19 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 MARCH 2019

PACIFIC EDGE LTD
CANCER DIAGNOSTICS COMPANY

Contents

Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 ($000)	2018 ($000)
REVENUE			
Operating Revenue	5	3,817	3,400
Total Operating Revenue		3,817	3,400
Other Income	5	990	1,242
Interest Income	9	323	231
Foreign Exchange Gain (Loss)		(1)	129
Total Revenue and Other Income		**5,129**	**5,002**
OPERATING EXPENSES			
Laboratory Operations		4,594	4,619
Research	6	3,532	4,384
Sales and Marketing		8,236	9,436
General & Administration	7	6,676	6,207
Total Operating Expenses		**23,038**	**24,646**
NET (LOSS) BEFORE TAX		**(17,909)**	**(19,644)**
Income Tax Expense	16	9	-
(LOSS) FOR THE YEAR AFTER TAX		**(17,918)**	**(19,644)**
Other Comprehensive Income that may be reclassified to profit or loss			
Translation of Foreign Operations		(3)	(83)
TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company		**(17,921)**	**(19,727)**
Earnings per share for profit attributable to the equity holders of the Company during the year			
Basic and Diluted Earnings Per Share	3	(0.037)	(0.045)

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

Statement of Changes in Equity

For the year ended 31 March 2019

	Notes	Share Capital ($000)	Accumulated Losses ($000)	Share Based Payments Reserve ($000)	Foreign Currency Translation Reserve ($000)	Total Equity ($000)
Balance as at 31 March 2017		**111,596**	**(100,475)**	**2,889**	**963**	**14,973**
(Loss) After Tax		-	(19,644)	-	-	(19,644)
Other Comprehensive Income		-	-	-	(83)	(83)
TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company		**-**	**(19,644)**	**-**	**(83)**	**(19,727)**
Transactions with owners in their capacity as owners:						
Issue of Share Capital (net of expenses)	18	20,020	-	-	-	20,020
Exercise of Employee Share Options		112	-	(18)	-	94
Share Based Payments - Employee Remuneration	8	96	-	-	-	96
Share Based Payment - Employee Share Options	8	-	-	1,184	-	1,184
Balance as at 31 March 2018		**131,824**	**(120,119)**	**4,055**	**880**	**16,640**
Balance as at 31 March 2018		**131,824**	**(120,119)**	**4,055**	**880**	**16,640**
(Loss) After Tax		-	(17,918)	-	-	(17,918)
Other Comprehensive Income		-	-	-	(3)	(3)
TOTAL COMPREHENSIVE (LOSS) attributable to equity holders of the Company		**-**	**(17,918)**	**-**	**(3)**	**(17,921)**
Transactions with owners in their capacity as owners:						
Issue of Share Capital (net of expenses)	18	14,391	-	-	-	14,391
Share Based Payments - Employee Remuneration	8	188	-	-	-	188
Share Based Payment - Employee Share Options	8	-	-	612	-	612
Share Based Payment - Employee Share Options Expired	8	-	160	(160)	-	-
Balance as at 31 March 2019		**146,403**	**(137,877)**	**4,507**	**877**	**13,910**

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

Balance Sheet

As at 31 March 2019

	Notes	2019 ($000)	2018 ($000)
CURRENT ASSETS			
Cash and Cash Equivalents	9	4,847	5,242
Short Term Deposits	9	8,000	11,000
Receivables	10	1,265	1,064
Inventory	11	842	752
Other Assets	12	610	472
Total Current Assets		**15,564**	**18,530**
NON-CURRENT ASSETS			
Property, Plant and Equipment	13	769	854
Intangible Assets	14	233	281
Total Non-Current Assets		**1,002**	**1,135**
TOTAL ASSETS		**16,566**	**19,665**
CURRENT LIABILITIES			
Payables and Accruals	17	2,572	2,926
Finance Leases	23	52	73
Total Current Liabilities		**2,624**	**2,999**
NON-CURRENT LIABILITIES			
Finance Leases	23	32	26
Total Non-Current Liabilities		**32**	**26**
TOTAL LIABILITIES		**2,656**	**3,025**
NET ASSETS		**13,910**	**16,640**
Represented by:			
EQUITY			
Share Capital	18	146,403	131,824
Accumulated Losses		(137,877)	(120,119)
Share Based Payments Reserve		4,507	4,055
Foreign Currency Translation Reserve		877	880
TOTAL EQUITY		**13,910**	**16,640**
Net Tangible Assets Per Share ($)		0.027	0.035

For and on behalf of the Board of Directors

Chris Gallaher, Chairman

Sarah Park, Director

Dated the 29th day of May 2019

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

Statement of Cash Flows

For the year ended 31 March 2019

	Notes	2019 ($000)	2018 ($000)
CASH FLOWS TO OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Customers		3,734	3,420
Receipts from Grant Providers		755	944
Interest Received		376	115
		4,865	4,479
Cash was disbursed to:			
Payments to Suppliers and Employees		22,431	22,575
Net GST Cash (Inflow) Outflow		(59)	4
		22,372	22,579
Net Cash Flows To Operating Activities	20	**(17,507)**	**(18,100)**
CASH FLOWS FROM (TO) INVESTING ACTIVITIES:			
Cash was provided from:			
Proceeds from Short Term Deposits		11,000	8,000
		11,000	8,000
Cash was disbursed to:			
Purchase of Short Term Deposits		8,000	11,000
Capital Expenditure on Plant and Equipment		50	195
Capital Expenditure on Intangible Assets		106	140
		8,156	11,335
Net Cash Flows From (To) Investing Activities		**2,844**	**(3,335)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash was received from:			
Ordinary Shares Issued	18	14,569	21,318
Exercising of Share Options		-	96
		14,569	21,414
Cash was disbursed to:			
Repayment of Finance Leases		97	59
Issue Expenses	18	178	1,298
		275	1,357
Net Cash Flows From Financing Activities		**14,294**	**20,057**
Net (decrease) in Cash Held		**(369)**	**(1,378)**
Add Opening Cash Brought Forward		5,242	6,564
Effect of exchange rate changes on net cash		(26)	56
Ending Cash Carried Forward	9	**4,847**	**5,242**

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

1. SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

The consolidated financial statements (hereafter referred to as the 'financial statements') presented for the year ended 31 March 2019 are for Pacific Edge Limited (the 'Company') and its subsidiaries (collectively referred to as the 'Group'). The Group's purpose is to research, develop and commercialise new diagnostic and prognostic tools for the early detection and management of cancers.

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

These financial statements have been approved for issue by the Board of Directors on 29 May 2019.

Basis of Preparation

These 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 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 financial statements also comply with International Financial Reporting Standards.

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

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

Mangement of Capital

The capital structure of the Group consists of equity raised by the issue of ordinary shares in the Company. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to support the development of its business. The Company meets these objectives through managing its liquidity position with available funds by reducing expenditure or issuing new shares. As part of meeting these objectives, the Company completed a Share Placement in November 2018 and a Share Purchase Plan in January 2019, issuing a further 43,988,000 shares at an average of $0.34 per share. Refer to Note 18 for further details on the capital raising activity during FY19.

Going Concern

The 2019 financial statements have been prepared on the going concern basis which assumes that the Company will have sufficient cash to pay its debts as they fall due for a minimum of 12 months from the date of signing the Financial Statements.

As at 31 March 2019, the Company has $12.847m of cash, cash equivalents and short term deposits (2018: $16.242m) and net assets of $13.910m (2018: $16.640m). Operating cash receipts totalling $4.865m were received in the 12 month period to 31 March 2019 (2018: $4.479m) along with additional capital of $14.569m (2018: $21.414m) prior to issue expenses. Net cash out flows from operating activities for the 12 month period to 31 March 2019 were $17.507m (2018: $18.100m).

While the Company continues to incur operating losses, the Company remains solvent and continues to meet its debts as they fall due. The Company continues to progress commercial negotiations with targeted large scale health organisations in the USA. These contracts are taking longer than expected to complete, but progress is being made. The new contracts that will result from these commercial negotiations will have a significant positive impact on the Company's financial position when concluded.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

The Company has prepared cash flow forecasts which indicate that if these commercial negotiations continue to be delayed, the Company may not have sufficient cash to meet its minimum expenditure commitments and support its current levels of activity. The Company may need to raise additional funds to continue as a going concern. These matters indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

To address the future additional funding requirements of the Group, there are a number of options available to the Directors, including:

- Seeking additional funding from current or new shareholders,
- Continuing to monitor the Company's ongoing working capital requirements and minimum expenditure commitments, and
- Continuing to focus on maintaining an appropriate level of expenditure in line with the Company's available cash resources.

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 2019 %	2018 %
Pacific Edge Diagnostics New Zealand Limited	New Zealand	Commercial Laboratory Operation	100	100
Pacific Edge Pty Ltd	Australia	Biotechnology Research & Development	100	100
Pacific Edge Diagnostics USA Ltd	USA	Commercial Laboratory Operation	100	100
Pacific Edge Diagnostics Singapore Pte Ltd	Singapore	Biotechnology Research & Development	100	100
Pacific Edge Analytical Services Limited	New Zealand	Diagnostic Biocomputational Services	100	100

The financial statements incorporate the assets, liabilities and results of all subsidiaries of Pacific Edge Limited as at 31 March 2019 and for the year then ended. All subsidiaries have the same balance date as the Company of 31 March.

Pacific Edge Limited consolidates all entities over which Pacific Edge Limited has control. Control is achieved when the Group:

- has power to direct the activities of the entity;
- is exposed, or has rights, to variable returns from involvement with the entity; 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 Group. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

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

Critical Accounting Estimates and Assumptions

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

The main estimates and assumptions used are in relation to revenue from Cxbladder tests in the US detailed in Note 5, and the going concern assumption which is further assessed in Note 1 above.

2. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

New Standards

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2018):

NZ IFRS 9 establishes the principles for hedge accounting and impairment of financial assets. Under NZ IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. In relation to the impairment of financial assets NZ IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date. The impact is immaterial to the Group.

The Group has adopted NZ IFRS 9 Financial Instruments in the 2019 financial year.

The Group does not have significant accounts receivable balances and the Group have minimal credit losses since adopting NZ IFRS 15. After applying the expected credit loss model, the Group have determined the expected credit loss model is immaterial.

In applying the standard, no changes to the classification of financial instruments have been identified.

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

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

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts.

This new accounting standard eliminates the distinction between operating and finance leases and will result in lessees bringing most leases on to their balance sheets. The expense previously recorded in relation to operating leases will move from being included in rental and lease expenses to within depreciation and finance expenses. Extensive disclosures are also required by NZ IFRS 16.

The Group, in the process of evaluating the impact of adopting this standard has determined that at this point in time, NZ IFRS 16 is not expected to have a significant impact on the Group key performance indicators. The standard will primarily affect the accounting for the Group's rental and operating leases as a lessee.

As at 31 March 2019, the Group had non-cancellable rental and operating lease commitments of $1,923,000 which are currently treated as operating expenses. Under NZ IFRS 16 Leases, these rental and operating leases will be recognised on the balance sheet as a right-of-use asset and a corresponding lease liability. Based on the preliminary calculations the right to use asset and lease liability are expected to range between $1,600,000 and $1,900,000 at 31 March 2019. The recognition exemption under NZ IFRS 16 – Leases, for short term or low value assets of less than US$5,000 or leases terminating within one year, will be applied and these expenses will be continued to be recognised on a straight-line basis in the Statement of Comprehensive Income. Of the amount in the operating lease commitments $12,000 would fall under this exemption.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

Rental and operating lease expenses previously recognised on a straight-line basis within other expenses will be recognised as amortisation for right-of-use assets and finance costs for lease liabilities in the Statement of Financial Performance. The impact on the Statement of Comprehensive Income for the year ended 31 March 2020 is expected to be approximately an increase of $30,000 in expenses. These estimates may differ materially to the actual impact on adoption in the year ended 31 March 2020.

The Group will adopt this standard on its effective date and apply this standard to the 2020 financial statements, using the modified retrospective approach. The modified retrospective approach under NZ IFRS 16 – Leases means that on transition, the Group is not required to restate comparative information, instead opening equity is adjusted Right-of-use assets will be measured using the retrospective calculation, using a discount rate based on the Group's incremental borrowing rate at the date of adoption.

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.

3. EARNINGS PER SHARE

(a) Basic

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

	GROUP	
	2019 ($000)	2018 ($000)
Loss attributable to equity holders of the Company	(17,918)	(19,644)
Weighted average number of ordinary shares on issue	481,164	434,256
Earnings per share	(0.037)	(0.045)

(b) Diluted

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

4. LABORATORY THROUGHPUT AND BILLABLE TESTS

Laboratory Throughput is a key metric for the Group: Laboratory Throughput provides evidence of the increasing usage of Cxbladder products globally and the rates of adoption between different customer segments. Total laboratory throughput includes billable tests, which are invoiced to customers (including tests for patients covered by the US government's medical program through the Centers for Medicare and Medicaid Services (CMS)), and tests which are not considered to be billable as these tests relate to user programs (research tests) or other non-chargeable activities.

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

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

	FY16	FY17	FY18	FY19
Total Laboratory Throughput (tests)	8,348	11,246	14,448	15,697
Increase in Total Laboratory Throughput (%)	114%	35%	28%	9%
Increase in Throughput from previous year (tests)	(+) 4,438	(+) 2,898	(+) 3,202	(+) 1,249
Total Billable Tests (tests)	5,578	8,297	11,866	12,744
Billable Tests as a percentage of Total Laboratory Throughput (%)	67%	74%	82%	81%
Increase in Billable Tests from previous year (%)	99%	49%	43%	7%

5. REVENUE

Background information on US customers and the payment process

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

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

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

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

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

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

Rest of World Customers

Revenue from Rest of World customers is primarily from the District Health Boards (DHBs) in New Zealand. In all rest of world locations, there is a clearly defined contract with the customer meeting the requirements of NZ IFRS 15. Pacific Edge Diagnostics New Zealand Limited has individual contracts with DHBs across New Zealand and revenue is recognised as described on the following pages.

Critical Accounting Estimate

The application of NZ IFRS 15: Revenue from contracts with customers (NZ IFRS 15) requires the Directors to apply significant judgement in determining whether revenue can be recognised in advance of the receipt of cash.

The significant judgements adopted by the Group in applying NZ IFRS 15 criteria include:

- Determining if a contract with the customer exists;
- Determining if the entity can identify the payment terms for the services; and
- Determining whether it is probable that the entity will collect the consideration to which it is entitled.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

ACCOUNTING POLICIES

Revenue from Cxbladder tests

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

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

The Group performs Cxbladder tests when requested by a patient's physician. At the point the test results are returned to the physician, the Group has satisfied its performance obligation and has the right to issue an invoice.

US customers – patients covered by CMS

The Group has judged it is not probable that any consideration will be received from CMS as inclusion in the Local Coverage Determination (LCD) with the CMS has not yet been obtained. Therefore, no revenue is recognised for any patients covered by CMS.

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

The Group performs Cxbladder tests when requested by a patient's physician. At the point the tests results are returned to the physician, the Group has satisfied its performance obligation and has the right to issue an invoice.

The Group is out of network with almost all private insurers in the US market and so the Test Requisition Form (TRF) signed by the patient is the key contract in this revenue stream. In assessing the information contained in the TRF, the Group has concluded that the payment terms are unclear. This means that Cxbladder sales in the US do not meet the required criteria under NZ IFRS 15 to enable revenue to be recognised when the test is undertaken and the results are delivered to the ordering physician. The Group currently has a number of agreements signed with private insurers, covering only a small percentage of the patient population which is currently deemed to be immaterial for accounting purposes.

Revenue is recognised only when cash is received, and it is non-refundable. As new agreements are entered into with private insurers, the Group will revisit this judgement, to determine if the criteria to account for a contract in accordance with NZ IFRS 15 are met.

Rest of World customers

The Group performs Cxbladder tests when requested by a patient's physician in New Zealand, Australia and Singapore. At the point the test results are returned to the physician, the Group has satisfied its performance obligation and an invoice is issued to the customer, therefore revenue is recognised when the invoice is issued.

OTHER INCOME

Grant Income

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

Callaghan Innovation has awarded the Company a Growth Grant, which commenced on 1 January 2014 and ended on 31 March 2019. Callaghan Innovation reimburses the Company for 20 percent of eligible expenditure on the Company's R&D programme. The eligible expenditure complies with NZ IAS 38: Intangible Assets and the Ministerial Direction / New Zealand Gazette, No. 146.

For the year ended 31 March 2019, the total eligible expenditure under this Growth Grant was $2,862,000 (2018: $3,766,000). The Company also receives grants from Callaghan Innovation for postgraduate internships and summer students.

New Zealand Trade and Enterprise has awarded the Company an International Growth Fund grant, to support the startup of the Group's operations in Singapore. The grant commenced on 14 May 2015 and runs until 30 April 2019. New Zealand Trade and Enterprise reimburses the Company for 50 percent of eligible expenditure relating to the Singapore operations.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

All conditions of the grants have been complied with.

Cxbladder Research Rebate

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

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

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

REVENUE AND OTHER INCOME

	GROUP	
	2019 ($000)	**2018 ($000)**
Cxbladder Sales		
- US	3,296	3,188
- Rest of World	521	212
Total Operating Revenue	**3,817**	**3,400**
Other Income		
Grant Revenue	773	853
Research Rebate Received	217	389
Total Other Income	**990**	**1,242**

UNRECOGNISED REVENUE

Approximately 50% of all Cxbladder tests performed by the Group in the US relate to patients covered by CMS. The Group presently invoices CMS tests performed for all US Medicare patients with CMS coverage, however no revenue from these tests is recognised. Upon issuance of the LCD, the Group expects to be reimbursed at the agreed rate for all US Medicare patients for tests performed after that date. The Group may also be reimbursed for some tests completed prior to the issuance of the LCD. No contingent asset has been disclosed at 31 March 2019 as it is not certain when the LCD process will be completed, nor whether any backpayment will be received.

To date, a total of 17,015 tests have been performed that relate to patients covered by CMS, for which no payments have been received and no revenue recognised.

For patients with private insurance cover or no insurance cover, revenue has only been recognised when and to the extent payment has been received, leaving a significant portion of invoiced amounts unrecognised. The level of unrecognised revenue is expected to gradually decrease as the Group concludes firm agreements for reimbursement with individual payers, principally the insurance companies. A contingent asset of $7,200,000 (2018: $5,108,000) has been estimated at 31 March 2019 for private insurance receivables as an inflow of economic benefits is considered probable.

To date, a total of 5,330 tests which have not been written off have been performed that relate to patients covered by private insurance, for which no payments have been received, but are actively being chased for payment.

6. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

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

		GROUP	
	Notes	**2019 ($000)**	**2018 ($000)**
Research Expenses		3,532	4,384
Includes:			
Employee Benefits	8	1,734	1,831

7. GENERAL AND ADMINISTRATION EXPENSES

		GROUP	
	Notes	**2019 ($000)**	**2018 ($000)**
Amortisation	14	77	138
Auditors Remuneration: PricewaterhouseCoopers New Zealand			
- Group Year End Financial Statements		155	94
- Half Year Review of Financial Statements		21	19
- R&D Review for Callaghan Innovation		3	2
- Agreed Upon Procedures		-	6
Auditors Remuneration: PricewaterhouseCoopers Singapore			
- Statutory Financial Statements		9	16
Depreciation	13	119	167
Directors Fees	22	279	275
Employee Benefits	8	2,695	2,434
Employee Share Scheme Expenses	8	188	96
Employee Share Options	8	562	956
Rental and Lease Expense		262	262
Other General and Administration Expenses		2,306	1,742
Total General and Adminstration Expenses		**6,676**	**6,207**

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

Employee Share Options
Employee Share Options are a non-cash expense. Refer to Note 8 for details of the accounting policy for Employee Share Schemes.

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

8. EMPLOYEE BENEFITS

	Notes	GROUP 2019 ($000)	2018 ($000)
Represented by:			
Employee Benefits in Research	6	1,734	1,831
Employee Benefits in General & Administration	7	2,695	2,434
Short Term Salaries, Wages and Other Employee Benefits		6,271	6,720
		10,700	10,985
Non-Cash Employee Benefits:			
Employee Share Scheme Expenses	7	188	96
Share Option Expense	7	612	1,184
		800	1,280
Total Employee Benefits		**11,500**	**12,265**

Employee Share Scheme

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

The issuance of ordinary shares to employees is treated as equity settled share-based payments. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date based on the market price at the time of issuance. The fair value of shares granted is recognised as an employee expense in the Statement of Comprehensive Income when the shares are issued. During the 2019 financial year, 561,000 (2018: 173,655) ordinary shares were issued to employees as part of the Employee Share Scheme. The associated non-cash cost of these shares was $188,000 (2018: $96,000). Refer to Note 18 for further details on the shares issued during the financial year.

Employee Share Option Scheme

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

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

Performance Options

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

Incentive Options

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

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

ACCOUNTING POLICY

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

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

During the year, no share options were exercised resulting in no increase in share capital (2018: 259,585). Refer to Note 18 for further details on the share options that were exercised in the prior year.

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

	GROUP			
	2019		2018	
	Weighted average exercise price $	Options #	Weighted average exercise price $	Options #
Outstanding at 1 April	0.59	11,221,944	0.64	6,839,857
Granted	0.28	152,500	0.51	4,800,000
Forfeited	0.37	(46,159)	0.65	(158,328)
Exercised	-	-	0.36	(259,585)
Expired	0.45	(615,918)	-	-
Outstanding at 31 March	**0.60**	**10,712,367**	**0.59**	**11,221,944**
Exercisable at 31 March	0.61	9,953,937	0.62	9,041,267

The significant inputs into the Black-Scholes valuation model were the weighted average market share price at grant date of the options, the exercise price shown on the next page, 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 2.81% and 2.93%.

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 Consolidated Financial Statements

For the year ended 31 March 2019

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 19 Options #	31 March 18 Options #	
April 2018	April 2014	0.36	-	259,585	
August 2018	August 2014	0.54	-	83,333	
September 2018	September 2014	0.80	-	73,000	*
November 2018	November 2014	0.54	-	200,000	
April 2019	April 2015	0.36	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	0.54	83,333	83,333	
September 2019	September 2015	0.80	750,000	750,000	
November 2019	November 2015	0.54	200,000	200,000	
June 2020	June 2016	0.69	13,077	13,077	
July 2020	July 2016	0.69	2,740	2,740	
August 2020	August 2016	0.54	83,334	83,334	
September 2020	September 2016	0.80	750,000	750,000	
November 2020	November 2016	0.54	200,000	200,000	
September 2021	September 2017	0.80	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	0.69	345,831	345,831	
August 2025	August 2015	0.72	4,166	4,166	
September 2025	September 2015	0.50	270,000	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	0.50	8,332	8,332	
July 2026	July 2016	0.69	345,834	345,834	
August 2026	August 2016	0.50	8,332	8,332	
August 2026	August 2016	0.72	2,866	2,866	
September 2026	September 2016	0.50	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	0.50	50,000	50,000	*
November 2026	November 2016	0.60	14,998	14,998	
November 2026	November 2016	0.72	83,333	83,333	
December 2026	December 2016	0.60	4,166	4,166	
January 2027	January 2017	0.72	10,834	10,834	
February 2027	February 2017	0.60	10,000	10,000	
March 2027	March 2017	0.60	4,166	4,166	
April 2027	April 2017	0.60	75,000	75,000	

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

Expiry Month	Vesting Date	Exercise Price $	31 March 19 Options #	31 March 18 Options #
April 2027	April 2017	0.69	6,667	6,667
July 2027	July 2017	0.50	4,190	4,190
July 2027	July 2017	0.69	343,346	343,346
August 2027	August 2017	0.48	4,166	4,166
August 2027	August 2017	0.50	8,334	8,334
September 2027	September 2017	0.48	6,666	6,666
September 2027	September 2017	0.50	79,169	79,169
September 2027	September 2017	0.69	15,000	15,000
September 2027	September 2017	0.72	10,594	10,594
October 2027	October 2017	0.48	20,000	20,000
November 2027	November 2017	0.60	10,252	10,252
November 2027	November 2017	0.72	83,334	83,334
December 2027	December 2017	0.60	1,872	1,872
December 2027	December 2017	0.51	4,166	4,166
January 2028	January 2018	0.72	7,473	7,473
January 2028	January 2018	0.51	12,498	12,498
February 2028	February 2018	0.60	10,000	10,000
March 2028	March 2018	0.60	4,167	4,167
April 2028	April 2018	0.60	75,000	75,000
May 2028	May 2018	0.51	1,587,492	1,583,326
May 2028	May 2018	0.28	6,666	-
July 2028	July 2018	0.50	2,671	2,671
August 2028	August 2018	0.48	3,916	4,167
August 2028	August 2018	0.50	4,315	4,315
September 2028	September 2018	0.48	4,128	6,667
September 2028	September 2018	0.50	219	219
October 2028	October 2018	0.48	30,000	30,000
October 2028	October 2018	0.28	4,166	-
November 2028	November 2018	0.60	6,816	8,334
December 2028	December 2018	0.51	4,167	4,167
January 2029	January 2019	0.51	6,416	12,501
January 2029	January 2019	0.28	16,666	-
February 2029	February 2019	0.6	10,000	10,000
February 2029	February 2019	0.28	6,666	-
March 2029	March 2019	0.60	69	4,167
April 2029	April 2019	0.60	75,000	75,000
May 2029	May 2019	0.51	1,587,502	1,583,335
May 2029	May 2019	0.28	6,667	-
June 2029	June 2019	0.28	4,166	-
July 2029	July 2019	0.28	4,166	-
August 2029	August 2019	0.48	-	4,167
September 2029	September 2019	0.48	-	6,667

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

Expiry Month	Vesting Date	Exercise Price $	31 March 19 Options #	31 March 18 Options #
October 2029	October 2019	0.48	40,000	40,000
October 2029	October 2019	0.28	4,167	-
December 2029	December 2019	0.51	4,167	4,167
January 2030	January 2020	0.51	4,167	12,501
January 2030	January 2020	0.28	16,667	-
February 2030	February 2020	0.28	6,667	-
May 2030	May 2020	0.51	1,587,506	1,583,338
May 2030	May 2020	0.28	6,667	-
June 2030	June 2020	0.28	4,167	-
July 2030	July 2020	0.28	4,167	-
October 2030	October 2020	0.28	4,167	-
January 2031	January 2021	0.28	16,667	-
February 2031	February 2021	0.28	6,667	-
June 2031	June 2021	0.28	4,167	-
July 2031	July 2021	0.28	4,167	-
			10,712,367	11,221,944

** Included within these tranches are 630,000 options (2018: 703,000) that vested immediately.*

9. CASH, CASH EQUIVALENTS AND SHORT TERM DEPOSITS

ACCOUNTING POLICY

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

Short Term Deposits are with ANZ, with periods ranging from 120 to 180 days.

	GROUP	
	2019 ($000)	2018 ($000)
Cash and Cash Equivalents	4,847	5,242
Short Term Deposits	8,000	11,000
Total Cash, Cash Equivalents and Short Term Deposits	**12,847**	**16,242**
NZD	11,927	14,251
USD	874	1,941
AUD	44	12
EUR	1	7
SGD	1	31
Total Cash, Cash Equivalents and Short Term Deposits	**12,847**	**16,242**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

INTEREST INCOME

ACCOUNTING POLICY

Interest income is recognised using the effective interest method.

Interest on the bank balances ranges from 0% to 3.45% (2018: 0% to 3.58%) 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 rate method, less any provision for impairment. An allowance for impairment is made up of expected credit losses based on the assessment of the trade receivables debt at the individual level for impairment, plus an additional allowance on the remaining balance for potential credit losses not yet identified.

	GROUP	
	2019 ($000)	**2018 ($000)**
Trade Receivables	514	39
Sundry Debtors	699	862
Accrued Interest	64	117
GST Refund Due	(12)	46
Total Receivables	**1,265**	**1,064**

There is no provision for impairment relating to the revenue from Cxbladder sales. All outstanding sales are current and there are no expected credit losses on the amounts outstanding at balance date.

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

Included in trade receivables are the below amounts which were past due but not impaired. These relate to a number of customers for whom there is no history of default.

	2019 ($000)	**2018 ($000)**
3 to 6 Months	10	1
Over 6 Months	-	-
Total Overdue Trade Receivables	**10**	**1**

The foreign currency split of the amounts above is:

	2019 ($000)	**2018 ($000)**
NZD	839	479
AUD	426	585
Total Receivables	**1,265**	**1,064**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

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	
	2019 ($000)	2018 ($000)
Laboratory Supplies	842	752
Total Inventory	**842**	**752**

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

Laboratory supplies used during the year of $3,536,000 (2018: $3,115,000) are included within the Statement of Comprehensive Income in Laboratory Operations and Research.

12. OTHER ASSETS

	GROUP	
	2019 ($000)	2018 ($000)
Prepayments	445	315
Security Deposits	165	157
Total Other Assets	**610**	**472**

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

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.

Main rates used are:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

	Plant & Laboratory Equipment ($000)	Computer Equipment ($000)	Leasehold Improvements ($000)	Furniture & Fittings ($000)	Total ($000)
Cost					
Balance at 1 April 2017	2,407	853	274	365	3,899
Additions	312	40	-	1	353
Disposals	(534)	(254)	-	(45)	(833)
Foreign Translation Difference	(20)	(8)	(4)	(5)	(37)
Balance at 31 March 2018	**2,165**	**631**	**270**	**316**	**3,382**
Balance at 1 April 2018	2,165	631	270	316	3,382
Additions	89	39	-	-	128
Disposals	-	-	-	-	-
Foreign Translation Difference	53	18	7	10	88
Balance at 31 March 2019	**2,307**	**688**	**277**	**326**	**3,598**
Accumulated Depreciation					
Balance at 1 April 2017	2,089	677	75	221	3,062
Depreciation Expense	175	82	23	36	316
Disposals	(529)	(250)	-	(44)	(823)
Foreign Translation Difference	(18)	(5)	(1)	(3)	(27)
Balance at 31 March 2018	**1,717**	**504**	**97**	**210**	**2,528**
Balance at 1 April 2018	1,717	504	97	210	2,528
Depreciation Expense	125	66	21	25	237
Disposals	-	-	-	-	-
Foreign Translation Difference	41	13	3	7	64
Balance at 31 March 2019	**1,883**	**583**	**121**	**242**	**2,829**
Carrying Amounts					
At 1 April 2017	318	176	199	144	837
At 31 March 2018	448	127	173	106	854
At 31 March 2019	424	105	156	84	769

Leased Fixed Assets

Plant and Laboratory Equipment includes the following amounts where the Group is a lessee under a finance lease (refer to Note 23 for further details):

	GROUP	
	2019 ($000)	2018 ($000)
Cost	319	229
Accumulated Depreciation	(96)	(35)
Carrying Value	**223**	**194**

14. INTANGIBLE ASSETS

ACCOUNTING POLICY

Intellectual Property

The costs of acquired Intellectual Property are recognised at cost. All Intellectual Property has a finite life. The carrying value of Intellectual Property is reviewed for impairment, where indicators of impairment exist. Amortisation is charged on a diminishing value basis over the estimated useful life of the intangible assets (1-20 years). The estimated useful life and amortisation method is reviewed at the end of each reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

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

Software Development Costs
Costs associated with the development of software are held at cost. Amortisation is charged on a diminishing value basis over the estimated useful life of the intangible assets (2-10 years). The estimated useful life and amortisation method is reviewed at the end of each reporting period.

Cxblader Development Costs
Costs associated with the development of Cxbladder products are held at cost. Amortisation is charged on a diminishing value basis over the estimated useful life of the intangible assets (20 years). The estimated useful life and amortisation method is reviewed at the end of each reporting period.

	Software Development Costs ($000)	Patents ($000)	Cxbladder Development Costs ($000)	Total ($000)
Cost				
Balance at 1 April 2017	700	213	33	946
Additions	99	40	-	139
Foreign Translation Difference	(1)	-	-	(1)
Balance at 31 March 2018	**798**	**253**	**33**	**1,084**
Balance at 1 April 2018	798	253	33	1,084
Additions	65	41	-	106
Foreign Translation Difference	2	-	-	2
Balance at 31 March 2019	**865**	**294**	**33**	**1,192**
Accumulated Amortisation				
Balance at 1 April 2017	465	142	10	617
Amortisation Expense	144	42	2	188
Foreign Translation Difference	(2)	-	-	(2)
Balance at 31 March 2018	**607**	**184**	**12**	**803**
Balance at 1 April 2018	607	184	12	803
Amortisation Expense	110	42	2	154
Foreign Translation Difference	2	-	-	2
Balance at 31 March 2019	**719**	**226**	**14**	**959**
Carrying Amounts				
At 1 April 2017	235	71	23	329
At 31 March 2018	191	69	21	281
At 31 March 2019	146	68	19	233

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

There are two operating segments at balance date:

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

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

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 2019, is shown below.

2019		**Commercial ($000)**	**Research ($000)**	**Less: Eliminations ($000)**	**Total ($000)**
Income					
Operating Revenue	- External	3,817	-	-	3,817
	- Internal	199	-	(199)	-
Other Income		213	1,669	(892)	990
Interest income		4	368	(49)	323
Foreign Exchange Gain		(1)	1	(1)	(1)
Total Income		**4,232**	**2,038**	**(1,141)**	**5,129**
Expenses					
Expenses		15,625	8,163	(1,141)	22,647
Depreciation and Amortisation		135	256	-	391
Total Operating Expenses		**15,760**	**8,419**	**(1,141)**	**23,038**
Loss Before Tax		**(11,528)**	**(6,381)**	-	**(17,909)**
Income Tax Expense		9	-	-	9
Loss After Tax		**(11,537)**	**(6,381)**	-	**(17,918)**
Net Cash Flows to Operating Activities		**(11,709)**	**(5,798)**	-	**(17,507)**

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

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

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

2019	Commercial ($000)	Research ($000)	Total ($000)
Total Assets	2,028	14,538	16,566
Total Liabilities	1,768	888	2,656

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

Total Laboratory Throughput

	Billable Commercial Tests	Research Tests	Total Throughput Tests
2019	12,744	2,953	15,697
2018	11,866	2,582	14,448

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

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

Additions to non current assets for the period include:

	Commercial ($000)	Research ($000)	Total ($000)
Property, Plant & Equipment	83	45	128
Intangible Assets	-	106	106
Total Additions to Non Current Assets	83	151	234

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

16. INCOME TAX

ACCOUNTING POLICY

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, 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 2019 financial year and no income tax is payable.

	GROUP	
	2019 ($000)	2018 ($000)
Income tax recognised in the profit or loss:		
Current tax expense	9	-
Adjustments to current tax in respect to prior years	-	-
Benefit from previously unrecognised tax losses	-	-
Deferred tax in respect of the current year	(2,569)	(2,918)
Adjustments to deferred tax in respect to prior years	(521)	(441)
Deferred tax assets not recognised	3,090	3,359
Income tax expense	**9**	**-**
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Accounting loss before income tax	(17,909)	(19,645)
At the statutory income tax rate of 28%	(5,015)	(5,501)
Permanent differences - Non-deductible expenditure	1,642	1,730
Difference in US and Australian income tax rates	804	853
Prior period adjustment	(521)	(441)
Tax losses utilised	9	-
Deferred tax assets not recognised	3,090	3,359
Income tax expense reported in Statement of Comprehensive Income	**9**	**-**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

Tax Losses

The group has losses to carry forward of approximately $64,300,000 (2018: $54,700,000) with a potential tax benefit of $14,200,000 (2018: $12,600,000). The tax losses are split between the following jurisdictions:

	Tax Losses NZ($000)	Tax Effect NZ($000)	Rate
New Zealand	9,500	2,700	28%
Australia	200	100	30%
Singapore	1,000	200	17%
United States	53,600	11,200	21%

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 $38,200,000 (2018: $35,600,000) to carry forward and claim for income tax purposes in New Zealand in the future. This has a tax effect of $10,800,000 (2018: $10,000,000). The deferred research and development tax expenditure can either be carried forward and offset against future income arising from the research and development, or subject to meeting the shareholder continuity requirements can be offset against future taxable income.

Deferred Tax Assets

The Group does not recognise a deferred tax asset in the Balance Sheet.

Imputation Credit Account

The Group has imputation credits of Nil (2018: 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 approximate fair value as amounts are unsecured and are usually paid by the 30th of the month following recognition.

	GROUP	
	2019 ($000)	2018 ($000)
Trade Creditors	634	665
Accrued Expenses	304	610
Employee Entitlements (refer below)	1,634	1,651
Total Payables and Accruals	**2,572**	**2,926**

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

The foreign currently split for Payables and Accruals is:

	GROUP	
	2019 ($000)	2018 ($000)
NZD	883	1,167
AUD	69	17
USD	1,562	1,695
SGD	58	47
	2,572	**2,926**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

Employee Entitlements

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

	GROUP	
	2019 ($000)	**2018 ($000)**
Income Tax	108	50
Holiday Pay	513	440
Accrued Wages	1,013	1,161
Total Employee Entitlements	**1,634**	**1,651**

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.

	GROUP	
	2019 ($000)	**2018 ($000)**
Ordinary Shares	146,403	131,824
Total Share Capital	**146,403**	**131,824**

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

Share Capital Group

	Notes	2019 Shares (000)	2019 ($000)	2018 Shares (000)	2018 ($000)
Opening Balance		466,322	131,824	399,271	111,596
Issue of Ordinary Shares - Rights Issue and Direct Offers[1]		43,988	15,044	66,617	21,318
Issue of Ordinary Shares - Exercise of share options[2]		-	-	260	112
Issue of Ordinary Shares -Employee Remuneration[3]		561	188	174	96
Less: Issue Expenses[4]		-	(653)	-	(1,298)
Movement		44,549	14,579	67,051	20,228
Closing Balance		**510,871**	**146,403**	**466,322**	**131,824**

1) During the period 43,988,000 shares were issued under private placements and shareholder purchases plans at an average price of $0.34 per share. (2018: 66,617,000, $0.32)
2) No share options were exercised during the year (2018: 259,585, $0.36).
3) During the period 561,000 shares were issued as part of employees remuneration in lieu of cash payments at an average price of $0.34 per share. (2018: 174,000, $0.46)
4) $475,000 of issue expenses are non cash, suppliers were instead issued 1,359,000 shares in the Company. This forms part of the total detailed within (1)

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

19. FOREIGN CURRENCY

ACCOUNTING POLICIES

Foreign Currency Transactions

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

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

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

Foreign Operations

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

Foreign Currency Translation Reserve

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

20. RECONCILIATION OF CASH USED FROM OPERATING ACTIVITIES WITH OPERATING LOSS

	GROUP	
	2019 ($000)	**2018 $000**
Net Loss for the Period	(17,918)	(19,644)
Add Non Cash Items:		
Depreciation	237	316
Loss on Disposal of Property, Plant and Equipment	-	10
Amortisation	154	188
Employee Share Options	612	1,184
Employee Bonuses Paid in Shares in Lieu of Cash	188	96
Effect of Exchange Rates on Working Capital items	4	(131)
Total Non Cash Items	**1,195**	**1,663**
Add Movements in Other Working Capital items:		
(Increase) in Receivables and Other Assets	(341)	(383)
(Increase)/Decrease in Inventory	(90)	72
Increase/(Decrease) in Payables and Accruals	(353)	192
Total Movement in Other Working Capital	**(784)**	**(119)**
Net Cash Flows to Operating Activities	**(17,507)**	**(18,100)**

21. FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES

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

Managing Financial Risk

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

(i) Foreign Currency Risk

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

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

Balances in AUD, SGD and EUR currencies are not significant. A 10% increase or decrease in USD against the NZD will reduce/increase the loss reported by approximately $35,000 (2018: $37,000) respectively and increase/reduce equity by the same amount.

(ii) Interest Rate Risk

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

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

A 1% increase or decrease in Bank deposit interest rates will reduce/increase the loss reported by approximately $130,000 and increase/reduce equity by the same amount (2018: $138,000).

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group incurs credit risk from

a) Cash and short term deposits;

b) Receivables in the normal course of its business;

c) Other assets.

The Group has no significant concentration of credit risk other than bank deposits with 54.35% of total assets at the ANZ Bank, 1.80% at Bank of New Zealand, 2.85% at Wells Fargo and 18.55% at Heartland Bank. The Group's cash and short term deposits are placed with high credit quality financial institutions including major banks who have at least a BBB credit rating.

Regular monitoring of receivables is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade. These receivables balances mainly relate to New Zealand customers, Callaghan Innovation and the Australian Government. Refer to note 10 for further details on expected credit losses for receivables.

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

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

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

	Notes	2019 ($000)	2018 ($000)
Cash and cash equivalents	9	4,847	5,242
Short term deposits	9	8,000	11,000
Trade and other receivables (excludes GST)	10	1,277	1,018
Other assets (excludes prepayments)	12	165	157
		14,289	**17,417**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

Liquidity Risk

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

Payables and Accruals totaling $2,143,000 are due within 3 months of balance date (2018: $2,292,000).

Fair Values

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

22. RELATED PARTIES

A shareholder, the University of Otago, provided services, including rental space and car parking, to the Group to the value of $272,000 (2018: $264,000). The Group has commitments totaling $194,000 (2018: $194,000) with the University of Otago in the next financial year.

Key Management Compensation

Key management personnel comprise of Directors and the Chief Executive Officers of Pacific Edge Limited and Pacific Edge Diagnostics USA Limited.

Refer to Note 8 for details of the Incentive Plan that includes key management remuneration.

	GROUP	
	2019 ($000)	**2018 ($000)**
Salaries and Other Short Term Employee Benefits	1,319	1,315
Share Options Benefits	320	635
Total Employee Entitlements	1,639	1,950

Directors Fees

The current total Directors' fee pool for the non-executive Directors of Pacific Edge Limited, approved by the shareholders at the Annual Shareholders' Meeting on the 16th of August 2018 is $302,000 per annum. The total amount of fees paid to Directors and expenses incurred for the year ended 31 March 2019 was $279,000.

The table below sets out the total fees payable to the non-executive Directors of Pacific Edge Limited for the year ended 31 March 2019 based on the positions held:

Position	Quantity	Total Fees Payable
Chair	1	$80,000
Deputy Chair	1	$50,000
Non-executive Directors	2	$88,000
US-based non-executive Director	1	$79,000
Chair Audit & Risk Committee	1	$5,000
Total Fee Pool		$302,000

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

23. FINANCE AND OPERATING LEASE COMMITMENTS

ACCOUNTING POLICY

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

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

a) Finance Lease Obligations

	GROUP	
	2019 ($000)	2018 ($000)
Commitments in relation to finance leases are payable as follows:		
Within one year	55	78
Later than one year but not later than five years	33	26
Later than five years	-	-
Minimum Lease Payments	88	104
Future finance charges	(4)	(5)
Recognised as a liability	**84**	**99**
The present value of finance lease liabilities is as follows:		
Within one year	52	73
Later than one year but not later than five years	32	26
Later than five years	-	-
Minimum Lease Payments	**84**	**99**
Included in the financial statements as:		
Current borrowings	52	73
Non-current borrowings	32	26
Minimum Lease Payments	**84**	**99**

b) Leasing Arrangements

The group leases various plant and laboratory equipment with a carrying amount of $223,000 (2018: $194,000) under finance leases expiring within one to two years. Under the terms of the leases, the group has the option to acquire the leased assets for low or no cost on expiry of the leases.

The Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.6% to 9.4% (2018: 5.2% to 9.4%) per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

c) Operating Lease Obligations

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

	GROUP	
	2019 ($000)	2018 ($000)
Non cancellable operating lease commitments within one year	1,075	957
Later than one year, not later than five years	848	1,240
Over five years	-	-
Total Lease Commitments	**1,923**	**2,197**

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

	GROUP	
	2019 ($000)	2018 ($000)
Lease of premises from the University of Otago	419	194
Pacific Edge Diagnostics USA Ltd lease	1,303	1,904
Pacific Edge Diagnostics Singapore Pte. Ltd lease	38	48
Other	163	51
	1,923	**2,197**

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

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

Pacific Edge Diagnostics Singapore Pte. Ltd has extended its lease until 30 April 2020.

24. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

a) Capital Commitments

There are no capital commitments for the Group at 31 March 2019 (2018: Nil).

b) Contingent Liabilities

There were no known contingent liabilities at 31 March 2019 (2018: Nil). The Group has not granted any securities in respect of liabilities payable by any other party whatsoever.

25. SUBSEQUENT EVENTS

John Duncan has been appointed to the Board, effective 30 April 2019.

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Independent auditor's report

To the shareholders of Pacific Edge Limited

We have audited the consolidated financial statements which comprise:

- the balance sheet as at 31 March 2019;
- 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 consolidated financial statements, which include a summary of accounting policies.

Our opinion

In our opinion, the accompanying 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 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

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

Material uncertainty related to going concern

We draw attention to the disclosures in Note 1 to the financial statements, which indicates that the Company continues to progress commercial negotiations with targeted large scale health organisations in the USA. The disclosures note that contracts are taking longer than expected to complete, but progress is being made. The Company has prepared cash flow forecasts which indicate that if these commercial negotiations continue to be delayed, the Company may not have sufficient cash to meet its minimum expenditure commitments and support its current levels of activity. The Company may need to raise additional funds to continue as a going concern. These matters indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers
Westpac Building, 106 George Street, PO Box 5848, Dunedin 9058, New Zealand
T: +64 3 470 3600, F: +64 3 470 3601, pwc.co.nz

Our audit approach

Overview

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

Overall Group materiality: $228,000 which represents 1% of total expenses.

The Company is in a loss making position. The Company's focus is on achieving revenue growth. In our judgement, total expenses provides a more stable basis for calculating materiality.

We have determined that there is one key audit matter:

- US Revenue Recognition.

Materiality

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

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

Audit scope

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

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

Key audit matters

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

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>US Revenue Recognition

The application of NZ IFRS 15: Revenue from contracts with customers (NZ IFRS 15) requires the Directors to apply significant judgement in determining whether revenue can be recognised in advance of the receipt of cash.

The Company has two material United States (US) revenue streams:
1. Coverage via Centers for Medicare and Medicaid Services (CMS), and
2. Private Insurance.

The significant judgements adopted by the Directors in applying NZ IFRS 15 criteria include:
• Determining if a contract with the customer exists;
• Determining if the entity can identify the payment terms for the services; and
• Determining whether it is probable that the entity will collect the consideration to which it is entitled.

Based on management's assessment, US derived revenue is accounted for on a cash receipts basis as disclosed in Note 5.

Due to the significant audit effort required to understand the revenue recognition process and considering the significance of the judgements applied by the Directors, we determined this area to be a key audit matter.</td><td>Our audit procedures included the following:

We obtained an understanding of management's analysis of the CMS and Private Insurance US revenue streams to identify the significant judgements.

We evaluated management's determination of whether a contract with customers existed by:
• Inspecting documentation supporting the contractual process and basis for engagement of patients (customers) in the US; and
• Discussing the process for engaging patients with New Zealand and US based management to reconfirm the facts that support a cash based revenue recognition conclusion.

Assessing the supporting documentation provided by management to illustrate the variation in payment terms by customer.

Considering the payment terms and the probability of recovery of outstanding balances based on the history of past collections. This included assessing management's conclusions on whether it is probable that the entity will collect the consideration. Further we visited the Group's external billing reimbursement agent to confirm our understanding of the process and monthly reporting.

We have no matters to report from the procedures performed above.</td></tr>
</table>

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 the other information. At the time of our audit, there was no other information available to us.

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
29 May 2019

Dunedin

COMPANY DIRECTORY

As at 31 March 2019

Issued Capital
510,871,464 Ordinary Shares

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

Directors
C. Gallaher – Chairman
D. Band (retired 16 August 2018)
D. Darling
D. Levison
A. Masfen
S. Park (appointed 6 December 2018)
B. Williams

Chief Executive Officer
David Darling

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

Auditors
PricewaterhouseCoopers
Dunedin

Bankers
Bank of New Zealand
Dunedin
ANZ
Dunedin

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

Securities Registrar
Link Market Services Limited
138 Tancred St
Ashburton

Company Number
1119032

Date of Incorporation
27th February 2001

PACIFIC EDGE COMMUNICATIONS

Websites
www.pacificedgedx.com
www.cxbladder.com
www.bladdercancer.me

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

Twitter
@PacificEdgeLtd
@Cxbladder

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

PACIFIC EDGE LTD
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