

PACIFIC EDGE LIMITED INTERIM REPORT 2017

FOR THE SIX MONTHS
TO 30 SEPTEMBER 2017

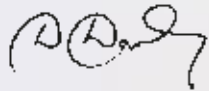


PACIFIC EDGE LTD
CANCER DIAGNOSTICS COMPANY

The Board of Directors of Pacific Edge Limited are pleased to present the Interim Report for the six months ended 30 September 2017.



Chris Gallaher
Chairman



David Darling
Chief Executive



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OUR CANCER DIAGNOSTIC BUSINESS

Pacific Edge is a world leader in bladder cancer diagnostics, with its Cxbladder suite of molecular diagnostic tests that span the clinical pathway from detection and assessment through to management and monitoring for recurrence of the disease. The addition of the fourth product to the suite defines Pacific Edge as a one-stop-shop for physicians evaluating and managing patients with urothelial cancer.

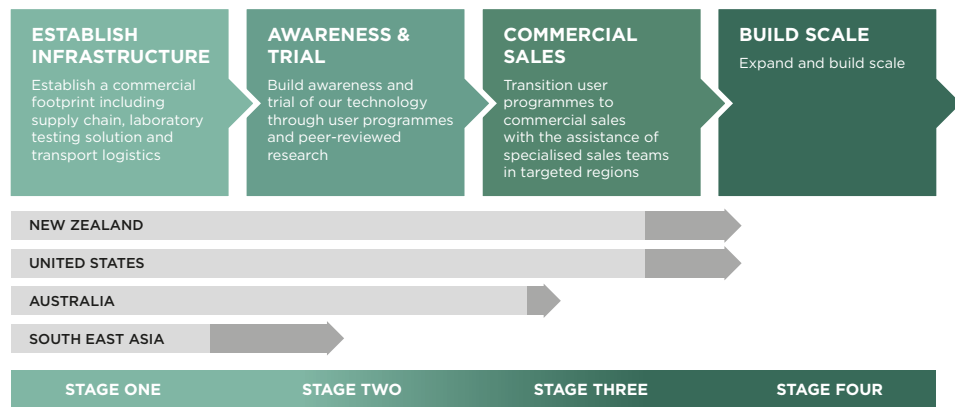
Cxbladder tests are accurate, easy to use, non-invasive and cost effective. Multiple clinical studies and published scientific papers highlight the outperformance of the technology and its clinical utility. More and more urologists and healthcare providers are now recognising this and are adopting Cxbladder into clinical use and this is driving our revenue.

Our primary market is the United States, the world's largest healthcare market. Pacific Edge has also identified and is accessing other key markets around the world including New Zealand, Australia and Singapore.

While we are still in the early stages of our commercial journey, the potential for our company is very large, with over 7 million people presenting with haematuria (blood in the urine and a key indicator of bladder cancer) every year, in the United States alone.

OUR COMMERCIAL PATHWAY

Pacific Edge is making good progress in its commercial journey.



■ Progress made 2018 financial year to date

FY18 HALF YEAR AT A GLANCE

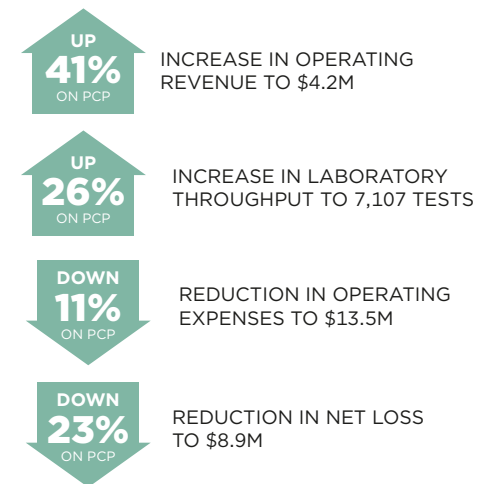
HIGHLIGHTS

- Positive growth in product sales, predominantly in the US
- Growing number of urologists transitioning from User Programmes to commercial customers
- Full suite of Cxbladder tests adopted by MidCentral District Health Board in New Zealand – a global first
- Continued rollout of Cxbladder Resolve with US soft launch planned for the second half of the FY18 financial year
- Positive progress being made in commercial discussions with Kaiser Permanente
- Continuing to work through the process required to gain the Local Coverage Determination (LCD) for CMS reimbursement
- Targeting a number of large VA centres with early sales now being delivered

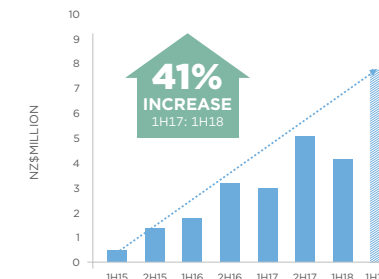
POST PERIOD END

- Completion of successful \$21.3m capital raising
- Pacific Edge named in TIN200 Top Ten List of Hot Emerging Companies
- Pacific Edge named 20th in Deloitte Fast50

FINANCIAL SNAPSHOT

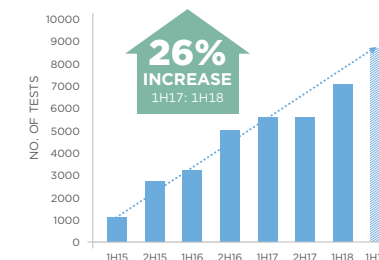


OPERATING REVENUE

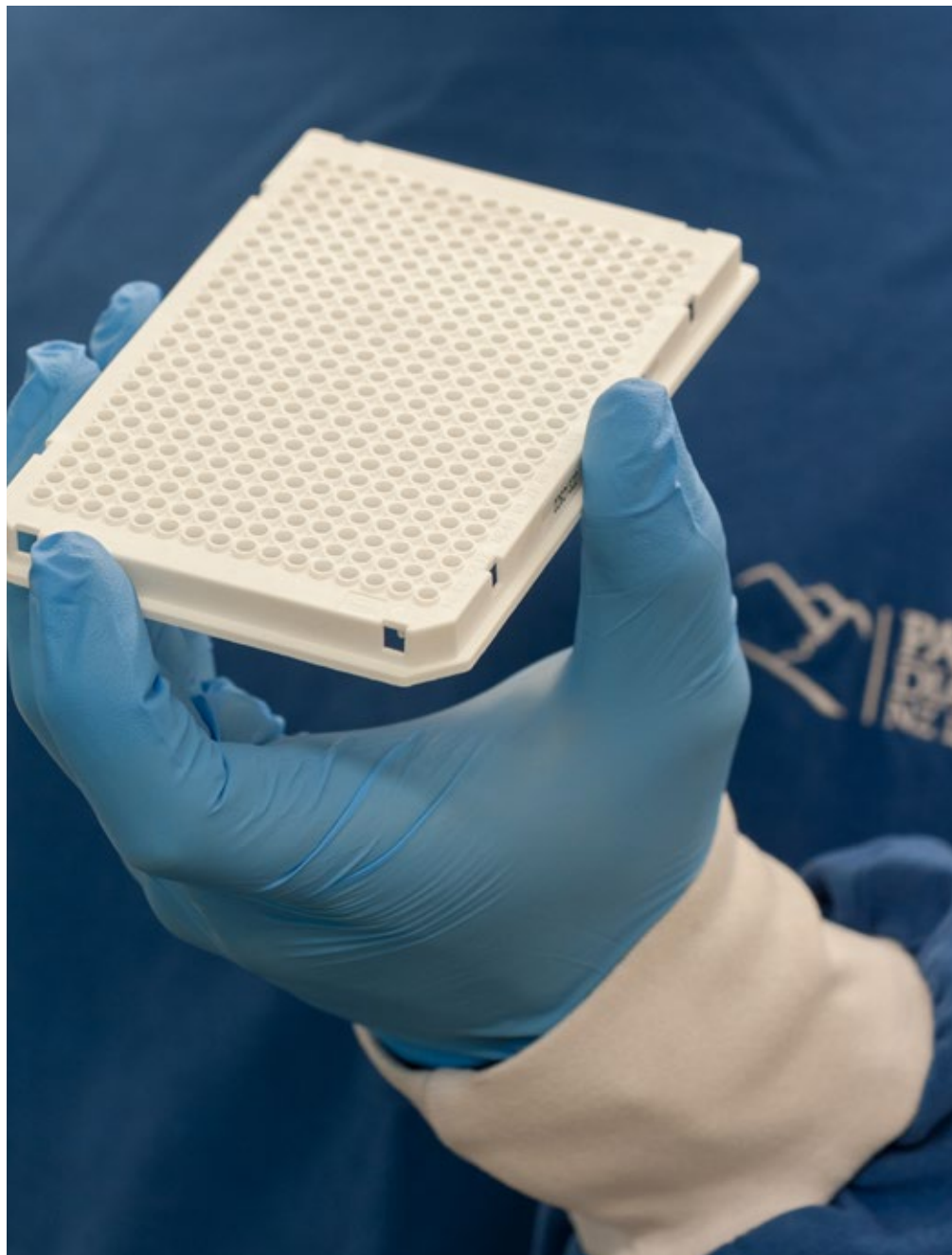


LABORATORY THROUGHPUT

Includes User Programmes and commercial tests



Reporting Period: Six months ended 30 September 2017 (1H18)
Previous Corresponding Reporting Period: Six months ended 30 September 2016 (1H17 or PCP)



HALF YEAR REVIEW AND OUTLOOK

The FY18 first half year result reflects our continuing focus on achieving our goals – bringing on board the large transformational customers we have identified, growing sales, and gaining further adoption of Cxbladder into standards of care.

These steps in our commercial journey will allow us to achieve our long-term goals of enabling better care for our patients, better decision making by clinicians and better resourcing for the healthcare sector.

There is no doubt that Cxbladder is a break-through product – all the clinical validation and published scientific papers point to the outperformance of Cxbladder and its clinical utility. More and more urologists and healthcare providers are now recognising this and are adopting our product into clinical use.

We are the only company to offer a suite of tests that span the clinical pathway for bladder cancer, and the rollout of our fourth product, Cxbladder Resolve, is going well and we are on track for a soft launch in the US by end-March 2018.

Our primary focus remains on commercialising large scale customers, including the Veterans Administration (VA), Kaiser Permanente and the Centers for Medicare and Medicaid (CMS) in the US, as well as District Health Boards (DHBs) in New Zealand and other large healthcare providers. While the administration and clinical sign-off for commercial use by these large organisations can be long and time consuming, the scale and long term sales opportunity they present is significant.

Pacific Edge is just one of multiple suppliers they are dealing with every day and the fact that we have been able to gain access to these organisations is a demonstration of the overpowering clinical evidence in support of Cxbladder and the efforts and expertise of our sales and management teams.

We are now in commercial agreement with the VA and early sales are starting to be seen from the initial clinics we are targeting. Commercial negotiations are progressing positively with Kaiser Permanente, and contemporaneously with this, we have been working with Kaiser's staff on the necessary business elements to ensure that the start-up of commercial tests can occur expediently following the completion and signing of the agreement.

In addition, we are continuing to work through the process required to gain inclusion in the Local Coverage Determination (LCD) from the CMS. Once this is received, it will enable consistent and timely reimbursement for Medicare patients, on normal CMS payment terms. The inclusion into the LCD and the commensurate pricing negotiation will provide the catalyst for Pacific Edge to negotiate agreements with other private payers which view the CMS pricing as a benchmark, providing further certainty on price and payment terms for Pacific Edge. You can read more about CMS Reimbursement on page 10.

New Zealand urologists continue to lead the way globally in the adoption and commercial use of our novel molecular diagnostic tests, with the majority of the large DHBs now

offering their patients access to Cxbladder. The recent global first was the signing by MidCentral DHB to make available the full suite of Cxbladder tests.

While a good infrastructure is now in place in Australia, uptake has been slower than in New Zealand and we are working closely with our distribution partner, Tolmar Australia, to drive adoption.

The investigations into South East Asia continue to progress, with three User Programmes in large scale hospitals now running in Singapore, of which one is expected to transition to a commercial customer in the near future. Additional User Programmes are expected to commence in the second half of the year.

OUTLOOK

We are expecting a stronger second half year, in line with annual trends. Sales are expected to continue rising, as we leverage the commercial arrangements we have in place with large scale organisations and build sales from existing customers. We remain focused on securing a contract with Kaiser Permanente and attaining LCD approval which will enable reimbursement from the CMS. Both of these events are expected to result in a significant and steady uplift in sales over the medium term.

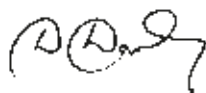
We are working hard to achieve our goal of being cash-flow positive. The rate that we progress is entirely driven by the contribution to revenue from the large scale customers that we are targeting and we are working hard to convert these transformational customers into revenue and cash.

As we have learnt, timing, particularly when working in the US healthcare market and seeking to change embedded clinical behaviour, can be hard to predict. We continue to focus our efforts on achieving our goals as quickly as possible.

Our thanks go to our shareholders for their continued support. The full efforts of everyone in the company are focused on transforming Pacific Edge into a globally recognised and successful New Zealand business.



Chris Gallaher
Chairman



David Darling
Chief Executive Officer

FIRST HALF FINANCIAL PERFORMANCE

Operating revenue continues to increase as we build momentum and target large scale customers in the United States and other markets. Total revenue for the first half of FY18 (1H18) was up 27% on the prior comparative period to \$4.9m, and included operating revenue of \$4.2m which was up 41% on the prior first half year (1H17). A stronger second half of the year is expected in line with normal trends¹.

Laboratory throughput, which includes both commercial sales and tests from User Programmes, increased to 7,107 tests, up 26% on 1H17. This has had a corresponding effect on receivables which have increased in line with the higher test numbers. Laboratory throughput is an important metric for Pacific Edge as it reflects the increasing trial and adoption of Cxbladder by key urologists and healthcare providers.

Total operating expenses reduced to \$13.5m, a reduction of 11% on 1H17 which included expenses related to the winding up of the Employee Incentive Scheme.

Net operating cashflows remain in line with expectations and were \$(10.2)m for the FY18 first half (1H17: \$(9.1)m). Receipts in 1H18 reflect the number of tests completed in the prior half year due to the time lag between completion of tests and the receipt of payment from relevant US payers. This time to cash receipt will improve when the company is included in the CMS LCD.

In line with the conservative approach taken by the Board at the end of the FY17 year, bad debts of \$0.7m and doubtful debts of \$0.8m have been recognised in 1H18, to account for additional long standing receivables. Pacific Edge is striving to obtain the necessary insurance contract coverages to guarantee terms of payment from insurance payers and will continue to seek recovery of payments that have been written off, once insurance coverage is obtained.

Pacific Edge is no longer accruing revenue for tests completed for CMS patients. CMS tests account for approximately 50% of current laboratory throughput, indicating a significant number of tests which will be added to the annual revenue when the company receives its expected LCD.

For the six months ended 30 September 2017, Pacific Edge reported a net loss of \$8.9m, a reduction of 23% on the \$11.6m reported in 1H17.

Pacific Edge had \$4.0m in cash and cash equivalents at 30 September 2017 and successfully completed a \$21.3m capital raising on 10 November 2017.

¹The first half of the financial year is traditionally softer for Pacific Edge, due to the USA summer holiday period and also as it is usually before Americans with private health insurance reach their deductible level (the amount a patient must pay before their insurance kicks in).

UNDERSTANDING OUR COMPANY: CMS REIMBURSEMENT

The Centers for Medicare & Medicaid Services (CMS) is the US federal agency that administers the Medicare program and works in partnership with state governments to administer Medicaid and other health programmes.

Medicare is the federal health insurance program for people who are 65 or older, certain younger people with disabilities and people with End-Stage Renal Disease. This is the scheme that covers most of the CMS patients for whom Pacific Edge provides tests. These patients currently make up approximately 50% of Pacific Edge's laboratory throughput.

From a reimbursement perspective, CMS can be thought of as similar to a large insurance company.

WHAT IS A LOCAL COVERAGE DETERMINATION?

A Local Coverage Determination is a decision by a Medicare Administrative Contractor (MAC) which determines whether a particular service offered by a healthcare provider in their geographic jurisdiction is 'reasonable and necessary' and therefore covered for reimbursement by the CMS. These coverage decisions are issued in a document called a Local Coverage Determination (LCD).

An LCD provides specific conditions of the coverage, including price, and guidance on reimbursement including coverage guidance and coding information. This information is useful to the many other private payers (insurance companies) for their contracting of the same product or service.

Healthcare providers such as Pacific Edge, which have a centralised laboratory service business with a Laboratory Developed Test, need an LCD from their local MAC to gain US-wide coverage.

GAINING LCD INCLUSION

There are many items required to gain inclusion in an LCD and the key ones are analytical validity, clinical validity and clinical utility.

The process involves generating a dossier of evidence (peer reviewed, published science) that is submitted to the company's relevant MAC for review.

The MAC can then either grant an LCD or request further information/data to be added to the dossier. This dossier submission iterates until the company has submitted the level of evidence as determined by the specific Medical Director(s) for that MAC.

There is no prescribed process for gaining an LCD and specific requirements will differ by product and by MAC, according to the needs of the specific Medical Director.

All companies that seek an LCD inclusion must follow this process and most take three to five years to complete the level of peer reviewed published science and obtain an LCD. Novel or new medical technologies, such as the use of molecular diagnostics for bladder cancer, can take longer to gain inclusion in an LCD than a well established technology.

REIMBURSEMENT BY THE CMS

Until LCD inclusion is attained, including a specific procedural code for billing, it is challenging and slow to claim reimbursement for Medicare patients. The LCD will enable consistent and timely reimbursement on normal CMS payment terms. Pacific Edge has elected to provide tests to patients covered by the CMS on the basis that payment will be sought once the LCD inclusion is received, with tests to be recognised as revenue at the time of payment.





INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2017

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

STATEMENT OF COMPREHENSIVE INCOME

	NOTES	UNAUDITED SEPT 2017 6 MONTHS (\$'000)	UNAUDITED SEPT 2016 6 MONTHS (\$'000)	AUDITED MARCH 2017 12 MONTHS (\$'000)
REVENUE				
Operating Revenue		4,225	2,999	8,062
Total Operating Revenue		4,225	2,999	8,062
Other Income		538	498	1,105
Interest Income		81	273	249
Foreign Exchange Gain		8	43	119
Total Revenue and Other Income		4,852	3,813	9,535
OPERATING EXPENSES				
Laboratory Operations		618	654	996
Research		1,759	2,470	4,908
Sales and Marketing		1,012	914	1,923
Employee Equity Equivalent Incentive Scheme	5	-	2,925	2,925
Other Expenses	4	10,128	8,160	19,763
Total Operating Expenses		13,517	15,123	30,515
NET (LOSS) BEFORE TAX		(8,665)	(11,310)	(20,980)
Income Tax Expense		-	-	-
(LOSS) FOR THE YEAR AFTER TAX		(8,665)	(11,310)	(20,980)
Translation Foreign Operations		(220)	(262)	(67)
TOTAL COMPREHENSIVE (LOSS)		(8,885)	(11,572)	(21,047)
Earnings per share for profit attributable to the equity holders of the Company and Group during the year				
Basic and Diluted Earnings per share		(0.022)	(0.030)	(0.055)

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

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL (\$'000)	FOREIGN CURRENCY TRANSLATION RESERVE (\$'000)	SHARE BASED PAYMENTS RESERVE (\$'000)	RETAINED EARNINGS (\$'000)	TOTAL EQUITY (\$'000)
UNAUDITED 6 MONTHS TO SEPT 2016						
Balance as at 31 March 2016		100,012	918	2,404	(73,527)	29,807
(Loss) After Tax		-	-	-	(11,310)	(11,310)
Other Comprehensive Income		-	(262)	-	-	(262)
Issue of Share Capital	7	2,914	-	-	-	2,914
Share Based Payment Expense		-	-	270	-	270
Balance as at 30 September 2016		102,926	656	2,674	(84,837)	21,419
AUDITED 12 MONTHS TO MARCH 2017						
Balance as at 31 March 2016		100,012	918	2,404	(73,527)	29,807
(Loss) After Tax		-	-	-	(20,980)	(20,980)
Other Comprehensive Income		-	(67)	-	-	(67)
Issue of Share Capital	7	11,584	-	-	-	11,584
Share Based Payment Expense		-	-	486	-	486
Balance as at 31 March 2017		111,596	851	2,890	(94,507)	20,830
UNAUDITED 6 MONTHS TO SEPT 2017						
Balance as at 31 March 2017		111,596	851	2,890	(94,507)	20,830
(Loss) After Tax		-	-	-	(8,665)	(8,665)
Other Comprehensive Income		-	(220)	-	-	(220)
Issue of Share Capital	7	192	-	(18)	-	174
Share Based Payment Expense		-	-	140	-	140
Balance as at 30 September 2017		111,788	631	3,012	(103,172)	12,259

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

FINANCIAL INFORMATION

AS AT 30 SEPTEMBER 2017

BALANCE SHEET

	UNAUDITED SEPT 2017 6 MONTHS	UNAUDITED SEPT 2016 6 MONTHS	AUDITED MARCH 2017 12 MONTHS
NOTES	(\$000)	(\$000)	(\$000)
CURRENT ASSETS			
Cash and Cash Equivalents	3,997	4,604	6,564
Short Term Deposits	-	10,000	8,000
Receivables	8,027	6,427	6,519
Inventory	1,014	600	824
Other Assets	645	580	491
Total Current Assets	13,683	22,211	22,398
NON-CURRENT ASSETS			
Property, Plant & Equipment	942	929	837
Intangible Assets	346	273	329
Total Non-Current Assets	1,288	1,202	1,166
TOTAL ASSETS	14,971	23,413	23,564
CURRENT LIABILITIES			
Payables and Accruals	2,589	1,994	2,734
Finance Leases	69	-	-
Total Current Liabilities	2,658	1,994	2,734
NON-CURRENT LIABILITIES			
Finance Leases	54	-	-
Total Non-Current Liabilities	54	-	-
TOTAL LIABILITIES	2,712	1,994	2,734
NET ASSETS	12,259	21,419	20,830
Represented by:			
EQUITY			
Share Capital	7	111,788	102,926
Accumulated Losses	(103,172)	(84,837)	(94,507)
Share Based Payments Reserve	3,012	2,674	2,890
Foreign Translation Reserve	631	656	851
TOTAL EQUITY	12,259	21,419	20,830
FURTHER INFORMATION:			
Return on Assets (%)	(59%)	(49%)	(89%)
Return on Equity (%)	(72%)	(54%)	(101%)
Debt to Equity Ratio (%)	22%	9%	13%
Earnings Per Share (basic and diluted) (\$)	(0.022)	(0.030)	(0.055)
Net Tangible Assets Per Share (\$)	0.030	0.055	0.051

For and on behalf of the Board of Directors



Director Director

Dated 29th day of November 2017

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

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

STATEMENT OF CASH FLOWS

	UNAUDITED SEPT 2017 6 MONTHS (\$000)	UNAUDITED SEPT 2016 6 MONTHS (\$000)	AUDITED MARCH 2017 12 MONTHS (\$000) RESTATED
CASH FLOWS TO OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Customers & Grant Providers	1,880	2,727	4,616
Interest Received	82	316	732
	1,962	3,043	5,348
Cash was disbursed to:			
Payments to Suppliers & Employees	12,101	12,170	23,211
Net GST change	46	(31)	(25)
	12,147	12,139	23,186
Net Cash Flows To Operating Activities	(10,185)	(9,096)	(17,838)
CASH FLOWS TO INVESTING ACTIVITIES:			
Cash was provided from:			
Short Term Deposits	8,000	10,000	20,000
	8,000	10,000	20,000
Cash was disbursed to:			
Capital Expenditure on Plant and Equipment	153	130	209
Purchase of Short Term Deposits	-	-	8,000
Capital Expenditure on Intangible Assets	106	122	270
	259	252	8,479
Net Cash Flows To Investing Activities	7,741	9,748	11,521
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash was received from:			
Ordinary Shares Issued	94	-	8,750
	94	-	8,750
Cash was disbursed to:			
Repayment of Finance Leases	17	-	-
Issue Expenses	-	10	91
	17	10	91
Net Cash Flows From Financing Activities	77	(10)	8,659
Net increase (Decrease) in Cash Held	(2,367)	642	2,342
Add Opening Cash Brought Forward	6,564	4,160	4,160
Effect of Exchange Rate Changes on Net Cash	(200)	(198)	62
Ending Cash Carried Forward	3,997	4,604	6,564
Call Accounts	2,551	4,158	5,888
Foreign Currency Call Accounts	1,446	446	676
Total Short Term Deposits	3,997	4,604	6,564
ANZ Term Deposit	-	10,000	8,000
Total Short Term Deposits	-	10,000	8,000
Total Cash, Cash Equivalents and Short Term Deposits	3,997	14,604	14,564

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

1. SUMMARY OF ACCOUNTING POLICIES

The unaudited interim financial statements (“Interim Financial Statements”) presented are those of Pacific Edge Limited (“Company”) and its subsidiaries (“Group”). 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. Pacific Edge Diagnostics New Zealand Limited and Pacific Edge Diagnostics USA Limited manage and 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 is assisting with research and development and will become a sales and marketing entity and Pacific Edge Analytical Services Limited is a dormant entity.

The Company is a for profit entity, registered in New Zealand under the Companies Act 1993 and is a reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Company is listed with NZX Limited with its ordinary shares quoted on the NZX Main Board.

(a) Basis of Preparation of Financial Statements

The Interim Financial Statements for the six months ended 30 September 2017 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP) and the Financial Markets Conduct Act 2013. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other guidance as issued by the External Reporting Board, as appropriate for profit-oriented entities, and with International Financial Reporting Standards.

The Interim Financial Statements have been prepared in accordance with NZ IAS 34 - Interim Financial Reporting. In complying with NZ IAS 34, these consolidated Interim Financial Statements also comply with IAS 34 - Interim Financial Reporting and should be read in conjunction with the Company’s 2017 Annual Report. The Interim Financial Statements for the six months ended 30 September 2017 are unaudited. Comparative balances for 30 September 2016 are unaudited, whilst the comparative balances for 31 March 2017 are audited.

The Interim Financial Statements are prepared on the basis of historical cost, except where otherwise identified. The presentational currency used in the preparation of the financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

(b) Accounting Policies

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of Pacific Edge Limited for the year ended 31 March 2017.

Segment Information

The segments reported in Note 6 have been revised from previous reporting to reflect the business operations of Commercial and Research. The prior period balances have been updated to conform with the current period presentation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

(c) Statement of Cash Flows Restatement

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

This error had no impact on the 31 March 2017 Statement of Comprehensive Income, Statement of Changes in Equity, Earnings per Share or the Balance Sheet. This error did not impact the comparative interim financial statements from 30 September 2016.

(d) Authorisation

The Interim Financial Statements were authorised by the Board of Directors on 29 November 2017. The annual financial statements for the year ended 31 March 2017 were authorised by the Board of Directors on 24 May 2017.

(e) Audit

The Interim Financial Statements have not been audited. The comparative full year financial results for the year ended 31 March 2017 have been audited.

(f) Basis of Consolidation

The following entities and the basis of their inclusion for consolidation in these Interim Financial Statements are as follows:

Name of Subsidiary	Place of Incorporation (or registration) and Operation	Principal Activity	Ownership Interests & Voting Rights	
			30 Sept 2017 (%)	30 Sept 2016 (%)
Pacific Edge Diagnostics New Zealand Limited	New Zealand	Commercial Laboratory Operation	100	100
Pacific Edge Pty Limited	Australia	Biotechnology Research & Development	100	100
Pacific Edge Diagnostics USA Limited	USA	Commercial Laboratory Operation	100	100
Pacific Edge Analytical Services Limited	New Zealand	Dormant Company	100	100
Pacific Edge Diagnostics Singapore Pte Limited	Singapore	Biotechnology Research & Development	100	100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

2. INVESTMENT AND ADVANCES IN SUBSIDIARIES

The consolidated Interim Financial Statements incorporate the assets and liabilities and results of Pacific Edge Diagnostics New Zealand Limited, Pacific Edge Diagnostics USA Limited, Pacific Edge Diagnostics Singapore Pte Limited, Pacific Edge Analytical Services Limited and Pacific Edge Pty Limited, all of which are 100% owned by the Company. Subsidiaries have a 31 March balance date. The investments in and advances to subsidiaries are eliminated on consolidation in the Group financial statements.

3. DIVIDENDS

The Company does not propose to pay dividends to shareholders similar to previous years. This policy continues.

4. OTHER EXPENSES

	Unaudited Sept 2017 6 Months (\$000)	Unaudited Sept 2016 6 Months (\$000)	Audited March 2017 12 months (\$000)
Other Expenses			
Amortisation	90	96	189
Auditors Remuneration - Audit Fees	56	3	70
- Other Assurance Services (refer below)	9	15	15
Bad Debts	674	-	2,635
Doubtful Debts	752	-	613
Depreciation	179	172	353
Directors Fees	137	143	287
Employee Benefits	4,885	4,242	9,384
Employee Share Options	141	270	485
Rental and Lease Expense	544	567	1,067
Other Operating Expenses	2,661	2,652	4,665
Total Other Expenses	10,128	8,160	19,763

Other Assurance Services

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

Employee Share Options

Employee Share Options are a non-cash expense.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

5. PACIFIC EDGE INCENTIVE PLAN

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 condition 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 in the corresponding period last year of \$2,924,550.

6. SEGMENT INFORMATION

The Chief Executive Officer has determined the operating segments based on reports reviewed by him that are used to make strategic decisions and considers the business to have two operating segments at 30 September 2017.

These segments are:

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

The segment revenue and assets information provided to the Chief Executive Officer for the reportable segments described above, for the six months ended 30 September 2017, are shown over the page.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Unaudited - 6 Months 30 September 2017	Commercial (\$'000)	Research (\$'000)	Less: Eliminations (\$'000)	Total External Income (\$'000)
Income				
Product Sales	4,225	-	-	4,225
Grant Revenue and Research Rebate	-	538	-	538
Other Income	141	296	(348)	89
Total Income	4,366	834	(348)	4,852
Expenses				
Expenses	9,236	4,360	(348)	13,248
Depreciation & Amortisation	122	147	-	269
Total Operating Expenses	9,358	4,507	(348)	13,517
Loss Before Tax	(4,992)	(3,673)	-	(8,665)

Audited - 12 Months 31 March 2017	Commercial (\$'000)	Research (\$'000)	Less: Eliminations (\$'000)	Total External Income (\$'000)
Income				
Product Sales	8,227	-	(165)	8,062
Grant Revenue and Research Rebate	-	1,105	-	1,105
Other Income	73	3,224	(2,929)	368
Total Income	8,300	4,329	(3,094)	9,535
Expenses				
Expenses	19,336	13,731	(3,094)	29,973
Depreciation & Amortisation	227	315	-	542
Total Operating Expenses	19,563	14,046	(3,094)	30,515
Loss Before Tax	(11,263)	(9,717)	-	(20,980)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Unaudited - 6 Months 30 September 2016	Commercial (\$'000)	Research (\$'000)	Less: Eliminations (\$'000)	Total External Income (\$'000)
Income				
Product Sales	2,999	-	-	2,999
Grant Revenue and Research Rebate	-	498	-	498
Other Income	149	474	(307)	316
Total Income	3,148	972	(307)	3,813
Expenses				
Expenses	6,795	8,367	(307)	14,855
Depreciation & Amortisation	112	156	-	268
Total Operating Expenses	6,907	8,523	(307)	15,123
Loss Before Tax	(3,759)	(7,551)	-	(11,310)

Pacific Edge Diagnostics New Zealand Limited and Pacific Edge Diagnostics USA Limited have carried out the analysis of Cxbladder tests for Pacific Edge Limited as part of the Company's user programmes with customers in New Zealand, Australia and the USA respectively. User Programmes are an important component of the adoption process for Cxbladder.

The revenue from intercompany transactions has been eliminated on consolidation of Group results.

Segment assets and liabilities information:

Unaudited As at 30 September 2017	Commercial (\$'000)	Research (\$'000)	Total (\$'000)
Total Assets	9,105	5,865	14,970
Total Liabilities	1,570	1,142	2,712
Audited As at 31 March 2017			
Total Assets	7,967	15,597	23,564
Total Liabilities	1,419	1,315	2,734
Unaudited As at 30 September 2016			
Total Assets	6,807	16,606	23,413
Total Liabilities	1,139	855	1,994

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

7. SHARE CAPITAL

	Shares (000)	Unaudited Sept 2017 6 Months (\$000)	Unaudited Sept 2016 6 months (\$000)	Audited March 2017 12 months (\$000)
Opening Balance	399,271	111,596	100,012	100,012
New Issues	433	192	2,924	11,674
Share Capital Before Issue Expenses	399,704	111,788	102,936	111,686
Less: Issue Expenses	-	-	(10)	(90)
Closing Balance	399,704	111,788	102,926	111,596

As at 30 September 2017, there was 399,704,401 Ordinary Shares on issue (March 2017: 399,271,161 and September 2016: 381,738,061).

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.

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

	Unaudited Sept 2017 6 Months (\$000)	Unaudited Sept 2016 6 months (\$000)	Audited March 2017 12 months (\$000) Restated
Net Loss for the Period	(8,665)	(11,310)	(20,980)
Add Non Cash Items:			
Depreciation	180	172	353
Amortisation	90	96	189
Movement in share based payments reserve	122	270	485
Bad Debts	674	-	2,635
Doubtful Debts	752	-	613
Issue of Employee Incentive Scheme Shares	97	2,924	2,925
Effect of exchange rates on net cash	(9)	(42)	(120)
Total Non Cash Items	1,906	3,420	7,080
Add Movements in Other Working Capital items:			
(Increase) in Receivables and Other Assets	(3,091)	(784)	(4,032)
(Increase) Decrease in Inventory	(190)	107	(116)
(Decrease) Increase in Payables and Accruals	(145)	(529)	210
Total Movement in Other Working Capital	(3,426)	(1,206)	(3,938)
Net Cash Flows to Operating Activities	(10,185)	(9,096)	(17,838)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

9. CONTINGENT LIABILITIES

There were no known contingent liabilities at 30 September 2017 (March 2017: Nil and September 2016: Nil). The Company and Group have not granted any securities in respect of liabilities payable by any other party whatsoever.

10. CAPITAL COMMITMENTS

There are no capital commitments at 30 September 2017 (March 2017: Nil and September 2016: Nil).

11. SUBSEQUENT EVENTS

On the 11th of October 2017, the Company announced a 1 for 6 rights issue of ordinary shares. This rights issue was fully underwritten by First NZ Capital Securities Limited and raised \$21.3m. The proceeds after deduction of costs were paid into the Company bank accounts on 15 November 2017.

12. 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 Interim 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 Interim Financial Statements. Given there is uncertainty of future cash flows at the date of signing these financial statements, a material uncertainty exists at that date.

13. REPORTS TO SHAREHOLDERS

The shareholder has a right to receive from the Company, free of charge, a copy of the interim report if the shareholder, within 15 working days of receiving the notice, makes a request to the Company to receive a copy of the interim report.

The interim report is available online. An electronic copy can be accessed by visiting: www.nzx.com – ticker code (PEB) or www.pacificedge.co.nz or by contacting: investors@pacificedge.co.nz

COMPANY DIRECTORY

As at 30 September 2017

Issued Capital

399,704,401 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 tests for the early detection and better management of cancer.

Auditors

PricewaterhouseCoopers
Dunedin

Bankers

Bank of New Zealand
Dunedin
ANZ
Dunedin

Solicitors

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

Securities Registrar

Link Market Services Limited
138 Tancred St
Ashburton

Company Number

1119032

Date of Incorporation

27th February 2001

PACIFIC EDGE COMMUNICATIONS

Websites

www.pacifiedgedx.com
www.cxbladder.com
www.bladdercancer.me

LinkedIn

www.linkedin.com/company/pacific-edge-ltd

Facebook

www.facebook.com/PacificEdgeLtd
www.facebook.com/Cxbladder

Twitter

@PacificEdgeLtd
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CANCER DIAGNOSTICS COMPANY

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