17 FINANCIAL STATEMENTS

FOR THE
YEAR ENDED
31 MARCH 2017

PACIFIC EDGE LTD
CANCER DIAGNOSTICS COMPANY

COMPANY DIRECTORY

As at 31 March 2017

Issued Capital

399,271,161 Ordinary Shares

Registered Office

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

Directors

C Gallaher – Chairman

D Band

D Darling

D Levison

A Masfen

B Williams

Chief Executive Officer

David Darling

Nature of Business

Develop and commercialise new diagnostic and prognostic tools for the early detection and management of cancers.

Auditors

PricewaterhouseCoopers
Dunedin

Bankers

Bank of New Zealand
Dunedin

ANZ
Dunedin

Solicitors

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

Securities Registrar

Link Market Services Limited
138 Tancred St
Ashburton

Company Number

1119032

Date of Incorporation

27th February 2001

Statement of Comprehensive Income

For the year ended 31st March 2017

	Notes	2017 $	2016 $
REVENUE			
Operating Revenue	3	8,061,994	4,975,532
Total Operating Revenue		8,061,994	4,975,532
Other Income	3	1,104,596	1,403,264
Interest Income	4	248,601	762,177
Foreign Exchange Gain		119,476	52,223
Total Revenue and Other Income		**9,534,667**	**7,193,196**
OPERATING EXPENSES			
Laboratory Operations		995,860	1,047,439
Research	5	4,908,270	4,442,459
Sales and Marketing		1,922,895	1,021,831
Employee Equity Equivalent Incentive Scheme	6	2,924,550	-
Other Expenses	7	19,763,394	16,357,858
Total Operating Expenses		30,514,969	22,869,587
NET (LOSS) BEFORE TAX		**(20,980,302)**	**(15,676,391)**
Income Tax Expense	16	-	-
(LOSS) FOR THE YEAR AFTER TAX		**(20,980,302)**	**(15,676,391)**
Other Comprehensive Income that may be recycled through Profit and Loss:			
Movement in Foreign Currency Translation Reserve	21	(67,406)	222,966
TOTAL COMPREHENSIVE (LOSS)		**(21,047,708)**	**(15,453,425)**
Earnings per share for profit attributable to the equity holders of the Company and Group during the year			
Basic and Diluted Earnings Per Share	20	(0.055)	(0.043)

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

Statement of Changes in Equity

For the year ended 31st March 2017

	Notes	Share Capital $	Foreign Currency Translation Reserve $	Share Based Payments Reserve $	Retained Earnings $	Total Equity $
Balance as at 31 March 2015		66,611,612	695,380	1,246,087	(57,850,546)	10,702,533
Loss After Tax		-	-	-	(15,676,391)	(15,676,391)
Other Comprehensive Income		-	222,966	-	-	222,966
Issue of Share Capital	18	33,400,214	-	-	-	33,400,214
Share Based Payment Expense	8	-	-	1,158,148	-	1,158,148
Balance as at 31 March 2016		**100,011,826**	**918,346**	**2,404,235**	**(73,526,937)**	**29,807,470**
Balance as at 31 March 2016		100,011,826	918,346	2,404,235	(73,526,937)	29,807,470
Loss After Tax		-	-	-	(20,980,302)	(20,980,302)
Other Comprehensive Income		-	(67,407)	-	-	(67,407)
Issue of Share Capital	18	11,583,783	-	-	-	11,583,783
Share Based Payment Expense	8	-	-	485,347	-	485,347
Balance as at 31 March 2017		**111,595,609**	**850,939**	**2,889,582**	**(94,507,239)**	**20,828,891**

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

Balance Sheet

As at 31st March 2017

	Notes	2017 $	2016 $
CURRENT ASSETS			
Cash and Cash Equivalents	9	6,564,062	4,160,451
Short Term Deposits	9	8,000,000	20,000,000
Receivables	10	6,519,173	5,730,031
Inventory	11	823,748	707,277
Other Assets	12	490,371	495,551
Total Current Assets		22,397,354	31,093,310
NON-CURRENT ASSETS			
Property, Plant and Equipment	13	836,695	989,940
Intangible Assets	14	329,153	247,554
Total Non-Current Assets		1,165,848	1,237,494
TOTAL ASSETS		**23,563,202**	**32,330,804**
CURRENT LIABILITIES			
Payables and Accruals	17	2,734,311	2,523,334
Total Current Liabilities		2,734,311	2,523,334
TOTAL LIABILITIES		**2,734,311**	**2,523,334**
NET ASSETS		**20,828,891**	**29,807,470**
Represented by:			
EQUITY			
Share Capital	18	111,595,609	100,011,826
Accumulated Losses	19	(94,507,239)	(73,526,937)
Share Based Payments Reserve	8	2,889,582	2,404,235
Foreign Translation Reserve	21	850,939	918,346
TOTAL EQUITY		**20,828,891**	**29,807,470**

For and on behalf of the Board of Directors

Director **Director**

Dated the 24th day of May 2017

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

Statement of Cash Flows

For the year ended 31st March 2017

	Notes	2017 $	2016 $
CASH FLOWS TO OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Customers and Grant Providers		4,616,277	3,648,395
Interest Received		731,798	318,777
		5,348,075	3,967,172
Cash was disbursed to:			
Payments to Suppliers and Employees		23,210,216	20,907,758
Net GST Change		(24,738)	11,774
		23,185,478	20,919,532
Net Cash Flows to Operating Activities	22	**(17,837,403)**	**(16,952,360)**
CASH FLOWS TO INVESTING ACTIVITIES:			
Cash was provided from:			
Proceeds of Short Term Deposits		20,000,000	14,000,000
		20,000,000	14,000,000
Cash was disbursed to:			
Purchase of Short Term Deposits		8,000,000	29,000,000
Capital Expenditure on Plant and Equipment	13	208,684	164,016
Capital Expenditure on Intangible Assets	14	270,299	160,555
		8,478,983	29,324,571
Net Cash Flows to Investing Activities		**11,521,017**	**(15,324,571)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash was received from:			
Ordinary Shares Issued		8,750,000	35,335,812
		8,750,000	35,335,812
Cash was disbursed to:			
Issue Expenses		90,768	1,935,596
		90,768	1,935,596
Net Cash Flows From Financing Activities		**8,659,232**	**33,400,216**
Net increase (decrease) in Cash Held		**2,342,846**	**1,123,285**
Add Opening Cash Brought Forward		4,160,451	2,818,738
Effect of exchange rate changes on net cash		60,765	218,428
Ending Cash Carried Forward	9	6,564,062	4,160,451

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

Notes to the Financial Statements

For the year ended 31st March 2017

1. GENERAL INFORMATION

The financial statements presented are for the Group. The Group is made up of the "Parent" entity, Pacific Edge Limited ("the Company"), and its subsidiaries. The Company is registered and domiciled in New Zealand for the purpose of developing and commercialising new diagnostic and prognostic tools for the early detection and management of cancers. Included within the Group are Pacific Edge Diagnostics New Zealand Limited and Pacific Edge Diagnostics USA Limited which operate the laboratories used for the detection of bladder cancer. Pacific Edge Pty Limited's purpose is to research and develop the Cxbladder product and other prognostic tools. Pacific Edge Diagnostics Singapore Pte Limited's purposes are research and development and sales and marketing. Pacific Edge Analytical Services Limited is a dormant entity.

These consolidated financial statements have been approved for issue by the Board of Directors on 24 May 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pacific Edge Limited is a company registered under the Companies Act 1993 and is a Financial Markets Conduct (FMC) reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013, and the NZX Main Board Listing Rules. In accordance with the Financial Markets Conduct Act 2013, because group financial statements are prepared and presented for Pacific Edge Limited and its subsidiaries, separate financial statements for Pacific Edge Limited are no longer required to be prepared and presented.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The consolidated financial statements are presented in New Zealand dollars, which is the Parent's functional currency and Group's presentation currency. All figures are rounded to the nearest dollar. The accounting principles recognised as appropriate for the measurement and reporting of earnings, cash flows and financial position on an historical cost basis have been used.

Basis of Preparation

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

The consolidated financial statements have been prepared using the historical cost convention. The Group is profit-oriented for financial reporting purposes.

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

Notes to the Financial Statements

For the year ended 31st March 2017

Basis of Consolidation

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

Name of Subsidiary	Place of Incorporation (or registration) & Operation	Principal Activity	Ownership Interests & Voting Rights 2017 %	Ownership Interests & Voting Rights 2016 %
Pacific Edge Diagnostics New Zealand Limited	New Zealand	Commercial Laboratory Operation	100	100
Pacific Edge Pty Ltd	Australia	Biotechnology Research & Development	100	100
Pacific Edge Diagnostics USA Ltd	USA	Commercial Laboratory Operation	100	100
Pacific Edge Singapore Pte Ltd	Singapore	Biotechnology Research & Development	100	100
Pacific Edge Analytical Services Limited	New Zealand	Dormant Company	100	100

Pacific Edge Diagnostics New Zealand Limited, Pacific Edge Diagnostics USA Ltd, Pacific Edge Analytical Services Limited, Pacific Edge Diagnostics Singapore Pte Ltd and Pacific Edge Pty Ltd all have a balance date of 31 March, which is the same as the Parent.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Edge Limited as at 31 March 2017 and the results of all subsidiaries for the year then ended.

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st March 2017

Critical Accounting Estimates and Assumptions

In preparing these financial statements, the Group made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations or future events that are believed to be reasonable under the circumstances. The main estimates and assumptions used are in relation to revenue which is detailed further within Note 3: Operating Revenue & Other Income, and the going concern assumption which is further assessed in Note 30: Going Concern. It is not expected that these estimates and assumptions will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Statements of Cash Flows

Operating activities include the cash received and cash paid for the principal revenue-producing activities of the Group and other activities that are not investing or financing activities. Investing activities are those activities relating to the acquisition and disposal of non-current assets and proceeds and payments of short term deposits. Financing activities comprise the change in equity and debt capital structure of the Group.

Standards or interpretations issued but not yet effective and relevant to the Group

A number of new standards and amendments to standards and interpretations are not yet effective and have not been applied in preparing these consolidated Financial Statements.

NZ IFRS 15: Revenue from contracts with customers (Effective date: periods beginning on or after 1 January 2018) :
NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. Based on the initial assessment by management, this standard is not expected to significantly impact the Group.

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

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

New and Amended Standards Adopted by the Group

There are no standards or amendments adopted by the Group since 1 April 2016 that have a significant impact on the Group.

Notes to the Financial Statements

For the year ended 31st March 2017

3. OPERATING REVENUE AND OTHER INCOME

ACCOUNTING POLICIES

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. The fair values are determined based on management estimates of the amounts receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Sale of Goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied: the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. In the case of Cxbladder sales, revenue is recognised when the Cxbladder report has been produced for the sample being tested.

Gross Recoverable Revenue

Revenue from Cxbladder sales is accrued at specified Gross Recoverable Revenue ("GRR") amounts, which are considered to be estimated net realisable amounts due from patients and third-party payers for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payers. In addition, laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts previously estimated for retroactive adjustments and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known. Changes in prior-year estimates will be accounted for in the period that the change occurs.

Licence Fees

Licence fees are recognised in Operating Revenue in the accounting period in which the contract is signed.

Grant Revenue

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

Cxbladder Research Rebate

Cxbladder research rebate is recognised at its fair value where there is a reasonable assurance that the rebate will be received and the Group will comply with all attached conditions. The research programme is administered by Pacific Edge Pty Ltd. All conditions of the research rebate have been complied with.

Notes to the Financial Statements

For the year ended 31st March 2017

Revenue and Other Income

	GROUP	
	2017 $	**2016 $**
Operating Revenue	**8,061,994**	**4,975,532**
Other Income		
Grant Revenue	876,092	1,281,728
Research Rebate Received	228,504	121,536
Total Other Income	**1,104,596**	**1,403,264**

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

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

For the year ended 31 March 2017, the total eligible expenditure under this Growth Grant was $3,953,680 (2016: $5,700,739). The Company also receives grants from Callaghan Innovation for postgraduate internships and summer students.

New Zealand Trade and Enterprise have awarded the Company an International Growth Fund grant, to support the start up of the Group's operations in Singapore. New Zealand Trade and Enterprise reimburses the Company for 50 percent of eligible expenditure relating to the Singapore operations.

All conditions of the grants have been complied with.

4. INTEREST INCOME

ACCOUNTING POLICY

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

Notes to the Financial Statements

For the year ended 31st March 2017

5. RESEARCH AND DEVELOPMENT COSTS

ACCOUNTING POLICY

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

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

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

	GROUP	
	2017 $	2016 $
Research	4,908,270	4,442,459
Includes:		
Employee Benefits (refer note 8)	1,545,317	1,202,283

6. EMPLOYEE EQUITY EQUIVALENT INCENTIVE SCHEME

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

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

On 30 June 2016 the Board of Directors voted in favour of winding up this scheme. 6,253,000 EE units had been issued at this date of which 5,720,500 had vested. After obtaining an independent valuation and receiving approval from the EE unit holders to cancel the scheme, the scheme was cancelled and 5,194,583 shares were issued to employees as consideration at $0.563 per share. This has been treated as a modification from a cash settled to equity settled share scheme. The shares were issued with no vesting conditions attached and as no liability had been recognised for these EE units in previous years, this has resulted in a non-cash share based payment expense for the period of $2,924,550. $2,390,815 of this balance was attributable to employees and is included in note 8 as an employee benefit.

Notes to the Financial Statements

For the year ended 31st March 2017

7. OTHER EXPENSES

		GROUP	
	Notes	2017 $	2016 $
Other Expenses			
Amortisation	14	188,544	158,719
Auditors Remuneration – Audit Fees		67,000	57,700
- Other Assurance Services (refer below)		5,000	8,500
Bad Debts Expense		2,635,279	-
Doubtful Debts Expense	10	612,666	-
Depreciation	13	353,391	347,483
Directors Fees	24	286,736	225,828
Employee Benefits	8	9,383,967	8,237,118
Employee Share Options	8	485,347	1,158,148
Rental and Lease Expense		1,067,382	1,033,620
Compensation Payment		-	(135,016)
Other Operating Expenses		4,678,082	5,265,758
Total Other Expenses		**19,763,394**	**16,357,858**

Other Assurance Services
Other assurance services performed by the auditor includes; a share registry audit and a review of the Callaghan Growth Grant claim.

Borrowing Costs
Borrowing costs are recognised as an expense in the period in which they are incurred. There were no borrowing costs for the year ended 31 March 2017 (2016: NIL).

8. EMPLOYEE BENEFITS

	GROUP	
	2017 $	2016 $
Represented by:		
Employee Benefits in Research (refer note 5)	1,545,317	1,202,283
Short Term Salaries, Wages and Other Employee Benefits	9,383,967	8,237,118
	10,929,284	9,439,401
Share Option Expense	485,347	1,158,148
Share Issue Expense: Employee Equity Equivalent Incentive Scheme (refer note 6)	2,390,815	-
Total Employee Benefits	**13,805,446**	**10,597,549**

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

Notes to the Financial Statements

For the year ended 31st March 2017

The Employee Share Option scheme allows Group employees to acquire shares of the Company. Each option entitles the holder, on payment of the exercise price, to one ordinary share in the capital of the Company. The exercise price of the granted options is determined using the fair value of the Company's share price at the time of the options being granted. The term in which options may be exercised and ultimately lapse if not exercised, varies from case to case depending on the terms of issue for each separate option.

The fair value of options granted is recognised as an employee expense in the Statement of Comprehensive Income over their vesting period, with a corresponding increase in the employee share option reserve. Incentive options vest over three years and the employee must continue to be employed by the Group for their share options to vest. Performance options vest immediately and there are no other vesting conditions for performance options. Tranches of options are exercisable over four to ten years from the relevant vesting date. No options can be exercised later than the tenth anniversary of the final vesting date.

The cost of share options recognised in the Income Statement for the year ended 31 March 2017 is $485,347 (2016: $1,158,148).

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Group			
	2017		2016	
	Weighted average exercise price ($)	**Options**	**Weighted average exercise price ($)**	**Options**
Outstanding at 1 April	0.65	6,448,827	0.67	5,784,255
Granted	0.53	470,000	0.51	701,000
Forfeited	0.64	(78,970)	0.64	(36,428)
Exercised	-	-	-	-
Expired	0.54	-		-
Outstanding at 31 March	**0.64**	**6,839,857**	**0.65**	**6,448,827**
Exercisable at 31 March	0.66	6,373,252	0.67	5,282,123

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was $0.53 per option (2016: $0.51).

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

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

Notes to the Financial Statements

For the year ended 31st March 2017

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

Expiry Month	Vesting Date	Exercise Price	31 March 17 Options	31 March 16 Options
April 2017	April 2013	0.3629	259,585	259,585
April 2018	April 2014	0.3629	259,585	259,585
August 2018	August 2014	0.535	83,333	83,333
September 2018	September 2014	0.8	73,000	73,000 *
November 2018	November 2014	0.535	200,000	200,000
April 2019	April 2015	0.3629	259,585	259,585
June 2019	June 2015	0.69	13,333	13,333
July 2019	July 2015	0.69	6,666	6,666
August 2019	August 2015	0.535	83,333	83,333
September 2019	September 2015	0.8	750,000	750,000
November 2019	November 2015	0.535	200,000	200,000
June 2020	June 2016	0.69	13,077	13,334
July 2020	July 2016	0.69	2,740	2,740
August 2020	August 2016	0.535	83,334	83,334
September 2020	September 2016	0.8	750,000	750,000
November 2020	November 2016	0.535	200,000	200,000
June 2021	June 2017	0.69	-	13,334
July 2021	July 2017	0.69	-	-
September 2021	September 2017	0.8	750,000	750,000
September 2024	September 2014	0.69	310,000	310,000 *
April 2025	April 2015	0.69	6,666	6,666
July 2025	July 2015	0.5	-	12,500
July 2025	July 2015	0.69	345,831	345,831
August 2025	August 2015	0.72	4,166	4,166
September 2025	September 2015	0.5	320,000	270,000 *
September 2025	September 2015	0.69	15,000	15,000
September 2025	September 2015	0.72	14,998	14,998
November 2025	November 2015	0.72	83,333	83,333
January 2026	January 2016	0.72	17,498	17,498
April 2026	April 2016	0.69	6,667	6,667
July 2026	July 2016	0.5	8,332	8,332
July 2026	July 2016	0.69	345,834	345,834
August 2026	August 2016	0.5	8,332	8,332
August 2026	August 2016	0.72	2,866	4,167
September 2026	September 2016	0.5	85,333	85,333
September 2026	September 2016	0.69	15,000	15,000
September 2026	September 2016	0.72	15,001	15,001
November 2026	November 2016	0.6	14,998	14,998
November 2026	November 2016	0.72	83,333	83,333
December 2026	December 2016	0.6	4,166	4,166
January 2027	January 2017	0.72	10,834	10,834

Notes to the Financial Statements

For the year ended 31st March 2017

Expiry Month	Vesting Date	Exercise Price	31 March 17 Options	31 March 16 Options
February 2027	February 2017	0.6	10,000	10,000
March 2027	March 2017	0.6	4,166	4,166
April 2027	April 2017	0.6	75,000	-
April 2027	April 2017	0.69	6,667	6,667
May 2027	May 2017	0.6	13,333	-
July 2027	July 2017	0.5	4,190	8,334
July 2027	July 2017	0.69	343,346	345,835
August 2027	August 2017	0.48	4,166	-
August 2027	August 2017	0.5	8,334	8,334
August 2027	August 2017	0.72	-	4,167
September 2027	September 2017	0.48	10,832	-
September 2027	September 2017	0.5	85,333	85,333
September 2027	September 2017	0.69	15,000	15,000
September 2027	September 2017	0.72	11,302	15,001
October 2027	October 2017	0.48	20,000	-
November 2027	November 2017	0.6	10,251	15,000
November 2027	November 2017	0.72	83,334	83,334
December 2027	December 2017	0.6	4,167	4,167
January 2028	January 2018	0.72	10,834	10,834
February 2028	February 2018	0.6	10,000	10,000
March 2028	March 2018	0.6	4,167	4,167
April 2028	April 2018	0.6	75,000	-
May 2028	May 2018	0.6	13,333	-
July 2028	July 2018	0.5	2,671	8,334
August 2028	August 2018	0.48	4,167	-
August 2028	August 2018	0.5	8,334	8,334
September 2028	September 2018	0.48	10,834	-
September 2028	September 2018	0.5	85,334	85,334
October 2028	October 2018	0.48	30,000	-
November 2028	November 2018	0.6	8,334	15,001
December 2028	December 2018	0.6	4,167	4,167
February 2029	February 2019	0.6	10,000	10,000
March 2029	March 2019	0.6	4,167	4,167
April 2029	April 2019	0.6	75,000	-
May 2029	May 2019	0.6	13,334	-
August 2029	August 2019	0.48	4,167	-
September 2029	September 2019	0.48	10,834	-
October 2029	October 2019	0.48	40,000	-
			6,839,857	**6,448,827**

* Included within these tranches are 703,000 options (2016: 684,000) that vested immediately.

Notes to the Financial Statements

For the year ended 31st March 2017

9. CASH, CASH EQUIVALENTS AND SHORT TERM DEPOSITS

ACCOUNTING POLICY

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

Short Term Deposits are with ANZ Bank, with periods ranging from 60 to 150 days.

	GROUP	
	2017 $	2016 $
Cash at Bank	6,564,062	4,160,451
Short Term Deposits	8,000,000	20,000,000
Total Cash, Cash Equivalents and Short Term Deposits	**14,564,062**	**24,160,451**
NZD	13,857,544	23,202,186
AUD	59,127	13,345
USD	612,141	938,318
EUR	1,532	6,602
SGD	33,718	-
Total Cash, Cash Equivalents and Short Term Deposits	**14,564,062**	**24,160,451**

Interest on the bank balances ranges from 0% to 3.45% (2016: 0% to 3.95%) per annum. Funds held on term deposit with ANZ Bank can be accessed with one month's notice at the request of the authorised bank signatories of Pacific Edge Ltd.

10. RECEIVABLES

ACCOUNTING POLICY

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

	GROUP	
	2017 $	2016 $
Trade Receivables	6,613,746	4,486,259
Less Provision for Doubtful Debts	(612,666)	-
Sundry Debtors	474,975	692,719
Accrued Interest	707	483,904
GST/BAS Refund Due	42,411	67,149
Total Receivables	**6,519,173**	**5,730,031**

Notes to the Financial Statements

For the year ended 31st March 2017

An allowance for doubtful debts has been recognised for the year ended 31 March 2017, totalling $612,666 (2016: $0).

Amounts overdue but not impaired are as follows:

- $3,759,078 is within 0 – 180 days old
- $1,475,945 is within 181 – 365 days old
- $766,057 is over 365 days old but is still expected to be recovered

11. INVENTORY

ACCOUNTING POLICY

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

	GROUP	
	2017 $	2016 $
Laboratory Supplies	823,748	707,277
Total Inventory	**823,748**	**707,277**

Laboratory supplies used during the year are included within the Statement of Comprehensive Income in Laboratory Operations.

12. OTHER ASSETS

	GROUP	
	2017 $	2016 $
Prepayments	329,514	339,935
Lease Security Deposit	103,596	97,725
Credit Card Collateral	57,261	57,891
Total Other Assets	**490,371**	**495,551**

13. PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

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

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

Depreciation

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

Notes to the Financial Statements

For the year ended 31st March 2017

Main rates used are:

Laboratory Equipment	5% to 26.4%	DV
Office and Computer Equipment	5% to 60%	DV
Leasehold Improvements	10%	SL
Plant and Equipment	5% to 40%	DV
Furniture and Fittings	7% to 25%	DV

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

	Laboratory Equipment	Office & Computer Equipment	Leasehold Improvements	Plant & Equipment	Furniture & Fittings	Total
Cost						
Balance at 1 April 2015	2,153,399	826,129	200,416	103,459	169,590	3,452,993
Additions	55,652	95,822	-	11,386	1,156	164,016
Disposals	49,701	15,471	9,760	88	12,318	87,338
Foreign Translation Difference	-	-	-	-	-	-
Balance at 31 March 2016	**2,258,752**	**937,422**	**210,176**	**114,933**	**183,064**	**3,704,347**
Balance at 1 April 2016	2,258,752	937,422	210,176	114,933	183,064	3,704,347
Additions	31,853	96,481	64,922	9,838	5,589	208,683
Disposals	-	-	-	-	-	-
Foreign Translation Difference	(7,239)	(2,612)	(1,414)	(13)	(1,784)	(13,062)
Balance at 31 March 2017	**2,283,366**	**1,031,291**	**273,684**	**124,758**	**186,869**	**3,899,968**
Accumulated Depreciation						
Balance at 1 April 2015	1,608,646	575,238	31,726	59,147	59,921	2,334,678
Depreciation Expense	196,414	97,154	17,927	10,313	25,675	347,483
Disposals	-	-	-	-	-	-
Foreign Translation Difference	21,723	5,513	1,527	37	3,446	32,246
Balance at 31 March 2016	**1,826,783**	**677,905**	**51,180**	**69,497**	**89,042**	**2,714,407**
Balance at 1 April 2016	1,826,783	677,905	51,180	69,497	89,042	2,714,407
Depreciation Expense	185,216	107,905	24,379	11,067	24,824	353,391
Disposals	-	-	-	-	-	-
Foreign Translation Difference	(3,094)	(711)	(222)	(5)	(494)	(4,526)
Balance at 31 March 2017	**2,008,905**	**785,099**	**75,337**	**80,559**	**113,372**	**3,063,272**
Carrying Amounts						
At 1 April 2015	544,753	250,891	168,690	44,312	109,669	1,118,315
At 31 March 2016	431,969	259,517	158,996	45,436	94,022	989,940
At 31 March 2017	274,461	246,192	198,347	44,199	73,497	836,695

Notes to the Financial Statements

For the year ended 31st March 2017

14. INTANGIBLE ASSETS

ACCOUNTING POLICY

Intellectual Property

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

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

Software Development Costs

Costs associated with development of software are held at cost and amortised over their useful lives of between two and five years.

Amortisation of Intangible Assets

- Patents – Amortisation is charged on a straight-line basis over the estimated useful life of the intangible assets 1-20 years. The estimated useful life and amortisation method is reviewed at the end of each reporting period.
- Software development costs - Amortisation is charged on a straight-line basis over the estimated useful life of the intangible assets 2-5 years. The estimated useful life and amortisation method is reviewed at the end of each reporting period.

Notes to the Financial Statements

For the year ended 31st March 2017

	Software Development Costs	Patents	Cxbladder Development Costs	Total
Cost				
Balance at 1 April 2015	385,738	93,470	32,846	512,053
Additions	105,010	55,545	-	160,556
Disposals	-	-	-	-
Foreign Translation Difference	2,653	-	-	2,653
Balance at 31 March 2016	**493,401**	**149,015**	**32,846**	**675,262**
Balance at 1 April 2016	493,401	149,015	32,846	675,262
Additions	206,561	63,738	-	270,299
Disposals	-	-	-	-
Foreign Translation Difference	(384)	-	-	(384)
Balance at 31 March 2017	**699,578**	**212,753**	**32,846**	**945,176**
Accumulated Amortisation				
Balance at 1 April 2015	194,839	63,636	9,529	268,004
Amortisation Expense	122,397	36,322	-	158,719
Foreign Translation Difference	985	-	-	985
Balance at 31 March 2016	**318,221**	**99,958**	**9,529**	**427,708**
Balance at 1 April 2016	318,221	99,958	9,529	427,708
Amortisation Expense	146,246	42,298	-	188,544
Foreign Translation Difference	(229)	-	-	(229)
Balance at 31 March 2017	**464,238**	**142,256**	**9,529**	**616,023**
Carrying Amounts				
At 1 April 2015	190,898	29,834	23,317	244,050
At 31 March 2016	175,179	49,057	23,317	247,554
At 31 March 2017	235,338	70,497	23,317	329,153

15. SEGMENT INFORMATION

ACCOUNTING POLICY

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

There are three operating segments at balance date: The Laboratories used for the detection of bladder cancer, currently operating in New Zealand and in the United States of America; and the Research and development of diagnostic and prognostic products for human cancer, operating in New Zealand, Australia, and Singapore.

Notes to the Financial Statements

For the year ended 31st March 2017

Segment income, expenses and profitability are presented on a gross basis excluding inter-segment eliminations to best represent the performance of each segment operating as independent business units. The segment information provided to the Chief Executive Officer for the reportable segment described above, for the year ended 31 March 2017, is shown below

2017	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Less: Eliminations	Total External Income
Income					
Operating Revenue	296,623	7,765,372	-	-	8,061,995
Research Tests Processed	125,120	39,473	-	(164,593)	-
Grant Revenue and Research Rebate	-	-	1,104,596	-	1,104,596
Interest	-	17	2,229,786	(1,981,202)	248,601
Intercompany Cost Recovery	60,899	9,131	878,015	(948,045)	-
Foreign Exchange Gain	2,908	-	116,568	-	119,476
Total Income	485,550	7,813,993	4,328,965	(3,093,840)	9,534,668
Expenses					
Expenses	1,251,001	18,084,509	13,731,364	(3,093,840)	29,973,032
Depreciation and Amortisation	16,463	210,795	314,678	-	541,936
Total Operating Expenses	1,267,464	18,295,304	14,046,042	(3,093,840)	30,514,970
Loss Before Tax	**(781,914)**	**(10,481,311)**	**(9,717,077)**	**-**	**(20,980,302)**

Eliminations

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

Segment Assets and Liabilities Information

2017	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Total
Total Assets	447,313	7,519,255	15,596,634	23,563,202
Total Liabilities	104,081	1,314,809	1,315,421	2,734,311

Additions to non current assets include property, plant and equipment of $124,054 to Research NZ and Australia, $10,673 to the NZ Laboratory and $73,956 to the US Laboratory. There were also $270,299 in additions to intangible assets within Research NZ and Australia.

There is no external revenue to any particular customer greater than 10%, nor is there a significant concentration risk in relation to receivable balances.

Notes to the Financial Statements

For the year ended 31st March 2017

2016	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Less: Eliminations	Total External Income
Income					
Operating Revenue	344,001	4,631,036	495	-	4,975,532
Research Tests Processed	190,670	200,331	-	(391,001)	
Grant Revenue and Research Rebate	-	-	1,403,264	-	1,403,264
Interest	24	28	2,051,437	(1,289,312)	762,177
Intercompany Cost Recovery	66,606	9,452	757,555	(833,613)	
Foreign Exchange Gain	(1,214)	-	53,437	-	52,223
Total Income	600,087	4,840,847	4,266,188	(2,513,926)	7,193,196
Expenses					
Expenses	1,204,288	13,298,230	10,374,793	(2,513,926)	22,363,385
Depreciation and Amortisation	18,421	216,207	271,574	-	506,202
Total Operating Expenses	1,222,709	13,514,437	10,646,367	(2,513,926)	22,869,587
Loss Before Tax	**(622,622)**	**(8,673,590)**	**(6,380,179)**	**-**	**(15,676,391)**

Segment assets and liabilities information

2016	NZ Laboratory	US Laboratory	Research NZ, Australia & Singapore	Total
Total Assets	256,448	5,663,653	26,410,703	32,330,804
Total Liabilities	45,714	1,095,004	1,382,616	2,523,334

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

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

There are no unallocated assets or liabilities.

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

Notes to the Financial Statements

For the year ended 31st March 2017

16. INCOME TAX

ACCOUNTING POLICY

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements in accordance with NZ IAS 12. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Company and Group has incurred an operating loss for the 2017 financial year and no income tax is payable.

	GROUP	
	2017 $	2016 $
Income tax recognised in the profit or loss:		
Current tax expense	-	280,570
Adjustments to current tax in respect to prior years	223,896	373,269
Benefit from previously unrecognised tax losses	(223,896)	(653,840)
Deferred Tax in respect of the current year	(6,060,437)	(4,542,481)
Adjustments to deferred tax in respect to prior years	91,872	358,857
Deferred tax assets not recognised	5,968,565	4,183,625
Income tax expense	**-**	**-**
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Accounting loss before income tax	(20,980,302)	(15,676,391)
At the statutory income tax rate of 28%	(5,874,485)	(4,389,390)
Permanent Differences - Non-deductible expenditure	569,523	968,698
Difference in US and Australian income tax rates	(531,579)	(467,950)
Prior period adjustment	91,872	358,857
Tax losses utilised	(223,896)	(653,840)
Deferred tax assets not recognised	5,968,565	4,183,625
Income tax expense reported in Income Statement	**-**	**-**

Notes to the Financial Statements

For the year ended 31st March 2017

Tax Losses

The group has losses to carry forward of approximately $36,912,687 (2016: $25,822,801) with a potential tax benefit of $11,971,562 (2016: $6,442,095). The tax losses are split between the following jurisdictions (shown in NZD): New Zealand $8,981,664 (tax effect of $2,514,866 (at 28%), Australia $149,951 (tax effect of $44,985 (at 30%)), Singapore $199,138 (tax effect of $33,853 (at 17%) and the United States $27,581,935 (tax effect of $9,377,858 (at 34%)). Tax losses are available to be carried forward and offset against future taxable income subject to the various conditions required by income tax legislation being complied with.

Deferred Research and Development Tax Expenditure

The Group also has deferred research and development tax expenditure of $34,341,667 (2016: $29,543,514) to carry forward and claim for income tax purposes in New Zealand in the future. This has a tax effect of $9,615,667 (2016: $8,272,184). The deferred research and development tax expenditure can either be carried forward and offset against future income arising from the research and development, or subject to meeting the shareholder continuity requirements can be offset against future other taxable income.

Deferred Tax Assets

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

Imputation Credit Account

The Group has imputation credits of $1,323 (2016: NIL).

17. PAYABLES AND ACCRUALS

ACCOUNTING POLICY

Trade and Other Payables Due Within One Year

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

	GROUP	
	2017 $	2016 $
Trade Creditors	837,603	1,114,326
Accrued Expenses	533,085	300,236
Employee Entitlements (refer below)	1,363,623	1,108,772
Total Payables and Accruals	**2,734,311**	**2,523,334**

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

Employee Entitlements

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

Notes to the Financial Statements

For the year ended 31st March 2017

	GROUP	
	2017 $	2016 $
PAYE Tax	51,003	63,173
Holiday Pay	290,021	436,999
Accrued Wages	1,022,599	608,600
Total Employee Entitlements	**1,363,623**	**1,108,772**

18. SHARE CAPITAL

ACCOUNTING POLICY

Ordinary shares are described as equity.

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

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share based transactions are set out in Note 8.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revisits its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payments reserve.

	GROUP	
	2017 $	2016 $
Ordinary Shares	111,595,609	100,011,826
Total Share Capital	**111,595,609**	**100,011,826**

There are 399,271,161 (2016: 376,543,478) Authorised Ordinary Shares on issue.

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

Share Capital Group

	2017 Shares	2017 $	2016 Shares	2016 $
Opening Balance	376,543,478	100,011,826	318,615,921	66,611,612
New Issues: Direct Offers	22,727,683	11,674,550	57,927,557	35,335,810
Less Issue Expenses	-	(90,767)	-	(1,935,596)
	22,727,683	11,583,783	57,927,557	33,400,214
Closing Balance	**399,271,161**	**111,595,609**	**376,543,478**	**100,011,826**

Notes to the Financial Statements

For the year ended 31st March 2017

19. ACCUMULATED LOSSES

	GROUP	
	2017 $	2016 $
Opening Balance	(73,526,937)	(57,850,546)
Net (Loss) After Tax	(20,980,302)	(15,676,391)
Closing Balance	**(94,507,239)**	**(73,526,937)**

20. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year excluding ordinary shares purchased by the Company (Note 18).

	GROUP	
	2017 $	2016 $
Loss attributable to equity holders of the Company	(20,980,302)	(15,676,391)
Weighted average number of ordinary shares on issue	382,468,279	361,307,737
Earnings per share	(0.055)	(0.043)

(b) Diluted

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

21. FOREIGN CURRENCY

ACCOUNTING POLICIES

Foreign Currency Transactions

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

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

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

Notes to the Financial Statements

For the year ended 31st March 2017

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

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

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

	GROUP	
	2017	**2016**
	$	**$**
Net Loss for the Period	(20,980,302)	(15,676,391)
Add Non Cash Items:		
Depreciation	353,391	347,483
Amortisation	188,545	158,719
Movement in share based payments reserve	485,347	1,158,148
Issue of Employee Incentive Scheme Shares	2,924,550	-
Effect of exchange rates on net cash	(119,474)	(52,223)
Total Non Cash Items	3,832,359	1,612,127
Add Movements in Other Working Capital items:		
Decrease (Increase) in Receivables and Other Assets	(783,965)	(3,396,273)
(Increase) in Inventory	(116,471)	(84,373)
Increase (Decrease) in Payables and Accruals	210,976	592,550
Total Movement in Other Working Capital	(689,460)	(2,888,096)
Net Cash Flows to Operating Activities	**(17,837,403)**	**(16,952,360)**

23. FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES

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

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

Notes to the Financial Statements

For the year ended 31st March 2017

Interest Rate Risk

The Group's bank deposits are at floating interest rates, which mitigates the risk of interest rates being less than market rates.

Credit Risk

The Group incurs credit risk from bank balances, receivables in the normal course of its business and other assets. Regular monitoring of receivables and other assets is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade. The Group's cash and short term deposits are placed with high credit quality financial institutions.

Accordingly, the Group has no significant concentration of credit risk other than bank deposits with 1.08% of total assets at the Bank of New Zealand and 58.34% at ANZ Bank.

The carrying values of financial assets represent the maximum exposure to credit risk.

Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments as they fall due. Management maintains sufficient cash and the availability of funding through an adequate amount of committed credit facilities if required.

Payables and Accruals totaling $2,734,311 are due within 3 months of balance date (2016: $2,523,334).

Fair Values

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

Market Risk

The Group purchases goods from overseas suppliers. This exposes the Group to foreign currency risk. The Group manages foreign currency risk by purchasing overseas goods only when necessary and when foreign exchanges are favourable.

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

Risk Factor	Description	Sensitivity
(i) Currency risk	Assets and liabilities are denominated in NZD, USD, AUD, and EUR currencies.	As below
(ii) Interest rate risk	Exposure to changes in Bank interest rates	As below
(iii) Other price risk	No securities are bought, sold or traded	Nil

Balances in AUD and EUR currencies are not significant. A 10% increase or decrease in USD against the NZD will reduce/increase the loss reported by approximately $1,058,000 (2016: $860,000) respectively and increase/reduce equity by the same amount.

A 1% increase or decrease in Bank deposit interest rates will reduce/increase the loss reported by approximately $183,000 (based on normal levels of bank deposits) and increase/reduce equity by the same amount (2016: $146,000).

Notes to the Financial Statements

For the year ended 31st March 2017

24. RELATED PARTIES

The Group paid consultancy fees for accounting services to CJS Business Advisors Limited. CJ Swann was a director until 25 August 2016, and is a shareholder of this company. The fees charged were on normal terms and conditions and totaled $6,053 (2016: $24,975). At balance date $0 was outstanding relative to these transactions (2016: $2,723).

A significant shareholder, the University of Otago, provided services, including rental space and car parking, to the Group to the value of $297,411 (2016: $250,881). As at 31 March 2017 the Group commitment for the next financial year is $194,300 (2016: $186,990).

Refer to Note 6 for details of the Incentive Plan that includes key management remuneration.

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

Key management compensation was as follows:

	GROUP	
	2017 $	2016 $
Salaries and Other Short Term Employee Benefits	1,301,849	1,223,422
Share Options Benefits	239,603	797,391
Share Issue Expense: Employee Equity Equivalent Incentive Scheme (refer note 6)	1,131,119	-
Total Benefits	**2,672,571**	**2,020,813**

Directors' fees and payments during the 2017 financial year are $286,736 (2016: $225,828). There are no long term or termination benefits. The total directors fees for the year of $286,736 includes directors fees for Pacific Edge Limited and Pacific Edge Diagnostics USA Limited. The total directors fees relating to Pacific Edge Diagnostics USA Limited is $7,050 which is not included within the total remuneration cap of $275,000. The total directors fees relating to Pacific Edge Limited is $279,686. This is greater than the $275,000 cap on directors fees remuneration. During the year Pacific Edge Limited identified that one of the directors had been underpaid for the prior period and the required adjustment was made in the current financial year.

25. LEASE COMMITMENTS

ACCOUNTING POLICY

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases are charged to other expenses in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. The Group has the following lease commitments for buildings and equipment.

	GROUP	
	2017 $	2016 $
Non cancellable operating lease commitments within one year	1,160,511	1,007,285
Later than one year, not later than two years	957,543	610,428
Later than two years, not later than five years	1,301,471	13,029
Total Lease Commitments	**3,419,525**	**1,630,742**

Notes to the Financial Statements

For the year ended 31st March 2017

The lease of premises (in the Centre for Innovation) with the University of Otago was renegotiated on 26 May 2015 for a further two years at $165,700 per annum (2016: $154,750). Pacific Edge Diagnostics New Zealand Limited's lease of premises is $28,600 per annum (2016: $26,650).

Pacific Edge Diagnostics USA Limited has a 5 year lease which expires on 30 November 2017 with a further three year extension to 30 November 2020. The total financial commitment remaining for this lease is $2,732,178 (2016: $1,036,219). This includes an Allowance Reimbursement which is payable to the landlord on a monthly basis.

Pacific Edge Diagnostics Singapore Pte. Ltd's lease is $40,800 per annum (2016: $0).

26. CAPITAL COMMITMENTS

There are no capital commitments for the Group at 31 March 2017 (2016: Nil).

27. CONTINGENT LIABILITIES

There were no known contingent liabilities at 31 March 2017 (2016: Nil). The Group has not granted any securities in respect of liabilities payable by any other party whatsoever.

28. SUBSEQUENT EVENTS

There are no subsequent events.

29. MANAGEMENT OF CAPITAL

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to support the development of its business. The Company meets these objectives through managing its liquidity position with available funds by reducing expenditure or issuing new shares.

30. GOING CONCERN

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

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

At the date of signing the financial statements, the Company is in advanced negotiations with a number of prospective commercial customers for the provision of services. The first of these new contracts has been signed and the Directors are confident that the other negotiations will be successful.

However, in the event that these contract negotiations are not successful, a decrease in forecast cash flows may occur. In which case, a material uncertainty would exist which may cast significant doubt on the Company's ability to continue as a going concern. In this event, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have a number of operational options available to them, including cost management and seeking additional funding.

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Independent auditor's report

To the shareholders of Pacific Edge Limited

The consolidated financial statements comprise:

- the balance sheet as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Pacific Edge Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Other than in our capacity as auditor and providers of other assurance services in relation to a share registry audit and a research and development grant review, we have no relationship with, or interests in, the Group.

Material Uncertainty Related to Going Concern

We draw attention to the disclosures made in Note 30 in the financial statements which indicates that the ability of the Group to continue in operational existence is dependent upon its ability to generate adequate positive cash flows from operations, manage costs, or seek additional funding. This condition indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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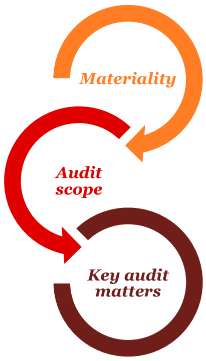
Our audit approach

Overview



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

Overall group materiality: $750,000, which represents 4% of loss before tax.

We chose loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

Our key audit matter is the Gross Recoverable Revenue ('GRR') for US derived revenue.

Materiality

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

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

Audit scope

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

The accounting function for the Group is maintained in New Zealand providing consistent accounting systems and processes across the jurisdictions the Group operates in. Our audit was conducted entirely from New Zealand and the scope of our testing covered the transactions of the entire Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. In addition to the matter described in the Material Uncertainty Related to Going Concern section we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How our audit addressed the key audit matter
Gross Recoverable Revenue Rate for US derived revenue The Group recognises revenue when the relevant individual Cxbladder test report has been issued to the clinician who requested it. There is uncertainty over the level of reimbursement from insurance companies in the US and therefore the fair value of each test varies depending on individual insurance company. This is normal until such time as contracted prices with insurers are entered into. For the year ended 31 March 2017 the Group had US revenue of $7.8 million. The Group currently accrues revenue at a specified Gross Recoverable Revenue ("GRR") amount, which is considered to be a fair value of the average consideration expected to be received across the population of Cxbladder tests. The calculation of the GRR involves estimation and judgement to determine fair value. Management calculates the GRR based on the following: • Actual Gross Recoverable Revenue received per test historically; and • Information from the Group's external billing and reimbursement agency, Quadax, who provide data regarding, cash collected per claim, closed claims and partial payments.	We considered the appropriateness of the methodology applied by the directors in calculating the Gross Recoverable Revenue ("GRR") by performing the following: • Obtained a service organisation controls report for the Group's third party service provider Quadax to ensure the revenue and receivable controls are operating effectively for the year ended 31 December 2016; • Confirmed with the third party provider Quadax that the control environment has remained unchanged during the intervening period to 31 March 2017; • Reperformed the GRR calculation to confirm the mathematical accuracy; • Agreed the key inputs being the cash collected during the year and the number of closed claims back to external reports from the third party service provider Quadax; • Assessed the GRR rate accrued against the prior year and rate achieved during the year; and • Held discussions with senior management in both New Zealand and the US to understand if there are any other known factors that could impact the GRR rate.

Information other than the financial statements and auditor's report

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

In connection with our audit of the consolidated financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 May 2017

Dunedin

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