the Special Access Scheme have continued to steadily increase over the past year. Overall a total of 8238 units were sold to FY2020.

Medlab Clinical currently has four cannabinoid products in its portfolio which are available either under special access scheme in Australia and/or export markets.

In addition to NanaBis™ these products are:

- **NanaBidial™** a product similar to NanaBis™ but with a ratio of 18 parts CBD to 1 part THC.
- **NanoCBD™** a CBD only formulation, intended for the treatment of chemotherapy induced nausea and vomiting (CINV) and subject to future investigation for drug approval. First sales have commenced under the special access scheme in Australia, with forty-five units shipped in the first month since launch. A further 1,500 units have been shipped to Hong Kong.
- **MgOptima and CBD** a hybrid cannabinoid, which combines CBD with Medlab's existing nutraceutical formulation of magnesium (^{12}Mg Optima™ Relax). An initial order of 5,000 units has been shipped to Cultech Limited in the UK, Medlab's exclusive UK distribution partner for this product.

Medlab has an ongoing program of research and development, assessing known active ingredients and generic drugs on our NanoCelle® platform as potential product candidates and in support of our strategy to position NanoCelle® as a platform for partners.

Other products

In April, Medlab completed a study of 120 patients for the use of NRGBiotic™ in combination with commonly prescribed treatments for depression, to investigate how these products used in combination could provide better outcomes.

The nutraceuticals portfolio has been going through a period of rationalisation since launching in banner pharmacy in the June quarter 2019. We have increased our presence in digital sales and marketing channels, and this coincided with a softening of sales via traditional pharmacy retail channels, in line with the impact of COVID-19.

Up until the third quarter, we had experienced impressive sales growth in the nutraceuticals portfolio, rising 27% year on year in Q3 in invoiced sales. In the final quarter, we saw sales soften, a reflection of the challenges facing bricks and mortar retail due to COVID-19 restrictions. Our investment in digital marketing coincided with this and has helped to mitigate some of the short-term challenges. Medlab continues to pursue export opportunities and is currently assessing strategic options for the nutraceuticals portfolio which could include trade sales, licensing or commercial partnerships.

Impact of COVID-19

Despite the uncertainty around Coronavirus (COVID-19) pandemic, the Company continued with operations as normal as possible, including that no employees were stood down. The pandemic had a positive impact on Medlab's immunity products, to such an extent, 2 lines were out of stock over April and May. In the nutraceutical business, lower foot traffic in pharmacy partners impacted sales with a decline in invoiced sales in the June quarter compared to the previous quarter. The pandemic also caused production delays in the pharmaceutical business resulting in a rationing of NanaBis™ in March and April and being out of stock in May. This delay caused a decrease in quarterly NanaBis™ sales compared to the previous quarter.

The loss of the consolidated group after providing for income tax and non-controlling interest amounted to $13,399,374 (2019: $8,090,937).

At period end, the consolidated group had total assets of $17,788,523 (2019: $20,204,377) and total liabilities of $6,533,232 (2019: $5,211,725).

A more detailed operations review can be found in the CEO report.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

After Balance Date Events

No matters or circumstances have arisen since 30 June 2020 which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years other than the completion of the Share Purchase Plan on 8 July 2020. 10,469,841 shares were issued at $0.15, raising $1.570m before costs.

The recent outbreak of COVID-19 has caused uncertainty in both our global and domestic markets. Although the ongoing effect is unknown, there is no identifiable impact on the Company's operations, especially given that the supply chain limitations have been rectified in the June quarter. The Company is in continual contact with its major suppliers and customers to minimise any further impact.

Information Relating to Directors and Company Secretary

Name:	Michael Hall
Title:	Non-Executive Chairman
Qualifications:	B.Com, CPA
Experience:	Mr Hall has a long history in the management and building of successful nutrition companies. Mr Hall's early career was in accounting, retailing and private banking.
Other current directorships:	None
Former directorships (last 3 years)	None
Special responsibilities	Member of: • Risk Management and Audit Committee • Nomination and Remuneration Committee
Interest in shares:	15,907,383 ordinary shares
Interest in options:	None
Contractual right to shares:	None

Name:	Sean Hall
Title:	Managing Director and Chief Executive Officer
Qualifications:	MD, MBA (Clin Pharm Mtg)
Experience:	Dr Hall has over 20 years experience in the Australian Healthcare and food industries and early phase drug discovery in Australia and Asia. Sean is best known for building Australia's leading practitioner brand, BioCeuticals. Dr Hall is an active member of Medicines Australia, American Federation for Medical Research, American Academy of Anti-Ageing Medicine, Ausbiotech, a member of the Scientific Advisory Board for BITs Life Science China and a Board Member of the International Probiotics Association. Dr Hall has completed Executive Education at Harvard Graduate School of Business and more recently continuing Medical Education through Harvard Medical School.
Other current directorships:	None
Former directorships (last 3 years)	None
Special responsibilities	Member of: • Nomination and Remuneration Committee
Interest in shares:	58,425,555 ordinary shares
Interest in options:	None
Contractual right to shares:	None

Name:	Drew Townsend
Title:	Non-Executive Director
Qualifications:	B.Com, CA, MAICD
Experience:	Mr Townsend is a senior partner in the chartered accounting firm of Hall Chadwick and has been a partner in this firm for over 25 years. He is an experienced chartered accountant and corporate advisor to numerous SMEs.
Other current directorships:	Non-Executive Chairman of Qantum Health Group Limited
Former directorships (last 3 years)	None
Special responsibilities	Chairman of: • Risk Management and Audit Committee • Nomination and Remuneration Committee
Interest in shares:	16,135,553 ordinary shares
Interest in options:	None
Contractual right to shares:	None

Name:	Laurence McAllister
Title:	Non-Executive Director
Qualifications:	
Experience:	Mr McAllister is an experienced international senior executive with strong consumer marketing and dynamic commercial experience. Mr McAllister is currently the Managing Director of McPherson's Limited, a leading supplier of health, wellness, beauty, household and personal care in Australasia. Prior to his current role, worked for over 23 years with the Coca-Cola Company, managing New Product Development, M&A, Innovation and the Research and Development function across Europe, Eurasia and the Middle East. Mr. McAllister was also the President of Nordics and the Chief Commercial & Marketing Officer for Japan for the Coca-Cola Company. Throughout this tenure, Mr McAllister represented the Coca-Cola Company on Boards in Germany, Sweden, Norway, Denmark and Finland.
Other current directorships:	McPherson's Limited
Former directorships (last 3 years)	None
Special responsibilities	Member of: • Risk Management and Audit Committee • Nomination and Remuneration Committee
Interest in shares:	None
Interest in options:	None
Contractual right to shares:	None

Name:	Alan Dworkin
Title:	Company Secretary
Qualifications:	B.Bus, CA, ACSA, GAICD
Experience:	Mr Dworkin is a Chartered Accountant with over 20 years experience in tax, resources and nutraceutical sectors, including as the CFO and Company Secretary of FIT-BioCeuticals Limited for the six years prior to commencing at Medlab Clinical Limited.

Meetings of Directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Risk Management and Audit Committee	
Name	Attended	Held	Attended	Held	Attended	Held
Michael Hall	8	8	1	1	2	2
Drew Townsend	8	8	1	1	2	2
Sean Hall	8	8	1	1	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Future Developments

Likely developments in the operations of the consolidated group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the consolidated group.

Environmental Issues

The consolidated group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a State or Territory.

Shares under Option

At the date of this report, the unissued ordinary shares of Medlab Clinical Limited under option are as follows:

Grant date	Date of expiry	Exercise price	Number under option
Nil			

Option holders do not have rights to participate in any issue of shares or other interests in the company or any other entity.

Remuneration Report

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

Alignment to shareholders' interests:
- Has economic profit as a core component of plan design
- Focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- Attracts and retains high calibre executives

Alignment to program participants' interests:
- Rewards capability and experience
- Reflects competitive reward for contribution to growth in shareholder wealth
- Provides a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 26 October 2015, where the shareholders approved a maximum annual aggregate remuneration of $300,000.

Executive remuneration

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:
- Base pay and non-monetary benefits
- Short-term performance incentives
- Share-based payments
- Other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives under the shareholder approved Employee Share Option Plan (ESOP) based on long-term incentive measures. These include increase in shareholders value relative to the entire market and the increase compared to the consolidated entity's direct competitors. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2020. As at 30 June 2020, no options were issued under the ESOP.

Voting and comments made at the company's 2019 Annual General Meeting (AGM)
At the 2019 AGM, 99% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2019. The Company did not receive any specific feedback at the AGM regarding its remuneration package.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Medlab Clinical Limited:
- Michael Hall – Non-Executive Chairman
- Drew Townsend – Non-Executive Director
- Sean Hall – Managing Director and Chief Executive Officer

And the following persons:
- Alan Dworkin – Chief Financial Officer, Company Secretary and Chief Operations Officer
- Dr Luis Vitetta – Director of Medical Research
- Dr David Rutolo – Director of Science
- Mr Paul Vilner – Director of Commercial Operations (resigned 10 January 2020)
- Mr Ian Curtinsmith – Chief Information Officer (appointed as an executive on 18 February 2020)

2020	Short-term benefits			Post-employment benefits			
	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave	Equity settled $	Total $
Directors:							
Michael Hall	125,000	-	-	4,750	-	-	129,750
Drew Townsend	60,225	-	-	-	-	-	60,225
Sean Hall	300,000	-	-	27,404	51,703	-	379,107
Other Key Management							
Personnel:							
Alan Dworkin	250,727	-	-	22,836	22,779	-	296,342
Luis Vitetta	250,250	-	-	22,859	30,962	-	304,071
David Rutolo	178,761	-	-	13,675	-	-	192,436
Ian Curtinsmith^	62,308	-	-	5,919	2,975	-	71,202
Paul Vilner*	203,405	-	-	14,877	-	-	218,282
	1,430,676	**-**	**-**	**112,320**	**108,419**	**-**	**1,651,415**

^Appointed as executive on 18 February 2020
*Resigned 10 January 2020

2019	Short-term benefits			Post-employment benefits			
	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave	Equity settled $	Total $
Directors:							
Michael Hall	124,884	-	-	4,739	-	-	129,623
Drew Townsend	60,225	-	-	-	-	-	60,225
Sean Hall	299,305	-	-	28,434	36,279	-	364,018
Other Key Management							
Personnel:							
Alan Dworkin	244,529	-	-	23,111	18,542	-	286,182
Luis Vitetta	250,250	-	-	23,774	26,726	-	300,750
David Rutolo	167,717	-	-	12,830	-	-	180,547
Paul Vilner*	331,441	-	-	27,562	-	-	359,003
	1,478,351	**-**	**-**	**120,450**	**81,547**	**-**	**1,680,348**

*Commenced 4 June 2018

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
Directors:						
Michael Hall	100%	100%	-%	-%	-%	-%
Drew Townsend	100%	100%	-%	-%	-%	-%
Sean Hall	100%	100%	-%	-%	-%	-%
Other Key Management Personnel:						
Alan Dworkin	100%	100%	-%	-%	-%	-%
Luis Vitetta	100%	100%	-%	-%	-%	-%
David Rutolo	100%	100%	-%	-%	-%	-%
Ian Curtinsmith (appointed 10 Jan 2020)	100%	N/A	-%	N/A	-%	N/A
Paul Vilner	100%	100%	-%	-%	-%	-%

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements or employment contracts. Details of these agreements are as follows:

Name:	Sean Hall
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	1 July 2012
Term of agreement:	No Fixed Term
Details:	Base salary for the year ending 30 June 2020 of $300,000 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 12 month termination notice by either party, non-solicitation and non-compete clauses.

Name:	Alan Dworkin
Title:	Chief Financial Officer, Company Secretary and Chief Operations Officer
Agreement commenced:	9 February 2015
Term of agreement:	No Fixed Term
Details:	Base salary for the year ending 30 June 2020 of $250,000 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 4 weeks termination notice by either party, eligible to be part of the consolidated entity's ESOP.

Name:	Luis Vitetta
Title:	Director of Medical Research
Agreement commenced:	4 March 2013
Term of agreement:	No Fixed Term
Details:	Base salary for the year ending 30 June 2020 of $250,250 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 2 weeks termination notice by either party, eligible to be part of the consolidated entity's ESOP.

Name:	David Rutolo
Title:	Director of Science
Agreement commenced:	22 January 2015
Term of agreement:	No Fixed Term
Details:	Base salary for the year ending 30 June 2020 of US$120,000 plus employment benefits, to be reviewed annually by the Nomination and Remuneration Committee. 30 days termination notice by either party.

Name:	Ian Curtinsmith
Title:	Chief Information Officer
Agreement commenced:	9 July 2018
Term of agreement:	No Fixed Term
Details:	Base salary for the year ending 30 June 2020 of $180,000 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 4 weeks termination notice by either party, eligible to be part of the consolidated entity's ESOP.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date $	Expiry date	Exercise price
None			

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Balance at the start of year $	Granted	Exercised	Forfeited	Balance at the end of the year $
Michael Hall	850,000	-	850,000	-	-
Drew Townsend	-	-	-	-	-
Sean Hall	5,000,000	-	2,170,000	2,830,000	-
Alan Dworkin	1,000,000	-	1,000,000	-	-
Luis Vitetta	1,500,000	-	100,000	1,400,000	-
David Rutolo	-	-	-	-	-
Ian Curtinsmith	-	-	-	-	-

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Balance at the start of year $	Granted	Exercised	Forfeited	Balance at the end of the year $
Michael Hall	255,000	-	255,000	-	-
Drew Townsend	-	-	-	-	-
Sean Hall	1,500,000	-	651,000	849,000	-
Alan Dworkin	300,000	-	300,000	-	-
Luis Vitetta	450,000	-	30,000	420,000	-
David Rutolo	-	-	-	-	-
Ian Curtinsmith	-	-	-	-	-

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

Ordinary shares	Balance at the start of year	Received as part of remuneration	Additions	Disposals / other	Balance at the end of the year
Michael Hall	15,126,090	-	850,000	68,707	15,907,383
Drew Townsend	16,135,553	-	-	-	16,135,553
Sean Hall	56,255,555	-	2,170,000		58,425,555
Alan Dworkin	1,222,222	-	1,000,000	-	2,222,222
Luis Vitetta	11,101	-	1,00,000	-	111,101
David Rutolo	3,000,000	-	-	-	3,000,000
Ian Curtinsmith	464,356	-	-	-	464,356
	92,214,877	**-**	**4,120,000**	**68,707**	**96,266,170**

This concludes the remuneration report, which has been audited.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 20 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 20 of the financial report.

Auditor

ESV Business advice and accounting continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of Directors.

S Hall	**D Townsend**
Director	Director

Dated this 27th day of August 2020

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF MEDLAB CLINICAL LIMITED AND ITS CONTROLLED ENTITIES

In accordance with the requirements of section 307C of the Corporations Act, as auditor for the audit of Medlab Clinical Limited and its Controlled Entities as at 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Dated at Sydney the 27th of August 2020

E.S.V

ESV Business Advice and Accounting

Susan Prichard
Client Director

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	Consolidated 2020 $	Consolidated 2019 $
Sales revenue:			
- Sale of goods (net discounts)		**5,451,436**	6,074,834
- Sales returns		**(473,549)**	-
- Provision for sale returns		**(300,000)**	-
- Promotional costs and other rebates		**(1,829,492)**	(711,153)
		2,848,395	5,363,681
Rendering of R&D services & consultation		**-**	68,295
Other income		**2,965,418**	2,654,784
Total Revenue	3	**5,813,813**	8,086,760
Raw materials and consumables used		**(2,804,877)**	(3,063,663)
Employee benefits expense		**(6,665,917)**	(6,465,254)
Depreciation and amortisation expense		**(961,003)**	(147,490)
Professional and consulting fees		**(1,257,038)**	(1,003,891)
Operating lease costs		**(198,544)**	(500,897)
Finance costs		**(197,287)**	(79,772)
Selling & marketing expenses		**(1,750,327)**	(1,533,818)
R&D / trial expenses		**(1,947,189)**	(1,026,085)
Other expenses	4	**(3,519,948)**	(2,439,986)
Loss before income tax		**(13,488,317)**	**(8,174,096)**
Income tax expense	5	**-**	-
Net loss for the period		**(13,488,317)**	**(8,174,096)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Foreign currency translation		**10,367**	5,285
Other comprehensive loss for the year, net of tax		**10,367**	5,285
Total comprehensive loss for the year		**(13,477,950)**	**(8,168,811)**
Net loss attributable to:			
Members of the parent entity		**(13,399,374)**	(8,090,937)
Non-controlling interest		**(88,943)**	(83,159)
		(13,488,317)	**(8,174,096)**
Total comprehensive loss attributable to:			
Members of the parent entity		**(13,393,154)**	(8,087,766)
Non-controlling interest		**(84,796)**	(81,045)
		(13,477,950)	**(8,168,811)**
		Cents	Cents
Earnings per share			
Basic earnings per share	30	**(5.94)**	(4.23)
Diluted earnings per share	30	**(5.94)**	(3.82)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	Consolidated 2020 $	Consolidated 2019 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	**9,063,044**	11,441,975
Trade and other receivables	7	**3,379,023**	3,813,758
Inventories	8	**1,473,136**	2,217,953
Other assets	9	**509,470**	1,616,143
Total Current Assets		**14,424,673**	**19,089,829**
Non-Current Assets			
Other assets	9	**482,940**	482,845
Property, plant and equipment	10	**592,418**	631,703
Right of use assets	11	**2,288,492**	-
Total Non-Current Assets		**3,363,850**	**1,114,548**
TOTAL ASSETS		**17,788,523**	**20,204,377**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	**3,217,816**	3,622,192
Employee benefits	13	**503,931**	389,319
Borrowings	14	**94,221**	971,976
Lease liabilities	16	**609,809**	-
Total Current Liabilities		**4,425,777**	**4,983,487**
Non-Current Liabilities			
Employee benefits	13	**172,243**	103,670
Provisions	15	**305,422**	69,167
Lease liabilities	16	**1,629,790**	-
Other liabilities	17	**-**	55,401
Total Non-Current Liabilities		**2,107,455**	**228,238**
TOTAL LIABILITIES		**6,533,232**	**5,211,725**
NET ASSETS		**11,255,291**	**14,992,652**
EQUITY			
Issued capital	18	**51,361,909**	41,621,320
Reserves	19	**78,195**	71,975
Accumulated losses		**(40,042,955)**	(26,643,581)
Equity attributable to the owners of Medlab Clinical Limited		**11,397,149**	15,049,714
Outside equity interest		**(141,858)**	(57,062)
TOTAL EQUITY		**11,255,291**	**14,992,652**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

Consolidated Group	Issued Capital $	Accumulated Losses Attributable to members of the parent company $	Reserves $	Attributable to owners of the parent $	Non-Controlling Interests $	Total $
Balance at 1 July 2018	**39,163,420**	**(16,353,301)**	**68,804**	**22,878,923**	**(1,020,360)**	**21,858,563**
Loss after income tax for the period		(8,090,937)		(8,090,937)	(83,159)	(8,174,096)
Other comprehensive income for the period, net of tax			3,171	3,171	2,114	5,285
Total comprehensive income for the period	-	(8,090,937)	3,171	(8,087,766)	(81,045)	(8,168,811)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs (note 18)	1,302,900			1,302,900		1,302,900
Acquisition of non-controlling interest	1,155,000	(2,199,343)		(1,044,343)	1,044,343	-
Balance at 30 June 2019	**41,621,320**	**(26,643,581)**	**71,975**	**15,049,714**	**(57,062)**	**14,992,652**

Consolidated Group	Issued Capital $	Accumulated Losses Attributable to members of the parent company $	Reserves $	Attributable to owners of the parent $	Non-Controlling Interests $	Total $
Balance at 1 July 2019	**41,621,320**	**(26,643,581)**	**71,975**	**15,049,714**	**(57,062)**	**14,992,652**
Loss after income tax for the period		(13,399,374)		(13,399,374)	(88,943)	(13,488,317)
Other comprehensive income for the period, net of tax			6,220	6,220	4,147	10,367
Total comprehensive income for the period	-	(13,399,374)	6,220	(13,393,154)	(84,796)	(13,477,950)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs (note 18)	9,740,589			9,740,589		9,740,589
Balance at 30 June 2020	**51,361,909**	**(40,042,955)**	**78,195**	**11,397,149**	**(141,858)**	**11,255,291**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	Consolidated 2020 $	Consolidated 2019 $
Cash Flows from Operating Activities			
Receipts from customers		**6,484,438**	5,832,745
Receipts from R&D Tax incentive and government grants		**2,478,779**	1,415,784
Payments to suppliers and employees		**(19,270,442)**	(17,834,851)
Finance costs		**(90,210)**	(79,772)
Interest expense - AASB 16		**(107,077)**	-
Interest received		**82,092**	349,517
Net cash used in operating activities	6	**(10,422,420)**	**(10,316,577)**
Cash flows from Investing Activities			
Purchase of plant and equipment		**(243,075)**	(340,323)
Net cash used in investing activities		**(243,075)**	**(340,323)**
Cash flows from Financing Activities			
Repayment of borrowings	14	**(4,895,833)**	(5,649,036)
Proceeds from borrowings	14	**3,941,418**	6,121,309
Repayment of lease liabilities		**(558,592)**	-
Proceeds from issue of shares		**10,397,603**	1,302,900
Share issue transaction costs		**(563,301)**	-
Net cash from financing activities		**8,321,295**	**1,775,173**
Net decrease in cash held		**(2,344,200)**	(8,881,727)
Cash and cash equivalents at beginning of financial year		**11,441,975**	20,332,694
Exchange rate adjustments		**(34,731)**	(8,992)
Cash and cash equivalents at end of the financial year	**6**	**9,063,044**	**11,441,975**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

The consolidated financial statements and notes represent those of Medlab Clinical Limited and controlled entities (Company, Group or consolidated entity).

The place of business of the Parent Company is:

Research Office & Laboratory	Head Office
66 McCauley Street	Unit 5, 11 Lord Street
Alexandria NSW 2015	Botany NSW 2019

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 2.

The Financial Statements were authorised for issue by the Directors on 27 August 2020.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These have been consistently applied otherwise stated.

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The consolidated entity has not elected to adopt any accounting standards or amendments to standards or interpretations issued prior to the date of this report where application is not mandatory for the year ended 30 June 2020.

APPLICATION OF NEW AND REVISED STANDARDS

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Conceptual Framework for Financial Reporting (Conceptual Framework)
The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

AASB 16 Leases
The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of adoption
AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows

Operating lease commitments as at 1 July 2019 (AASB 117)	2,961,225
Operating lease additions under AASB 16	314,048
Operating lease commitments discount based on the weighted average incremental	
borrowing rate of 4.30% (AASB 16)	(282,043)
Short-term leases not recognised as a right-of-use asset (AASB 16)	(18,768)
Lease straight lining balance as at 30 June 2019 (AASB 117)	55,395
Estimated costs expected to restore the assets	(230,833)
Right-of-use assets (AASB 16) as at 1 July 2019	2,799,024
Lease liabilities - current (AASB 16) as at 1 July 2019	558,895
Lease liabilities - non-current (AASB 16) as at 1 July 2019	2,240,129
Total lease liabilities as at 1 July 2019	2,799,024
Reduction in opening retained profits as at 1 July 2019	-

When adopting AASB 16 from 1 July 2019, the consolidated entity has applied the following practical expedients:

- Applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- Accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases;
- Excluding any initial direct costs from the measurement of right-of-use assets;
- Using hindsight in determining the lease term when the contract contains options to extend or terminate the lease; and
- Not apply AASB 16 to contracts that were not previously identified as containing a lease.

1.1 BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed further down in Note 1.23.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Medlab Clinical Limited ('company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the period then ended. Medlab Clinical Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

1.3 OPERATING SEGMENTS

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

1.4 FOREIGN CURRENCIES

1.4.1 Individual Controlled Entities

The individual Financial Statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated Financial Statements, the financial results and financial position of each Group entity are expressed in Australian Dollars ('$'), which is the functional currency of Medlab Clinical Limited, and the presentation currency for the consolidated Financial Statements.

1.4.2 Foreign Currency Transactions

In preparing the Financial Statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on 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 that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

1.4.3 Foreign Operations

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of profit or loss and other comprehensive income in the period.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.5 REVENUE RECOGNITION

Revenue is recognised on the following basis:

Sale of nutraceuticals
Sale of goods revenue is recognised at the point of sale, which is at the time when the customer's orders are despatched. Amounts disclosed as revenue are net of sales returns and trade discounts.

Discounts, promotional and other rebates
The sale of goods revenue is net of any discounts, rebates and any contributions to customers towards promotional activities.

R&D refundable tax offset
Tax refundable tax offset is recognised when there is reasonable assurance that the incentive will be received and all attached conditions will be complied with.

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

R&D contract revenue
R&D contract revenue is recognised by reference to the stage of the contracts. Stage of completion is measured by reference to milestones achieved as per the contract. Where the milestones are not clarified as per the contract, revenue is recognised based on other indications as per the contract.

1.6 TAXATION

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company and its wholly owned Australian resident entities are part of a tax consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Medlab Clinical Limited.

1.7 CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the statement of financial position based on current and non-current classification. An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current. A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

1.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.9 TRADE AND OTHER RECEIVABLES

Trade receivables are initially recognised at original invoice amount, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 60 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expect loss allowance. To measure the expected credit losses, consideration is given to days overdue, financial difficulties of the debtor and default payments.

1.10 INVENTORIES

Raw materials (capsules, bottles and labels), work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average basis. Cost comprises direct materials and delivery costs, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Culture libraries
Costs associated with the acquisition of culture libraries are expensed in the period in which they are incurred.

1.11 PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line or diminishing value basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

- Leasehold improvements 3-15 years
- Plant and equipment 3-13 years
- Office furniture and equipment 3-10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

1.12 RIGHT-OF-USE ASSETS

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.13 IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

1.14 TRADE AND OTHER PAYABLES

Liabilities for trade creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Group at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

1.15 BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs.

1.16 LEASE LIABILITIES

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

1.17 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.18 EMPLOYEE BENEFITS

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.19 ISSUED CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.20 EARNINGS PER SHARE

Basic earnings per share
Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of Medlab Clinical Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1.21 GOODS AND SERVICE TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

1.22 EXPENSES

Research and development
Research and development costs are expensed in the period in which they are incurred.

Patents and trademarks
Costs associated with patents and trademarks are expensed in the period in which they are incurred.

Website development costs
Costs associated with website development are expensed in the period in which they are incurred.

1.23 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available.

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Employee benefits provision
As discussed in Note 1.18, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

R&D tax incentive
The R&D tax incentive is recognised when there is reasonable assurance that the incentive will be received and all attached conditions will be complied with.

There is currently proposed legislation where the offset rate for the R&D tax incentive payment could be reduced to 41%. The outcome of the proposal is difficult to predict and at this stage, the incentive has been calculated in accordance with the current legislation. Any impact would not be considered material.

Promotional and other rebates
Recognition of rebate accruals at balance date requires management to exercise significant judgement with respect to the amount of required accruals which are based on customers' sales volumes for the period as well as other contributions towards the promotional activities of customers.

Provision for sales returns
The provision for sales returns requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing and quantity of inventories at major clients.

Lease term
The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Coronavirus (COVID-19) pandemic
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Incremental borrowing rate
Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 2 – PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2020 $	2019 $
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME		
Loss after tax	**(3,764,712)**	(868,548)
Total comprehensive loss	**(3,764,712)**	**(868,548)**

	2020 $	2019 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	**11,545,839**	12,991,815
Non-current assets		
- Investments in subsidiaries	**2,252,374**	2,252,374
- Loans to subsidiaries	**35,381,529**	27,041,685
- Property, plant and equipment	**68,680**	5,722
TOTAL ASSETS	**49,248,422**	**42,291,596**
LIABILITIES		
Current liabilities	**1,473,137**	639,106
TOTAL LIABILITIES	**1,620,056**	**639,106**
EQUITY		
Issued capital	**51,361,909**	41,621,321
Retained earnings	**(3,733,543)**	31,169
TOTAL EQUITY	**47,628,366**	**41,652,490**

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2020.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1.

NOTE 3 – REVENUE

	2020 $	2019 $
Sales revenue:		
- Sale of goods (net discounts)	**5,451,436**	6,074,834
- Sales returns	**(473,549)**	-
- Provision for sale returns	**(300,000)**	-
- Promotional costs and other rebates	**(1,829,492)**	(711,153)
	2,848,395	5,363,681
- Rendering of R&D services & consultation	**-**	68,295
	2,848,395	5,431,976
Other income:		
- Interest received	**76,142**	336,467
- R&D tax incentive	**2,444,685**	2,027,076
- Government grants	**86,478**	92,952
- Government incentives	**356,500**	198,289
- Other	**1,613**	-
	2,965,418	2,654,784
Total revenue	**5,813,813**	**8,086,760**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 4 – OTHER EXPENSES

	2020 $	2019 $
Other expenses includes the following specific expenses:		
Insurance	**281,516**	195,776
Educational and compliance	**164,642**	159,607
Lab Consumables	**33,471**	82,992
Software licences	**172,423**	114,526
Provision for inventory obsolescence	**895,000**	35,000
Telephone and internet	**105,479**	123,320
Travel	**415,195**	384,577

NOTE 5 – INCOME TAX EXPENSES

	2020 $	2019 $
The prima facie tax on the (loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss) from ordinary activities before income tax at 27.5%	**(3,709,287)**	(2,247,876)
Add tax effect of:		
- non-deductible R&D expense	**1,545,945**	1,327,447
- entertainment	**26,475**	26,338
- donations	**3,681**	-
Less: tax effect of:		
- Tax effect of different company tax rate in USA 21% (FY19: 21%)	**19,717**	34,273
- R&D incentive receivable	**(672,486)**	(557,446)
Future income tax benefit not recognised	**2,785,955**	1,417,264
	-	-

The economic entity has separate tax entities within Australia, the UK and the United States. All tax jurisdictions have tax losses, which are not recognised in their books at 30 June 2019. The unused tax losses held in the Australian group companies as at 30 June 2020 are $19,815,439, $2,575,890 (USD) was held in the US companies and a further $11,206 (GBP) was held in the UK company. The tax losses are available for offset against future taxable profits of the companies in which losses arose within each tax jurisdiction subject to certain conditions being met.

The Directors have not brought to account a deferred tax asset to recognise the potential tax benefit of these tax losses as any benefit will only be obtained if:

- The economic entity meets the conditions for deductibility imposed by tax legislation in relation to the same business test and continuity of ownership laws;
- The economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from deductions for the losses to be realised; and
- No changes in tax legislation occur in future years that would adversely affect the economic entity in realising the benefit from the deductions for the losses (in the event they qualify to be utilised by the economic entity).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 6 – CASH AND CASH EQUIVALENTS

	2020 $	2019 $
Cash at bank and on hand	**9,063,044**	3,441,975
Cash on deposit	**-**	8,000,000
Total cash and cash equivalents	**9,063,044**	**11,441,975**
Reconciliation of cash flow from operations with loss from ordinary activities after income tax		
Loss after income tax	**(13,488,317)**	(8,174,096)
Non-cash flows in profit		
Foreign exchange gains and losses	**34,730**	8,992
Depreciation and amortisation	**961,003**	147,490
Changes in assets and liabilities		
- (Increase)/decrease in receivables	**434,735**	(1,757,886)
- (Increase)/decrease in prepayments	**1,253,032**	(1,353,998)
- Increase/(decrease) in provisions	**236,255**	11,667
- (Increase)/decrease in inventories	**744,817**	(1,053,918)
- Increase/(decrease) in employee benefits	**183,185**	170,301
- Increase/(decrease) payables	**(781,860)**	1,684,871
Cash flows from operations	**(10,422,420)**	**(10,316,577)**

NOTE 7 – TRADE AND OTHER RECEIVABLES

	2020 $	2019 $
Current		
Trade receivables	**808,500**	1,824,272
Less: Allowance for expected credit loss	**(25,000)**	(25,000)
	783,500	1,799,272
Other receivables	**2,595,523**	2,014,486
Total current receivables	**3,379,023**	**3,813,758**

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $307,966.

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	2020 $	2019 $
1 to 2 months overdue	**75,762**	31,808
3 to 6 months overdue	**122,204**	29,422
Over 6 months overdue	**110,000**	-
	307,966	**61,230**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 7 – TRADE AND OTHER RECEIVABLES (CONTINUED)

Impairment of receivables
The consolidated entity has recognised a loss of $9,631 (2019: 51,319) in profit or loss in respect of impairment of receivables for the year ended 30 June 2020.

The ageing of the impaired receivables provided for above are as follows:

	2020 $	2019 $
1 to 2 months overdue	**-**	-
3 to 6 months overdue	**9,975**	25,000
Over 6 months overdue	**15,025**	-
	25,000	**25,000**

Movements in the provision for impairment of receivables as follows:

	2020 $	2019 $
Opening balance	**25,000**	25,000
Additional provisions recognised	**9,631**	63,860
Receivables written off during the year as uncollectable	**(9,631)**	(63,860)
	25,000	**25,000**

NOTE 8 – INVENTORIES

	2020 $	2019 $
Current		
Raw materials	**264,680**	385,183
Finished goods	**2,173,456**	1,902,770
	2,438,136	2,287,953
Less: Provision for obsolescence	**(965,000)**	(70,000)
Total inventories	**1,473,136**	**2,217,953**

NOTE 9 – OTHER ASSETS

	2020 $	2019 $
Current		
Deposits for stock	**146,359**	**-**
Prepayments	**363,111**	1,616,143
Total current other assets	**509,470**	**1,616,143**
Non Current		
Security bonds and guarantees	**482,940**	482,845
Total non current other assets	**482,940**	**482,845**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

	2020 $	2019 $
Plant and equipment – cost	**595,356**	547,349
Less accumulated depreciation	**(361,232)**	(303,062)
	234,124	244,287
Leasehold improvements - cost	**424,101**	312,391
Less accumulated amortisation	**(192,497)**	(101,214)
	231,604	211,177
Office furniture & equipment – cost	**565,796**	489,644
Less accumulated depreciation	**(439,106)**	(313,405)
	126,690	176,239
Total property, plant and equipment	**592,418**	**631,703**

(a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant & Equipment $	Office Furniture & Equipment $	Leasehold Improvements $	Total $
Consolidated Group:				
Balance at 1 July 2018	293,841	65,177	78,756	437,774
Additions	4,380	182,503	153,440	340,323
Disposals	-	-	-	-
Depreciation expense	(53,983)	(72,488)	-	(126,471)
Amortisation expense	-	-	(21,019)	(21,019)
Foreign currency translation	49	1,047	-	1,096
Carrying amount at 30 June 2019	**244,287**	**176,239**	**211,177**	**631,703**

	Plant & Equipment $	Office Furniture & Equipment $	Leasehold Improvements $	Total $
Consolidated Group:				
Balance at 1 July 2019	244,287	176,239	211,177	631,703
Additions	47,978	83,387	111,710	243,075
Disposals	-	-	-	-
Depreciation expense	(58,153)	(124,949)	-	(183,102)
Amortisation expense	-	-	(91,283)	(91,283)
Foreign currency translation	12	(7,987)	-	(7,975)
Carrying amount at 30 June 2020	**234,124**	**126,690**	**231,604**	**592,418**

NOTE 11 – RIGHT OF USE ASSETS

	Consolidated	
	2020 $	2019 $
Leasehold properties	**2,631,723**	-
Less: Accumulated depreciation	**(343,231)**	-
	2,288,492	-

The consolidated entity leases land and buildings for its offices and warehouses under agreements of between two to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

AASB 16 was adopted using the modified retrospective approach. As such the comparatives have not been restated and are not directly comparable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 12 – TRADE AND OTHER PAYABLES

	2020 $	2019 $
Current		
Unsecured liabilities:		
Trade payables	**1,823,449**	2,549,418
Accrued expenses	**840,466**	991,349
Provision for sales returns	**300,000**	-
Sundry payables	**253,901**	81,425
	3,217,816	**3,622,192**

NOTE 13 – EMPLOYEE BENEFITS

	2020 $	2019 $
Current		
Provision for annual leave	**503,931**	389,319
	503,931	**389,319**
Non Current		
Provision for long service leave	**172,243**	103,670
	172,243	**103,670**

The provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

NOTE 14 – BORROWINGS

	2020 $	2019 $
Current		
Debtor finance facility (a)	**27,048**	929,535
Insurance funding facility (b)	**67,173**	42,441
Total current borrowings	**94,221**	**971,976**

(a) A debtor finance facility was established with Scottish Pacific Business Finance. The facility is over a 24-month term with a discount charge of 8.04% and is for $2m and matures June 2021.
(b) An insurance premium funding facility was established with Hunter Premium. The facility is over a 12-month term with an interest rate of 7.56%

Reconciliation of borrowings balance arising from financing activities	Opening Balance $	Cash Inflow $	Cash Outflow $	Non-Cash $	Closing Balance $
2019					
Debtor finance facility	464,597	5,952,000	(5,487,062)	-	929,535
Insurance funding facility	35,106	169,309	(161,974)	-	42,441
	499,703	**6,121,309**	**(5,649,036)**	**-**	**971,976**
2020					
Debtor finance facility	929,535	3,669,000	(4,648,432)	76,945	27,048
Insurance funding facility	42,441	272,418	(247,401)	(285)	67,173
	971,976	**3,941,418**	**(4,895,833)**	**76,660**	**94,221**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 15 – PROVISIONS

	2020 $	2019 $
Non-Current		
Provision for lease make-good	**305,422**	69,167
Total non-current provisions	**305,422**	**69,167**

Lease make good
The provision represents the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions
Movements in provision during the current financial year are set out below:

	Lease Make Good $
Carrying amount at the start of the year	69,167
Additional provisions recognised	236,255
Carrying amount at the end of the year	**305,422**

NOTE 16 – LEASE LIABILITIES

	2020 $	2019 $
Current	**609,809**	-
Lease liability	**609,809**	-
Non Current	**1,629,790**	-
Lease liability	**1,629,790**	-

Reconciliation of balance arising from lease liabilities	Opening Balance $	Additions $	Cash Outflow $	Non- Cash/ Adjustment $	Closing Balance $
2020					
Lease liabilities	-	2,799,024	(558,592)	(833)	2,239,599
	-	**2,799,024**	**(558,592)**	**(833)**	**2,239,599**

NOTE 17 – OTHER LIABILITIES

	2020 $	2019 $
Non Current		
Deferred lease liability	-	55,401
	-	55,401

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 18 – ISSUED CAPITAL

	2020 Number	2019 Number	2020 $	2019 $
Ordinary shares – fully paid	**269,205,830**	211,021,667	**51,361,909**	41,621,320
	269,205,830	211,021,667	**51,361,909**	41,621,320

Movements in ordinary share capital

Details	Date	No. of Shares	Issue Price $	Total $
Balance	30 June 2018	208,021,667		39,163,420
Issue of shares – NCI	8 March 2019	3,000,000	0.385	1,155,000
Exercise of options – proceeds*	30 June 2019	-		1,302,900
Balance	30 June 2019	211,021,667		41,621,320
Exercise of options*	1 July 2019	4,343,000	-	-
Share Issue – Placement	23 December 2019	17,857,143	$0.28	5,000,000
Share Issue – Placement	19 June 2020	35,984,020	$0.15	5,397,603
Share issue costs, net of tax		-		(657,014)
Balance	**30 June 2020**	**269,205,830**		**51,361,909**

- Proceeds were received for the conversion of 4,343,000 unlisted at 30c per option in June 2019 but the shares were issued on 1 July 2019.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies. The consolidated entity would also look to raise capital if there is a need for additional funds for strategic (whether nutraceutical or R&D) or working capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 19 – RESERVES

Foreign Currency Translation Reserve: The foreign currency translation reserve records exchange differences arising on translation of overseas controlled subsidiaries in the United States and United Kingdom.

	2020 $	2019 $
Reserves		
Foreign currency translation reserve	**78,195**	71,975
	78,195	**71,975**

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

	Foreign Currency
Consolidated	
Balance at 30 June 2018	68,804
Foreign currency translation	3,171
Balance at 30 June 2019	**71,975**
Foreign currency translation	6,220
Balance at 30 June 2020	**78,195**

NOTE 20 – SHARE-BASED PAYMENTS

No share options were granted during the financial year. Set out below is the summary of the options:

2020 Grant Date	Expiry Date	Grant Price	Exercise Price	Balance at start of year	Granted	Exercised	Forfeited/ Expired/ Other	Balance at end of year
17/04/2014	30/06/2019	Nil	$0.30	7,350,000	-	3,343,000	4,007,000	-
10/07/2015	30/6/2020	Nil	$0.30	1,541,725	-	-	-	1,541,725
2/11/2015	30/06/2019	Nil	$0.30	1,000,000	-	1,000,000	-	-
				9,891,725	-	4,343,000	4,007,000	1,541,725

2019 Grant Date	Expiry Date	Grant Price	Exercise Price	Balance at start of year	Granted	Exercised	Forfeited/ Expired/ Other	Balance at end of year
17/04/2014	30/06/2019	Nil	$0.30	7,350,000	-	-	-	7,350,000
10/07/2015	30/6/2020	Nil	$0.30	1,541,725	-	-	-	1,541,725
2/11/2015	30/06/2019	Nil	$0.30	1,000,000	-	-	-	1,000,000
				9,891,725	-	-	-	9,891,725

An employee share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the board of Directors, grant options over ordinary shares in the company to certain staff of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. No options have been issued under this employee share option plan as of the date of this financial report.

The 1,541,725 options expiring on 30 June 2020 lapsed and forfeited on 1 July 2021.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 21 – EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since 30 June 2020 which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years other than the completion of the Share Purchase Plan on 8 July 2020. 10,469,841 shares were issued at $0.15, raising $1.570m before costs.

The recent outbreak of COVID-19 has caused uncertainty in both our global and domestic markets. Although the ongoing effect is unknown, there is no identifiable impact on the Company's operations, especially given that the supply chain limitations have been rectified in the June quarter. The Company is in continual contact with its major suppliers and customers to minimise any further impact.

NOTE 22 – COMMITMENTS

Operating Lease Commitments	2020 $	2019 $
Payable:		
- not later than 12 months	-	632,273
- between 12 months and five years	-	2,328,952
Total operating lease commitments	**-**	**2,961,225**

Operating lease commitments includes contracted amounts for business premises under non-cancellable operating leases expiring within one to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

NOTE 23 – AUDITORS REMUNERATION

During the financial year the following fees were paid or payable for services provided by ESV Accounting and Business Advisors, the auditor of the company, its network firms and unrelated firms:

	2020 $	2019 $
- audit and review of financial report	**46,699**	39,700
- other services	**-**	1,000
	46,699	**40,700**

NOTE 24 – CONTINGENT LIABILITIES

The Company has given bank guarantees as at 30 June 2020 of $482,940 towards the rental bond and credit cards.

NOTE 25 – INTERESTS IN SUBSIDIARIES

Name	Principal Place of Business/Country of Incorporation	Ownership Interest 2020	Ownership Interest 2019
Medlab Pty Ltd	Australia	100%	100%
Medlab Clinical US Inc	United States of America	100%	100%
Medlab IP Pty Ltd	Australia	100%	100%
Medlab Research Pty Ltd	Australia	100%	100%
Medlab Nutraceuticals Inc	United States of America	60%	60%
Medlab Research Ltd	United Kingdom	100%	100%
MDC Europe Limited	Malta	100%	100%

NOTE 26 – FINANCIAL INSTRUMENTS

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by the CFO ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk
Foreign currency risk
The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions, net assets of subsidiaries and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movement, the consolidated entity has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk policy to hedge around 50% of anticipated foreign currency transactions for the subsequent 6 to 12 months.

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Sell Australian dollars 2020	Sell Australian dollars 2019	Average exchange rates 2020	Average exchange rates 2019
Buy US dollars Maturity:				
3-6 months	**Nil**	528,415	**Nil**	0.6915

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	2020 $	2019 $	2020 $	2019 $
US dollars	102,475	111,191	57,114	-
Pounds	4,103	4,750	-	-
	106,578	**115,941**	**57,114**	**-**

The consolidated entity had net assets denominated in foreign currencies of $49,464 (assets of $106,578 less liabilities of $57,114) as at 30 June 2019 (2019: $115,941 (assets of $134,755 less liabilities of $Nil)). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% (2019: weakened by 10%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's loss before tax for the year would have been $55,000 lower/$22,000 higher (2019: $18,000 lower/$7,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2020 was $40,000 (2019: loss of $13,000).

Price risk
The consolidated entity is not exposed to any significant price risk.

NOTE 26 – FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

The consolidated entity has a credit risk exposure with two major Australian retailers, which as at 30 June 2020 owed the consolidated entity $111k (14% of trade receivables) (2019: $1.3m). This balance was within its terms of trade and no impairment was made as at 30 June 2020. There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available debtors facility by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. In addition the consolidated entity maintains a $2m debtors facility that assists with cash flow management.

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2020	Weighted average interest rate %	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Non-derivatives						
Non-interest bearing						
Trade payables	-%	1,823,449	-	-	-	1,823,449
Other payables	-%	1,394,367	-	-	-	1,394,367
Interest-bearing - fixed rate						
Borrowings	7.56% - 8.04%	94,221	-	-	-	94,221
Total non-derivatives		**3,312,037**	**-**	**-**	**-**	**3,312,037**

Consolidated - 2019	Weighted average interest rate %	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Non-derivatives						
Non-interest bearing						
Trade payables	-%	2,549,418	-	-	-	2,549,418
Other payables	-%	1,072,774	-	-	-	1,072,774
Interest-bearing - fixed rate						
Borrowings	7.56% - 8.04%	971,976	-	-	-	971,976
Total non-derivatives		**4,594,168**	**-**	**-**	**-**	**4,594,168**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 27 – ACCUMULATED LOSSES

	2020 $	2019 $
Accumulated losses at the beginning of the year	**26,643,581**	16,353,301
Loss for the year	**13,399,374**	8,090,937
Acquisition of non-controlling interest	**-**	2,199,343
Accumulated losses at the end of the year	**40,042,955**	**26,643,581**

NOTE 28 – KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2020 $	2019 $
Short-term employee benefits	**1,430,675**	1,478,351
Post-employment benefits	**220,740**	201,997
	1,651,415	**1,680,348**

NOTE 29 – RELATED PARTY TRANSACTIONS

Parent entity
Medlab Clinical Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 23.

Key management personnel
Disclosures relating to key management personnel are set out in note 26 and the remuneration report in the directors' report.

Transactions with related parties
The following transactions occurred with related parties:

	2020 $	2019 $
Payment for goods and services:		
Payment for taxation services from Hall Chadwick		
(director-related entity of Drew Townsend)	**11,560**	28,846
Payment for employee benefits (related party to Sean Hall)	**52,790**	67,136
Receivable from and payable to related parties		
The following balances are outstanding at the reporting date in relation to		
transactions with related parties:		
Trade payable to Hall Chadwick (director-related entity of Drew Townsend)	**3,374**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 30 – EARNINGS PER SHARE

	2020 $	2019 $
Loss for the year	**13,488,317**	8,174,096
Non-controlling interest	**(88,943)**	(83,159)
Loss attributable to the owners of Medlab Clinical Limited	**13,399,374**	**8,090,937**
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**225,744,616**	208,961,227
Adjustments for calculation of diluted earnings per share:		
- Options over ordinary shares	**-**	2,671,768
Weighted average number of ordinary shares used in calculating diluted earnings per share	**225,744,616**	**211,632,995**
	Cents	Cents
Basic earnings per share	**(5.94)**	(4.23)
Diluted earnings per share	**(5.94)**	(3.82)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 31 – SEGMENT REPORTING

Identification of reportable operating segments
The consolidated entity is organised into two operating segments based on pharmaceutical research and nutraceutical sales. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

The principal products and services of each of these operating segments are as follows:

Nutraceutical	The supply of Medlab's self-branded nutraceutical range, predominantly in Australia
Pharmaceutical	Various research activities (depression and oncology) and the supply of cannabis-based medicines

Operating segment information

Consolidated 2020	Nutraceutical $	Pharmaceutical Research $	Corporate / Other $	Total $
Revenue				
Sales to external customers				
(net of discount)	4,608,884	842,552	-	5,451,436
Provision for sales returns	(773,549)	-	-	(773,549)
Promotional costs and other rebates	(1,829,492)	-	-	(1,829,492)
Rendering of R&D services & consultation	-	-	-	-
Intersegment sales	-	-	-	-
Total sales revenue	2,005,843	842,552	-	2,848,395
Other revenue	152,113	2,737,163	76,142	2,965,418
Total segment revenue	2,157,956	3,579,715	76,142	5,813,813
Intersegment eliminations				-
Total revenue				**5,813,813**
EBITDA	**(6,751,603)**	**(2,477,101)**	**(3,101,323)**	**(12,330,027)**
Assets				
Segment assets	4,063,061	4,088,349	9,637,113	17,788,523
Intersegment eliminations				-
Total assets				**17,788,523**
Liabilities				
Segment liabilities	3,856,085	2,582,927	94,220	6,533,232
Intersegment eliminations				-
Total liabilities				**6,533,232**

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 31 – SEGMENT REPORTING (CONTINUED)

Consolidated 2019	Nutraceutical $	Pharmaceutical Research $	Corporate / Other $	Total $
Revenue				
Sales to external customers				
(net of discount)	5,793,356	281,478	-	6,074,834
Promotional costs and other rebates	(711,153)	-	-	(711,153)
Rendering of R&D services & consultation	-	68,295	-	68,295
Intersegment sales	-	-	-	-
Total sales revenue	5,082,203	349,773	-	5,431,976
Other revenue	-	2,318,317	336,467	2,654,784
Total segment revenue	5,082,203	2,668,090	336,467	8,086,760
Intersegment eliminations				
Total revenue				**8,086,760**
EBITDA	**(5,313,763)**	**(2,550,790)**	**(82,281)**	**(7,946,834)**
Assets				
Segment assets	5,746,017	2,519,935	11,938,425	20,204,377
Intersegment eliminations				-
Total assets				**20,204,377**
Liabilities				
Segment liabilities	3,225,898	1,025,051	960,776	5,211,725
Intersegment eliminations				-
Total liabilities				**5,211,725**

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 21 to 49;
    a. Comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
    b. Comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements; and
    c. Give a true and fair view of the company's financial position as at 30 June 2020 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

S Hall
Director

D Townsend
Director

Dated this 27th day of August 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEDLAB CLINICAL LIMITED AND CONTROLLED ENTITIES

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Medlab Clinical Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

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Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the key audit matter
Research and Development Tax Offset Revenue and other receivables include $2,314,904 worth of research and development refundable tax offset. This tax offset is recognised when there is reasonable assurance that the incentive will be received, and all attached conditions will be complied with. This offset has been calculated based on legislation enacted as at 30 June 2020. Legislation is before parliament that if passed may limit this claim however the impact is unlikely to be material. Refer Note 1.23.	**Our procedures included but were not limited to:** • Review of a report from a management expert in relation to the calculation of the tax offset. ESV also reviewed the qualifications of the management expert to ensure reliance on this report was appropriate. • Review of the prior year tax offset received to ensure the accounting treatment was on a consistent basis. • Reconciling the balances used in the R&D refundable tax offset calculation to general ledger and checking reasonability and consistency for percentage allocation between eligible and non-eligible expenses. • Review of disclosures relating to the tax offset and the potential future tax ruling changes to ensure disclosures are appropriate.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, Chairman's letter, CEO report included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Directors' Responsibilities for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the 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 has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities /ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 18 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Medlab Clinical Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Dated at Sydney the 27th of August 2020

E.S.V

ESV Business Advice and Accounting

Susan Prichard
Client Director

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 14 August 2020.

Distribution of equitable securities
Analysis of number of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	756
1,001 to 5,000	1,865
5,001 to 10,000	682
10,001 to 100,000	1,260
100,001 and over	225
	4,788

Equity security holders

Top 20 quoted equity security holders
The holders of the Top 20 security holders of equity securities are listed below:

	Ordinary Shares	
	Number Held	% of total shares issued
SEAN MICHAEL HALL	57,925,555	20.71
FARJOY PTY LTD	30,849,322	11.03
FIT INVESTMENTS PTY LTD <HALLAB INVESTMENT A/C>	12,334,445	4.41
REALM GROUP PTY LTD	10,500,000	3.75
UBS NOMINEES PTY LTD	9,255,665	3.31
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	7,203,560	2.58
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,455,054	2.31
RICHARD ALBARRAN <ALBARRAN FAMILY NO 2 A/C>	5,555,553	1.99
UNITED TROLLEY COLLECTIONS P/L	4,945,500	1.77
CITICORP NOMINEES PTY LIMITED	4,061,331	1.45
ROLAY PTY LTD	3,750,000	1.34
MR MICHAEL JACK HALL + MRS ELIZABETH ANN JONES <HALL JONES SUPER FUND A/C>	3,572,938	1.28
VILLAMAGNA INC	3,000,000	1.07
ACRON HOLDINGS PTY LIMITED <ACRON SUPER FUND A/C>	2,840,055	1.02
NETWEALTH INVESTMENTS LIMITED	2,303,463	0.82
D J FAIRFULL PTY LTD <FAIRFULL SUPER FUND A/C>	1,897,534	0.68
EQUITAS NOMINEES PTY LTD	1,850,000	0.66
ROLAY PTY LIMITED	1,805,553	0.65
LEGEND DEVELOPMENTS PTY LTD <A&D DWORKIN FAMILY A/C>	1,761,111	0.63
BNP PARIBAS NOMINEES PTY LTD	1,630,323	0.58
	173,496,962	**62.04**

Unquoted equity securities

	Number Held	Number of holders
None	-	-

Substantial Shareholders

	Ordinary Shares	
	Number Held	% of total shares issued
SEAN MICHAEL HALL	58,425,555	20.89
FARJOY PTY LTD	30,849,322	11.03
DREW TOWNSEND	16,135,553	5.77
MICHAEL HALL	15,907,383	5.69

CORPORATE DIRECTORY

Directors:	Michael Hall Sean Hall Drew Townsend Laurence McAllister
Company Secretary:	Alan Dworkin
Notice of Annual General Meeting:	The details of the annual general meeting of Medlab Clinical Limited are: Hall Chadwick 40/2 Park Street Sydney NSW 2000 10:00am on Friday 16 October 2020
Registered Office:	66 McCauley Street Alexandria NSW 2015
Principal Place of Business:	**Head Office** Unit 5 / 11 Lord Street Botany NSW 2019 **Research Office & Laboratory** 66 McCauley Street Alexandria NSW 2015
Share Registry:	Advanced Share Registry 110 Stirling Highway Nedlands WA 6009
Auditors:	ESV Accounting and Business Advisors Level 13 68 York Street Sydney NSW 2000
Solicitors:	DWF Australia Level 18 363 George Street Sydney NSW 2000
Patent Attorneys:	Davies Collison Cave 255 Elizabeth Street Sydney NSW 2000
Bank:	Commonwealth Bank Australia Limited
Securities Exchange Listing:	Medlab Clinical Limited shares are listed on the Australian Securities Exchange (ASX: MDC)
Website:	www.medlab.co
Corporate Governance Statement:	http://www.medlab.co/investor/corporate-governance

medlab ASX: MDC

Address **Head Office**
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